KUMBA IRON ORE LIMITED AUDITED ANNUAL FINANCIAL STATEMENTS 2019

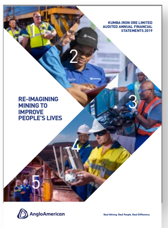
RE-IMAGINING MINING TO IMPROVE PEOPLE'S LIVES

AngloAmerican

Real Mining. Real People. Real Difference.

OUR APPROACH TO REPORTING

ENHANCING VALUE



Cover images

1. Sishen train assistant, Phodiso Batlhaping, and locomotive driver, Johan de Lange, doing a pre-trip inspection on the locomotive and rail.
2. Mining operator, Keotshepile Babusi, with Ludi du Plooy, a mining information operations centre supervisor, working the control room in Kolomela.
3. Perway officer, Wayne Oerson and distribution operator, Ruben Mmodi, at the Sishen plant distribution load out station 3.
4. Morgan Sesing and Iwan Grobbelaar, both drone operators, performing mapping and surveying of all the mine pits at Kolomela.
5. Pit metallurgist, Simone Botha (left), with plant operator, JP Walker, in the Sishen DMS plant. Simone and JP developed an award winning app for monitoring, actioning and maintaining processes in the DMS plant. The DMS stability matrix app identifies the flow in the DMS plant and narrows down actions to be taken to ensure process stability.

DIRECTORS' DECLARATION

The Kumba Iron Ore Limited (Kumba or the Company or the group) Board, assisted by the Audit Committee, is ultimately responsible for the preparation, fair presentation and integrity of the audited annual financial statements and related financial information of the group, as contained in this report, the Annual Financial Statements 2019. The Board of Directors confirm that they have collectively reviewed the content of this report and approved it at its meeting on 17 February 2020, for presentation to shareholders at the next annual general meeting on 15 May 2020. The Annual Financial Statements 2019 have been prepared under the supervision of BA Mazarura CA(SA), Chief Financial Officer.

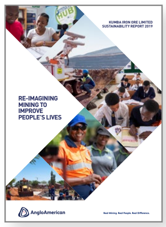
Navigating our 2019 reports

Our integrated reporting suite comprises the following reports:

Annual Financial Statements (AFS)*

Detailed analysis of our financial results, with audited financial statements, prepared in accordance with International Financial Reporting Standards (IFRS).

* Published on 18 February 2020

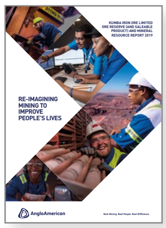


Sustainability Report (SR)

Reviews our approach to managing our significant economic, social and environmental impacts, and addresses those sustainability issues of interest to a broad range of stakeholders.

Integrated Report (IR)

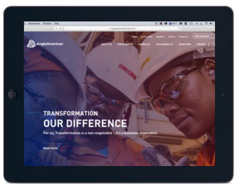
A succinct review of our strategy and business model, operating context, governance and governance and operational performance, targeted primarily at current and prospective investors.



Ore Reserve (and saleable product) and Mineral Resource Report (ORMR)*

Reported in accordance with the South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves (SAMREC Code – 2016 edition).

* Published on 18 February 2020



Online

Each of these reports, with additional updated information, is available on our website:

For more information see www.angloamericankumba.com

www.angloamericankumba.com

More specific information can be found with our page reference throughout this report

KEY FEATURES

DELIVERING SUSTAINABLE VALUE

Attributable free cash flow of R17.1 billion, up over 100%

ROCE of 83%, up from 49%

Final dividend of R15.99 per share, total dividend of R46.78 per share

IMPROVING PEOPLE'S LIVES

Fatality-free since May 2016

Lost-time injuries reduced by 19% to 17

Zero level 3 – 5 environmental incidents

Created R32 billion of value for employees, the fiscus, BEE suppliers and local communities

CONTINUED FOCUS ON MARGIN ENHANCEMENT

Average realised FOB export price of US$97/tonne, up 35%

Operating efficiency up from 65% to 68% of benchmark

Cost savings of ~R920 million, ahead of R700 million target

EBITDA margin improves from 45% to 52%

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CHIEF FINANCIAL OFFICER'S REVIEW

Bothwell Mazarura
Chief Financial Officer

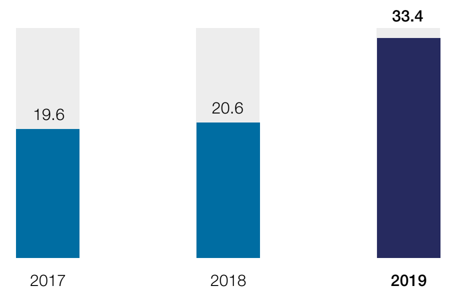
ENHANCING SHAREHOLDER RETURNS AND MAXIMISING VALUE

Kumba's Tswelelopele strategy delivered a return on capital employed of 83%, up from 49% in the previous year. While delivering robust earnings, our margin enhancement strategy proved effective in offsetting increased cost pressure from operational challenges and delivered R920 million of cost savings for 2019. Notwithstanding the challenges in 2019, we ended the year with a net cash position of R12.3 billion (2018: R11.7 billion) after generating operating cash flow of R34.7 billion, representing an increase of 84% from the prior period. This, together with a resilient balance sheet, allows us to sustainably create value for our shareholders.

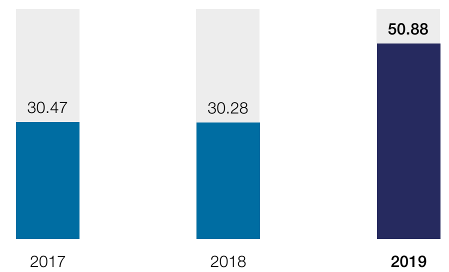
ENHANCING SHAREHOLDER RETURNS

- Record EBITDA growth of 62% to R33.4 billion
- Delivered cost savings of R920 million against a target of R700 million
- Achieved a 35% higher average realised FOB export price of US$97/tonne
- Exceptional headline earnings of R16.3 billion, translating into R50.88 per share
- Final cash dividend of R15.99 per share, with total cash dividend of R46.78 per share

EBITDA
(Rand billion)



HEADLINE EARNINGS PER SHARE
(Rand per share)



DELIVERY AGAINST KEY FOCUS AREAS:

Our three strategic levers continued to support Kumba's strategy of unlocking its full asset potential and delivering shareholder returns:

1

FOCUS ON MARGIN ENHANCEMENT

Through our ongoing commitment to margin enhancement, Kumba successfully delivered an EBITDA margin of 52%, up seven percentage points from 45% in the prior period. Our integrated sales and operations team contributed to a 35% increase in the average realised FOB iron ore price of US$97/tonne (2018: US$72/tonne). Further margin benefits came from a 9% weakening in the Rand/US$ exchange rate as well as cost savings of R920 million – above our R700 million target for 2019, realised by improved operational efficiency, variable cost optimisation across the value chain and overhead cost reductions. These margin benefits were instrumental in containing the breakeven price at US$45/tonne (2018: US$41/tonne). The breakeven price was impacted by higher on-mine operating expenses and SIB capex. This was over and above higher royalty charges, and ongoing increases in mining inflation and cost escalation. There is still a lot more to do in order to reduce costs and increase premia and remains a key focus of our margin enhancement programme.

Our product portfolio ranges from standard and premium lump and fines to super-premium lump with an average quality of 64.2% Fe (2018: 64.5% Fe) and a Lump:Fine ratio of 67:33 (2018: 68:32), we successfully captured a US$17/tonne uplift from the lump, Fe and market premia captured in the higher average realised price of US$97/tonne for 2019.

In line with our enhanced product portfolio, we continued to grow our market share in geographic regions that utilise premium iron ore, such as Europe/MENA/Americas, which has increased from 20% in 2018 to 25% in 2019 of the client portfolio. This resulted in the share of premium products increasing to 19.3% of total sales.

2

STRONG FINANCIAL DISCIPLINE

With ongoing cost pressure from the rising geological inflation, increasing maintenance costs and higher input costs, we need to double our efforts in managing our controllable costs to ensure our business is resilient in a lower price environment. Consequently, we are implementing further initiatives to optimise costs across the business, allowing us to extend our cumulative savings target beyond our cumulative target of R2.6 billion. These initiatives will focus on our fixed cost base and further optimisation of outside services.

The increase in deferred stripping costs is a result of mining through higher strip ratio areas at both mines. The average strip ratio expected over the remaining life of mine is lower, due to further operational optimisation. This has resulted in total capex finishing above revised guidance, while SIB and expansion capex spend was kept within revised guidance.

3

DELIVERING SUSTAINABLE RETURNS

Kumba's balance sheet remains robust, with continued strong cash generation providing flexibility in a volatile market environment. Through our capital allocation framework, cash generated from operating activities services our tax commitments, SIB capital and dividends to shareholders in line with our dividend policy. Excess discretionary cash flow is deployed in the best long term interests of shareholders with consideration of further investment in the business and incremental returns to shareholders. Throughout the cycle, we aim to retain a net cash balance to ensure that we remain in a position of strength and maintain flexibility against potential headwinds.

For 2019 Kumba delivered a return on capital employed (ROCE) of 83% (2018: 49%) and solid attributable earnings of R16.3 billion (2018: R9.6 billion).

Our dividend policy targets a payout range of between 50% and 75% of headline earnings to shareholders. Shareholder returns are prioritised while maintaining a strong flexible capital structure that protects the balance sheet from market volatility and ensures that an appropriate level of capital is allocated to life extension projects and long term growth prospects.

With Kumba's strong cash flow generation of R34.7 million, demonstrating the success of our Tswelelopele strategy, headline earnings per share for the year were R50.88 (2018: R30.28). The Board declared a final cash dividend of R15.99 per share (2018: R15.73), resulting in a total dividend for the year of R46.78 per share (2018: R30.24). This equates to 92% of headline earnings for 2019.

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

2019 FINANCIAL PERFORMANCE

The analysis of our performance drivers should be viewed together with the strategy on pages 4 and 5 of the IR.

The results booklet and AFS on our website www.angloamericankumba.com/investors/annual-reporting.aspx.

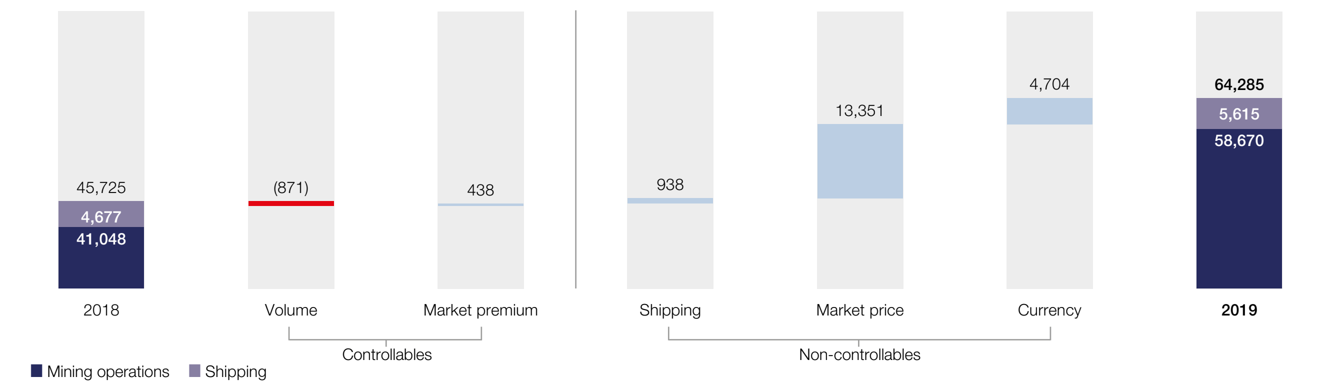
Revenue – driven by market price and currency gains

Total revenue increased by 41% to R64.3 billion compared to R45.7 billion for 2018, mainly as a result of a 35% increase in the average realised iron ore price of US$97/tonne (2018: US$72/tonne) and weakening of the average Rand/US$ exchange rate to R14.45/US$1 (2018: R13.24/US$1). This was offset by a 2% decrease in total sales volumes compared to 2018. Shipping revenue increased by R938 million benefiting from the weaker currency and higher volumes.

Kumba's higher average achieved FOB price was driven by higher lump and Fe premia. On average, the 62% Platts index increased by US$23.8/tonne to US$93.4/tonne, whilst the achieved lump, Fe and market premia increased by US$1.4/tonne to US$18.0/tonne. Freight rates were marginally lower at US$13.8/tonne from US$13.9/tonne in 2018.

Total sales decreased 2% to 42.2 Mt (2018: 43.3 Mt), driven by local sales decreasing 34% to 2.2 Mt (2018: 3.3 Mt), as a result of lower off-take by ArcelorMittal SA due to the decision to wind down its Saldanha Steel plant. For the year, 68% of sales were on a cost and freight (CFR) basis compared to 66% in the prior period. Contractual sales amounted to 78% of total export sales volumes (2018: 77%). China represented 56% (2018: 56%) of Kumba's total exports, while the share of the EU/MENA/Americas region increased to 25% (2018: 20%), and Japan and South Korea decreased slightly to 18% (2018: 20%).

REVENUE
(Rand million)



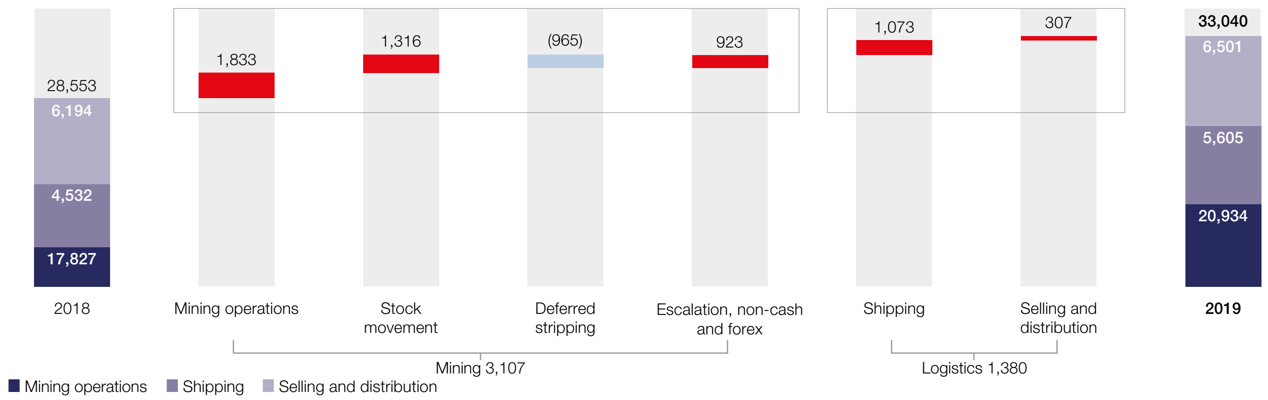
Operating expenditure – input cost escalation and higher maintenance, partly offset by cost savings

Operating expenses (excluding mineral royalties and impairment) increased by 16% to R33.0 billion, compared to R28.6 billion in the prior year, largely due to R3.1 billion higher operational costs and a R1.4 billion increase in logistics costs. The escalation in operational cost are primarily attributable to R1.5 billion from the utilisation of WIP stock at Sishen and R1.3 billion higher maintenance cost caused by equipment breakdowns, of which R655 million related to unscheduled maintenance activities caused by equipment breakdowns.

Selling and distribution costs increased by 5% to R6.5 billion largely due to higher demurrage costs caused by port constraints and above-inflation increases in Transnet tariffs. Freight costs of R5.6 billion were R1.1 billion up on the prior period driven by higher average freight rates, including fixed index-linked rates (COAs) and currency movements.

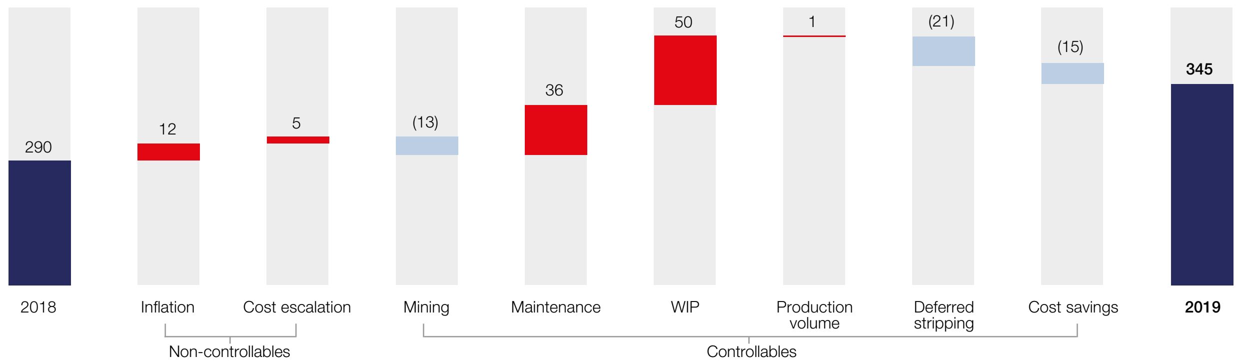
Good cost stewardship across the value chain coupled with our cost savings initiatives, aimed at offsetting inflation-related costs and reducing controllable cost, delivered savings of R920 million, ahead of our 2019 target of R700 million.

OPERATING EXPENDITURE
(Rand million)



Sishen's unit cash costs increased by 19% to R345/tonne (2018: R290/tonne). This was predominantly as a result of higher WIP stock utilisation caused by mining feed constraints in the first half of 2019, and increased maintenance costs from breakdowns, partially offset by increased capitalisation of deferred stripping costs, R446 million of cost savings and operating efficiency improvements.

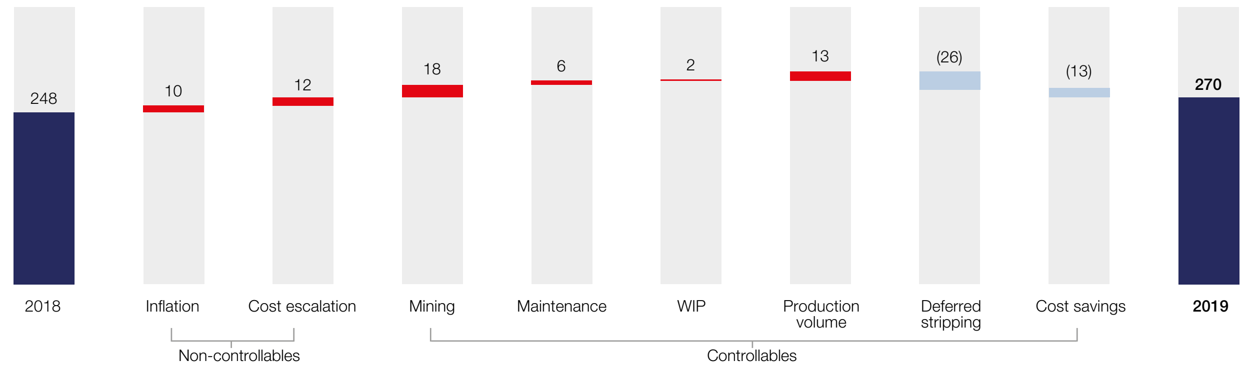
SISHEN UNIT CASH COSTS
(Rand/tonne)



CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

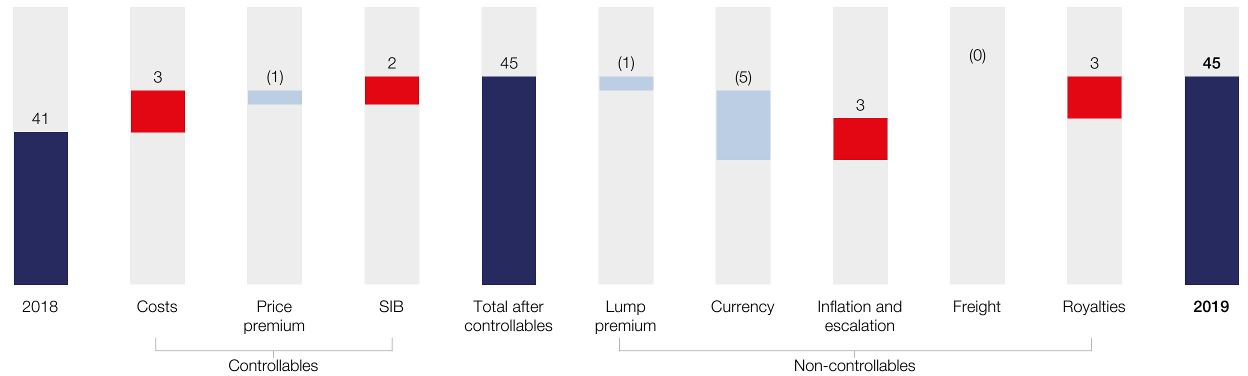
Kolomela's unit costs increased 9% to R270/tonne (2018: R248/tonne), owing to above-inflation mining input cost escalation from geological changes and lower production volumes. Similar to Sishen, this was partially offset by increased capitalisation of deferred stripping costs and cost savings of R170 million.

KOLOMELA UNIT CASH COSTS
(Rand/tonne)



Breakeven price – increased on-mine cost and SIB capex

BREAKEVEN PRICE
(US$/tonne)



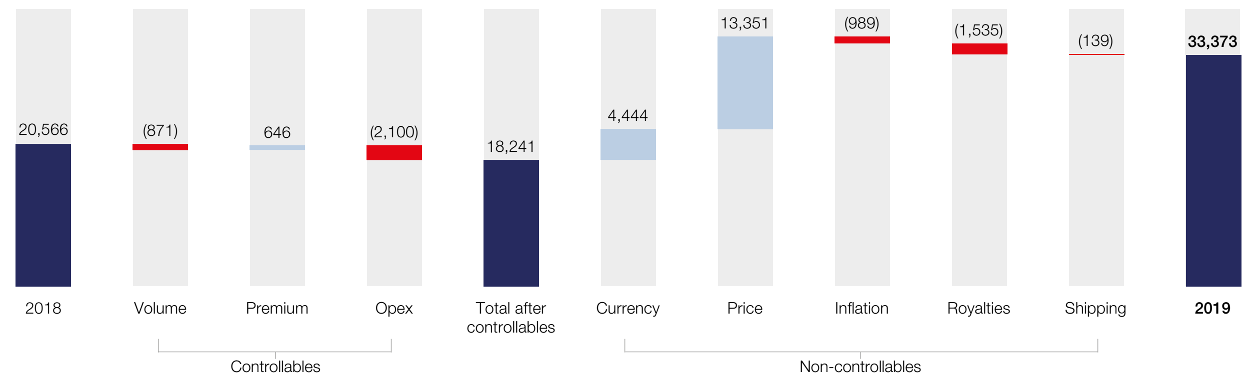
Kumba's breakeven price increased to US$45/tonne, US$4/tonne above 2018 due to US$5/tonne higher on-mine operating expenses and SIB capex, US$3/tonne increase in royalties from stronger prices and US$3/tonne mining inflation-related escalation. This was partially offset by US$5/tonne from currency gains and US$2/tonne higher lump and price premia.

EBITDA reflects higher revenue, partially offset by cost increases

Kumba delivered an EBITDA of R33.4 billion, representing an increase of 62% compared to R20.6 billion in the previous year. Growth was primarily driven by the 35% increase in the average realised FOB export iron ore price to US$97/tonne (2018: US$72/tonne), resulting in market premia of R646 million. Cost savings of R920 million and currency gains from a weaker Rand of R14.45/US$ (2018: R13.24/US$) contributed towards mitigating higher mining and logistics costs, as well as the 2% decline in sales volumes.

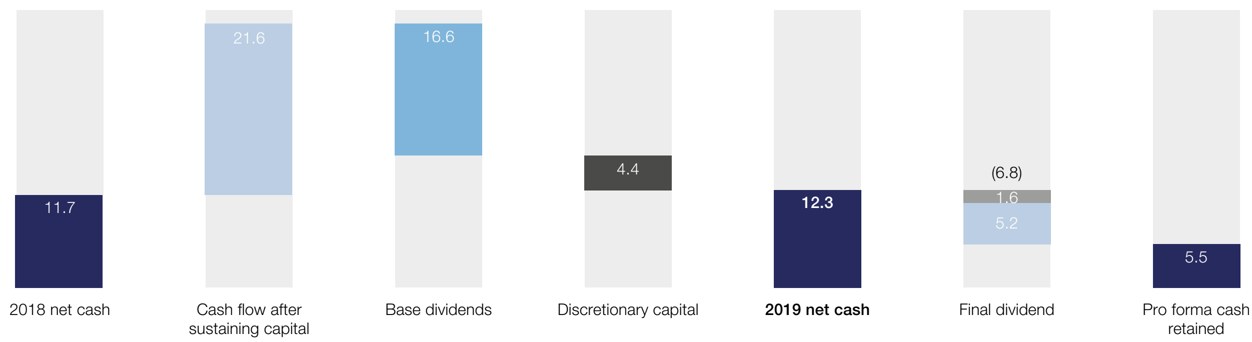
Kumba's EBITDA margin increased by seven percentage points to 52% (2018: 45%), the group's mining operating margin improved to 49% (2018: 39%), excluding the net freight profit incurred on shipping operations. Net profit increased by 69% to R21.3 billion (2018: R12.6 billion), notwithstanding operational challenges.

EBITDA
(Rand million)



Disciplined capital allocation supports shareholder returns

CAPITAL ALLOCATION
(Rand million)



Kumba ended the year with a net cash position of R12.3 billion (2018: R11.7 billion), after cash flow from operations, tax paid, capex and dividends. Cash flow from operations increased by 84% to R34.7 billion (2018: R18.9 billion), due to higher EBITDA and lower working capital requirements. Reduced working capital largely related to lower receivables with the collection period improving to 14 days (2018: 23 days) and higher payables due to provisions and accruals. This was partially offset by higher inventories as finished stock increased to 6.4 Mt (2018: 5.3 Mt).

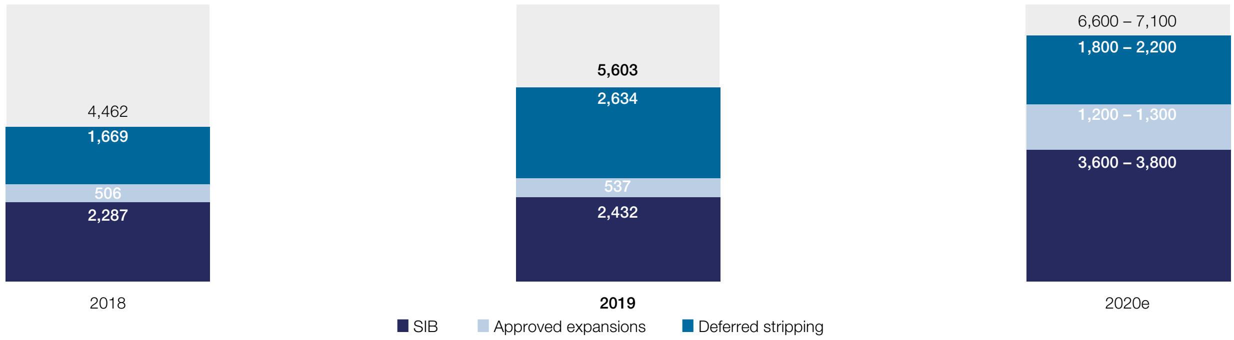
We created stakeholder value by paying income tax of R7.8 billion (2018: R4.1 billion) and mineral royalties of R2.6 billion (2018: R983 million) to government, providing capex of R5.6 billion (2018: R4.5 billion), and distributing dividends to shareholders of R19.6 billion (2018: R12.5 billion).

Kumba replaced its R12 billion committed credit facility, maturing in February 2020, with an R8 billion revolving credit facility that matures in 2024. Financial guarantees issued in favour of the DMRE in respect of environmental closure liabilities were R3.0 billion. The annual revision of closure costs reflected a further shortfall of R363 million in respect of the rehabilitation of Sishen and Kolomela. Guarantees for the shortfall will be issued in due course.

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

Capital expenditure to sustain and grow our business

CAPITAL EXPENDITURE
(Rand million)



Kumba's capital expenditure for 2019 was R5.6 billion (2018: R4.5 billion). The total spend consisted of the following:

- R2.4 billion from stay-in-business (SIB) activities, mainly spent on capital spares, infrastructure upgrade and our mining fleet management programme.
- R0.6 billion of expansion capex includes R138 million of spend on our Dingleton project, R70 million for the UHDMS feasibility study and capex for the P101 efficiency programme.
- R2.6 billion in deferred stripping due to the increase in the stripping ratio at Sishen to 4.8 from 4.7 and at Kolomela to 4.0 from 3.5.

Stakeholder value created

Kumba has built a strong track record of delivering sustainable returns through the cycle. Our balance sheet remains stable driven by strong cash generation supported by higher EBITDA and lower working capital requirements. In view of the volatile price environment, currency fluctuations, ongoing cost pressure and a logistics constrained environment, Kumba remains committed to maintaining a strong balance sheet.

Taking all these factors into account coupled with our dividend policy of a 50% to 75% payout ratio of headline earnings, the Board declared a final cash dividend of R15.99 per share with a total dividend for 2019 at R46.78 per share. This ensures that we remain in a position of strength and that we will be well placed to continue with appropriate, value-creating and disciplined investment in our business.

KUMBA CLOSING SHARE PRICE
(Rand)

KEY FINANCIAL RISK FACTORS AFFECTING PERFORMANCE

The primary financial risks to which Kumba is exposed are market, counterparty credit and liquidity risk. These are rigorously monitored by management according to the oversight and risk management framework, while the Board oversees the process. For further information refer to the review of our risks and opportunities on page 34 of the IR.

Risk management policy

COMMODITY PRICE

Exposure to future price movements occur as the selling price is based on quoted market prices stipulated in the contract that is provisionally determined between 30 and 180 days after delivery to the customer. Risk is managed through iron ore swaps and futures contracts that enable closer alignment between sales prices and reference prices set by the group.

For more detailed information on financial risk management refer to the AFS pages 79 to 86.

EBITDA impact of R585 million per US$1/tonne change in export iron ore price

CURRENCY

For exposure to foreign currency movements it is group policy to use only derivatives for hedging purposes and not to engage in speculative transactions. Hedging is only considered in very limited circumstances and in strict compliance with the Company's treasury risk policy.

EBITDA impact of R390 million per R0.10/US$ change in the exchange rate

EXPORT SALES VOLUME

Export sales volumes are exposed to various operational risk factors which are mitigated on a case by case basis.

For more details refer to the review of risks and opportunities on page 37 of the IR.

EBITDA impact of R100 million per 100 kt change in sales volumes

COUNTERPARTY CREDIT

Counterparty credit risk exposure is diversified among high-quality financial institutions with acceptable daily settlement limits. Kumba also relies on letters of credit to limit the risk of financial loss from our customers.

For more information refer to note 34 of AFS.

INTEREST RATE

Kumba's policy is to borrow at floating rates and minimise the after-tax cost of debt for the group. Board approval is required for fixed-rate debt.

For more information refer to note 34 of AFS.

LIQUIDITY

Adequate cash and credit facilities are maintained to meet all short term obligations and to ensure that the group can meet all known forecast strategic commitments using the appropriate debt instruments.

For more information refer to note 34 of AFS.

TAX

Tax risk management forms part of Kumba's overall risk management process and ensures that we comply with applicable tax legislation. It also enables the Company to timeously identify and respond to legislative amendments and new taxes. We seek to maintain a long term, open, constructive relationship with tax authorities and government in relation to tax matters.

For more information refer to page 58 and page 74 of the SR.

INCREASED PRODUCTION COST PRESSURE

Continued cost pressure from the rising geological inflation, higher input costs together with rising mineral royalties from higher iron ore prices, places pressure on margins and necessitates a concerted effort to further reduce costs. A review of operating expenses conducted during the year identified additional cost savings from our fixed cost base and the optimisation of outside services.

For more information refer to page 25 of the IR.

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

OTHER SPECIFIC ITEMS AND EVENTS DURING THE YEAR

IFRS 16 *Leases*

In adopting IFRS 16 *Leases*, the group recognised lease liabilities and right-of-use assets for leases which were previously classified as operating leases under the principles of IAS 17 *Leases*, excluding leases of low-value items, those with remaining lease terms of less than 12 months (i.e. short term leases) or variable lease payments. These liabilities were measured at the present value of the remaining lease payments and discounted using the group's incremental borrowing rate as of 1 January 2019. The lease liability recognised for 2019 was R401 million.

For more information regarding standards, amendments to published standards and interpretations, which were adopted by the group refer to page 27 of the AFS.

Changes in estimates to environmental rehabilitation and decommissioning provision

The measurement of the environmental rehabilitation and decommissioning provisions is a key area where management's judgement is required. The closure provisions are measured at the present value of the expected future cash flows required to perform the rehabilitation and decommissioning. Estimates and assumptions are employed in determining the amount and timing of the future cash flows and the discount rate.

The life-of-mine plan (LoMP) on which accounting estimates are based only includes proved and probable ore reserves as disclosed in Kumba's 2019 annual ore reserves and mineral resources statement. The most significant changes in the provisions for 2019 resulted from changes in estimates, the unwinding of the discount and inflationary changes in the expected cash flows for both mines, partially offset by the utilisation of prior year provisions.

The effect of the change in estimate of the rehabilitation and decommissioning provision, is detailed below:

	31 December
Rand million	**2019**
Increase in environmental rehabilitation provision	**133**
Increase in decommissioning provision	**62**
Decrease in profit attributable to the owners of Kumba	**73**
Rand per share	
Effect on earnings per share attributable to the owners of Kumba	**0.23**

Taxation

Kumba contributes economic value to the government of South Africa and to the host communities in the Northern Cape with taxes paid through the life-cycle of our operations and across our value chain. Our tax contribution of R11.9 billion for 2019 reflects corporate income tax of R7.8 billion, mineral royalties of R2.6 billion and indirect taxes of R1.6 billion.

In terms of the Mineral and Petroleum Resources Royalty Act No 28 of 2008 and the Mineral and Petroleum Resources Royalty Administration Act No 29 of 2008, the specified condition for iron ore used to calculate the mineral royalty payable will be deemed to have been extracted at a 61.5% Fe. Kumba extracts iron ore below 61.5% Fe and this requires management to make certain judgements and estimates when determining the gross sales value of the ore extracted at the group's mines.

The Company's tax contribution represents a significant portion of the economic value delivered to the government and our host communities. The following cash payments were made to the jurisdictions in which the group operates:

TOTAL TAX CONTRIBUTION BY CATEGORY

Rm	**2019**	2018
Corporate income tax	**7,783**	4,078
Mineral royalties	**2,572**	983
Payroll tax	**1,495**	1,093
Skills levy	**48**	42
UIF	**22**	22
Total	**11,92**	6,218

Carbon Tax Bill

The final rules and forms for the implementation of the Carbon Tax Bill were released by SARS on 23 December 2019. Based on the initial tax rate for the period 1 June 2019 to 31 December 2019, the carbon tax to be paid through the fuel levy on 31 July 2020, is estimated at approximately R11.5 million. The estimate excludes scope 2 emissions from electricity which were postponed to 2023.

OUTLOOK FOR 2020

2020 guidance

Our financial guidance for 2020 is set out below.

The delivery of these key metrics is subject to the aforementioned key risk factors affecting our performance as described on page 34 of the IR

- **Unit cash costs:** guided for Sishen between R355 and R370/tonne and Kolomela between R280 and R290/tonne. Cost pressure from fuel, labour and maintenance are expected to continue. Our 2020 cost savings target is R960 million; this will be driven by ongoing initiatives such as optimisation of mining and production costs as well as improvements in operational efficiency.

- **Capital expenditure:** is expected to be in the range of R6.6 billion to R7.1 billion. The increase is driven by:
  - Higher SIB capex through-the-cycle of R3.6 billion to R3.8 billion due to critical heavy mining equipment life-cycle change requiring increased investment in capital spares, as well as capital investment to maintain the plants.
  - Deferred stripping capex will reduce to between R1.8 billion and R2.0 billion, in line with a lower stripping ratio at both mines.

- Expansion capex increases to between R1.2 and R1.3 billion, which includes the UHDMS project, funds to begin the implementation of the Kapstevel South mine project, and P101 efficiency programme. The Kapstevel South pit is expected to incur, including pre-stripping, a total of R5 billion in capex until 2023.

To ensure optimal value is achieved from our UHDMS project in the context of lower domestic off-take and a logistically constrained environment, a decision was taken to focus on mine life extension and enhance product quality instead of increasing production volumes. We expect total capital for the project to be approximately R3 billion. We will leverage the ability of the UHDMS technology to increase our overall product quality, further differentiating Kumba as a niche product producer.

Shareholders are advised that these forecasts have not been reviewed, approved or reported on by our auditors.

ACKNOWLEDGEMENT

In closing, I would like to acknowledge our finance team for their commitment, smart work and integrity in supporting the business to unlock further value. As key business partners across the value chain, our team is adding value by ensuring cost and capital discipline, while maintaining a high standard of governance, compliance and financial reporting.

Bothwell Mazarura
Chief Financial Officer

13 March 2020

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

for the year ended 31 December 2019

The directors are responsible for the preparation, fair presentation and integrity of the annual financial statements and related financial information of the Kumba Iron Ore Limited Group (the group) as well as Kumba Iron Ore Limited (Kumba or the Company), in accordance with International Financial Reporting Standards (IFRS), the requirements of the Companies Act 71 of 2008 (as amended) of South Africa and the Listings Requirements of the JSE Limited, which include amounts based on judgements and estimates made by management.

The annual financial statements, set out on pages 27 to 114, are based on appropriate accounting policies which have been consistently applied, except for changes in accounting policies as detailed in the notes, and which are supported by reasonable and prudent judgements and estimates, comprise the statement of financial position at 31 December 2019; the statement of profit or loss, the statement of other comprehensive income, the statements of changes in equity and statement of cash flows for the year then ended; the notes to the financial statements, which include a summary of principal accounting policies and other explanatory notes; the directors' report, the Audit Committee report and the certificate of the Company Secretary.

The directors, primarily through the Audit Committee, meet periodically with the external and internal auditors as well as the executive management to evaluate matters concerning the responsibilities below:

- maintaining adequate accounting records and an effective system of risk management
- developing, implementing and maintaining a sound system of internal control relevant to the preparation and fair presentation of these financial statements, that provides reasonable but not absolute assurance against material misstatement or loss, whether owing to fraud or error
- selecting and applying appropriate accounting policies
- making accounting estimates that are reasonable in the circumstances
- safeguarding shareholders' investments and the group's assets
- preparing the supplementary annexures included in these financial statements

The group's internal auditors independently evaluate the internal controls and coordinate their audit coverage with the external auditors.

The independent external auditors are responsible for reporting on whether the consolidated financial statements and the separate financial statements are fairly presented in accordance with the applicable financial reporting framework. The independent auditor's report to the shareholders of the group and Kumba is set out on pages 24 to 26 of this report.

The external and internal auditors have unrestricted access to all records, property and personnel as well as to the Audit Committee.

The directors acknowledge that they are ultimately responsible for the process of risk management and the system of internal financial control established by the group and place a strong emphasis on maintaining a strong control environment. The directors are not aware of any material breakdown in the functioning of these controls and systems during the year under review. The directors are of the opinion, based on the information and explanations given by management, the internal auditors, the external auditors and the group's risk, compliance and other reporting processes that the risk management processes and system of internal control provide reasonable assurance in all key material aspects that the financial records may be relied upon for the preparation of the annual financial statements.

Having considered the group's major risks, outstanding legal, insurance and taxation issues, an assessment of the solvency and liquidity taking into account the current financial position and existing borrowing facilities as well as the group's financial budgets with their underlying business plans, the directors consider it appropriate that the annual financial statements be prepared on the going-concern basis.

APPROVAL OF GROUP ANNUAL FINANCIAL STATEMENTS AND COMPANY ANNUAL FINANCIAL STATEMENTS

The group annual financial statements on pages 27 to 95 and 103 to 114 and the Company annual financial statements on pages 96 to 102 of Kumba Iron Ore Limited were approved by the Board of Directors on 17 February 2020 and will be presented to the shareholders at the annual general meeting on 15 May 2020. The group and Company annual financial statements are signed on the directors' behalf by:

Dr MSV Gantsho
Chairman

TM Mkhwanazi
Chief Executive

17 February 2020

CERTIFICATE OF THE COMPANY SECRETARY

for the year ended 31 December 2019

I, F Patel, in my capacity as Company Secretary, confirm that, for the year ended 31 December 2019, Kumba Iron Ore Limited has lodged with the Registrar of Companies all such returns and notices as are required of a public company in terms of the Companies Act 71 of 2008 (as amended) of South Africa, and that all such returns and notices are true, correct and up to date.

F Patel
Company Secretary

17 February 2020

DIRECTORS' REPORT

for the year ended 31 December 2019

The directors have pleasure in presenting the annual financial statements of Kumba and the group for the year ended 31 December 2019.

NATURE OF BUSINESS

Kumba was incorporated in South Africa on 16 May 2005 and commenced trading in November 2006 following the unbundling of Kumba from Exxaro Resources Limited (previously Kumba Resources Limited). Subsequent to unbundling, Kumba listed on the JSE Limited (JSE) on 20 November 2006, and since then remains the only pure play iron ore company on the JSE.

Kumba is a mining group of companies focusing on the exploration, extraction, beneficiation, marketing and sale and shipping of iron ore. Kumba produces iron ore in South Africa at Sishen and Kolomela mines in the Northern Cape province.

On 1 November 2018, the employees, assets and liabilities as well as the mining rights and the assumed liabilities of Thabazimbi mine were transferred at a nominal purchase consideration from Sishen Iron Ore Company Proprietary Limited (SIOC) to Thabazimbi Iron Ore Mine Proprietary Limited, previously ArcelorMittal South Africa Operations Proprietary Limited, a wholly owned subsidiary of ArcelorMittal SA.

The nature of the businesses of the group's subsidiaries, associates and joint ventures is set out in Annexures 1 and 2.

CORPORATE GOVERNANCE

The group subscribes to the Code of Good Corporate Practices and Conduct as contained in King IV™ on Corporate Governance. The Board has satisfied itself that Kumba has complied in all material aspects with King IV™ as well as the JSE Listings Requirements throughout the year under review. The corporate governance report is set out on pages 77 to 95 of the IR.

FINANCIAL RESULTS

The financial statements on pages 27 to 114 set out fully the financial position, results of operations and cash flows of the group and the Company for the financial year ended 31 December 2019. The financial statements have been prepared under the supervision of BA Mazarura CA(SA), the Chief Financial Officer.

Operating results for the year

Summary of the group's key financial results for the year ended 31 December:

Rand million	**2019**	2018	% Increase
Revenue	**64,285**	45,725	41
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**33,372**	20,566	62
Cash generated from operations	**34,657**	18,906	83

Total revenue increased by 41% to R64.3 billion compared to R45.7 billion for 2018, mainly as a result of stronger prices, higher market premiums and currency gains, which were partially offset by lower sales volumes due to the lower domestic off-take.

Kumba's average realised iron ore export price increased by 35% to US$97/tonne (2018: US$72/tonne), while the average Rand/US$ exchange rate weakened by 9% to R14.45/US$1 (2018: R13.24/US$1). Sales volumes reduced by 2% to 42.2 Mt (2018: 43.3 Mt). Shipping revenue increased by R938 million benefiting from a weaker currency and higher volumes.

Kumba's higher average achieved FOB price was driven primarily by a US$23.8/tonne increase in the Platts 62 index price to US$93.4/tonne and US$1.4/tonne higher lump, Fe and market premia. Platts freight rates were marginally lower at US$13.8/tonne from US$13.9/tonne in 2018.

Operating expenses, excluding mineral royalties and impairment, increased to R33.0 billion (2018: R28.5 billion), largely due to R3.1 billion higher operational costs and a R1.4 billion increase in logistics costs. The rise in operational cost is primarily attributable to R1.5 billion from the utilisation of WIP stock at Sishen and R1.3 billion of higher maintenance costs, of which R655 million related to unscheduled maintenance activities caused by equipment breakdowns.

Selling and distribution costs increased by 5% to R6.5 billion largely due to higher demurrage costs caused by port constraints and above-inflation increases in Transnet tariffs. Freight costs of R5.6 billion were R1.1 billion up on the prior period driven by higher average freight rates, including fixed and index-linked rates (COAs), currency movements and 0.9 Mt higher shipping volumes.

Unit cash costs at Sishen increased by 19% to R345/tonne (2018: R290/tonne). This was predominantly as a result of higher WIP stock utilisation caused by mining feed constraints in 1H19 and increased maintenance costs from breakdowns, partially offset by an increase in the capitalisation of deferred stripping cost, R446 million of cost savings and operating efficiency improvements.

Kolomela mine incurred unit cash costs of R270/tonne (2018: R248/tonne), representing a 9% increase owing to above-inflation mining input cost escalation from geological changes and lower production volumes. Similar to Sishen, this was partially offset by increased deferred stripping and R170 million of cost savings.

EBITDA of R33.4 billion reflected an increase of 62% compared to R20.6 billion in 2018. Growth was driven by a 35% strengthening of the average realised FOB prices of US$97/tonne (2018: US$72/tonne) and currency gains from a weaker Rand/US$ exchange rate of R14.45/US$ (2018: R13.24/US$). Cost savings of R920 million and market premia of R646 million went a long way towards mitigating higher mining and logistics costs, as well as the 2% decline in sales volumes.

Kumba's EBITDA margin increased to 52% (2018: 45%) with mining operating margin improving to 49% (2018: 39%), excluding net freight profit incurred on shipping operations. Accordingly, net profit increased by 69% to R21.3 billion (2018: R12.6 billion).

Kumba's breakeven price increased to $45/tonne, $4/tonne above that of 2018 due to $5/tonne higher on-mine operating expenses and SIB capex, $3/tonne increase in royalties from stronger prices and $3/tonne mining inflation-related escalation. This was partially offset by $5/tonne from currency gains and $2/tonne higher price premiums.

FINANCIAL POSITION

Summary of the group's financial position as at 31 December:

Rand million	2019	2018	% increase/ (decrease)
Property, plant and equipment	**38,953**	37,723	3
Working capital (excluding cash and cash equivalent and non-current inventories)	**2,750**	4,654	(41)
Cash and cash equivalents	**12,865**	11,670	10
Net asset value per share (R)	**112.49**	109.47	3

Property, plant and equipment

Capital expenditure per the statement of cash flows of R5.6 billion comprised R2.4 billion of SIB spend, R2.6 billion of deferred stripping, and R0.6 billion of expansion capital expenditure. Our SIB expenditure was largely spent on our mining fleet management programme including haul trucks, drills, shovels, ground engagement tools and secondary support equipment in line with life-of-mine requirements, as well as infrastructure upgrades and reconditioning costs for capital spares. The deferred stripping capex was mainly driven by higher strip ratios at the relevant sections at both mines. Our expansion capex includes R138 million of spend on our Dingleton project and R70 million for the UHDMS feasibility study.

Working capital

Reduced working capital largely related to lower receivables, with the collection period improving to 14 days (2018: 23 days) and higher payables due to provisions and accruals. This was partially offset by higher inventories as finished stock increased to 6.4 Mt (2018: 5.3 Mt).

Cash and cash equivalents

Kumba ended the year with a cash position of R12.9 billion (2018: R11.7 billion). Cash flow generated from operations increased by 84% to R34.7 billion (2018: R18.9 billion) due to higher EBITDA and lower working capital requirements.

ACCOUNTING POLICIES

A number of amended and new accounting standards were effective for the first time for the financial year beginning on or after 1 January 2019. Other than IFRS 16 *Leases*, none of the other amendments had a material impact on the group. Refer to the accounting policy section for the amendments and note 3 to the financial statements.

DIRECTORS' REPORT CONTINUED

for the year ended 31 December 2019

SHARE CAPITAL

Authorised capital

The Company's authorised share capital of 500,000,000 shares remained unchanged during the year.

SHARE MOVEMENTS

Rand million	2019	2018
Balance at beginning of year	93	54
Net movement in treasury shares under employee share incentive schemes	(88)	39
– Purchase of treasury shares under employee share incentive schemes	324	112
– Shares issued to employees under employee share incentive schemes	(412)	(73)
Share capital and share premium	5	93

The group acquired 793,677 (2018: 395,399) of its own shares through purchases on the JSE during the year.

Unissued shares

The directors are authorised to issue unissued shares until the next annual general meeting. Shareholders will be asked to extend the authority of the directors to control the unissued shares of the Company at the forthcoming annual general meeting, up to a maximum of 5% of the issued capital.

DIVIDENDS

Our capital allocation framework seeks to ensure that the business generates sufficient cash flow after sustaining capital before prioritising shareholder returns. This is done while maintaining balance sheet flexibility to protect the business from market volatility as well as ensuring that appropriate levels of capital are allocated to life extension projects. Our capital structure comprises a combination of cash resources and debt facilities providing the requisite balance sheet strength. During the period, we renewed our revolving credit facility extending its term and amending key financial covenants which allowed us to achieve better pricing and reduce the overall quantum of the facilities.

The Kumba Board's consideration for dividends is guided by the capital allocation framework and our dividend policy which targets a payout range of between 50% and 75% of headline earnings. Taking all of the above into consideration, the Board has declared a final cash dividend of R15.99 per share, and combined with the interim dividend of R30.79 per share, this amounts to a total dividend of R46.78 per share (2018: R30.24) for the year. This equates to a 92% payout ratio of headline earnings for 2019.

SUBSIDIARIES, JOINT ARRANGEMENTS AND ASSOCIATES

Full particulars of the group's investment in subsidiaries, associates and joint arrangements are set out in Annexures 1 and 2.

EQUITY COMPENSATION PLANS

Refer to note 22 "Equity-settled share-based payment reserve", Annexure 3 of the group annual financial statements and the detailed remuneration report on pages 96 to 129 of the 2019 integrated report for a detailed discussion and analysis of movements in the group's various equity compensation plans available to executive directors and senior employees.

SEGMENT RESULTS

Refer to note 1 for a detailed segmental analysis of the group's operating results for the year ended and financial position as at 31 December 2019.

HOLDING COMPANY AND RELATED PARTIES

Anglo American plc is the group's ultimate holding company. From April 2018, the interest in the group is held through a 69.71% holding by Anglo South Africa Proprietary Limited (2018: 69.71%).

The analysis of ordinary shareholders is given on pages 115 to 116.

EVENTS AFTER THE REPORTING DATE

Refer to note 32 for a detailed description of events after the reporting period for the year ended 31 December 2019. The directors are not aware of any other matters or circumstances arising since the end of the year and up to the date of this report, not otherwise dealt with in this report.

CONTINGENT LIABILITIES AND GUARANTEES

Contingent liabilities

As previously reported, on 29 June 2018, the South African Revenue Service issued the group with additional income tax assessments relating to a tax audit on the deductibility of certain expenditure incurred, covering the 2012 to 2014 years of assessment. The group objected against these assessments after consultation with external tax and legal advisers. On 11 December 2018, SARS advised that it disallowed the objection. On 21 February 2019, the group submitted an appeal against this outcome and is currently in discussions with SARS as part of the alternative dispute resolution (ADR) proceedings in an attempt to resolve the matter and as such, no further information which may prejudice the group's position on this matter has been disclosed.

Based on the external legal and tax advice obtained, the group believes that these matters have been appropriately treated in the results for the year ended 31 December 2019.

Guarantees

Total guarantees issued in favour of the Department of Mineral Resources in respect of the group's environmental closure liabilities at 31 December 2019 were R3 billion (2018: R2.9 billion).

As a result of annual revision of closure costs, a shortfall of R363 million arose. Guarantees in respect of the shortfall will be issued in due course.

REGULATORY UPDATE

Carbon Tax Bill

As announced in the 2019 Budget Speech, the Carbon Tax Bill was legislated under the Customs and Excise Act as an environmental levy on greenhouse gas emissions. The Carbon Tax Bill was implemented on 1 June 2019 at an initial tax rate of R120 per tonne of carbon dioxide equivalent and is expected to increase at an annual rate of consumer price inflation (CPI) plus 2% until the end of 2022, and thereafter at the CPI rate. The final rules and forms for the implementation of the carbon tax were released by SARS on 23 December 2019. Based on the initial tax rate, it is estimated that for the period 1 June 2019 to 31 December 2019, an amount of approximately R12 million would be paid in carbon tax through the fuel levy on 31 July 2020. The estimate excludes scope 2 emissions from electricity which were postponed to 2023.

COMPANY SECRETARY

The previous Company Secretary of Kumba, Ms Celeste Appollis, resigned on 31 July 2019 and Isabella Crafford acted in this position for the period 1 August 2019 to 6 January 2020. Ms Fazila Patel has been appointed to this position with effect from 7 January 2020. The contact details of the Company Secretary are set out on page 117. Her abridged curriculum vitae is available for inspection at the Company's registered office.

DIRECTORS

The names of the directors who were in office during the year and at the date of this report are set out on pages 74 to 76 of the IR. The remuneration and fees of directors as well as the directors' beneficial interest in Kumba are set out in note 35 to the consolidated financial statements.

The following changes to the Board were announced during the 2019 financial year:

- Dolly Mokgatle stepped down as an independent non-executive director with effect from 10 May 2019.
- Stephen Pearce, representing the Anglo American group, stepped down as non-executive director of the Board effective 31 May 2019.
- Duncan Wanblad joined the Board as a non-executive director, effective 31 May 2019, representing the Anglo American group.
- Michelle Jenkins was appointed as independent non-executive director with effect from 1 November 2019.

DIRECTORS' REPORT CONTINUED

for the year ended 31 December 2019

PRESCRIBED OFFICERS

The names of the prescribed officers who served during the year and as at the date of this report are set out on page 76 of the 2019 integrated report. The remuneration and fees of the prescribed officers are set out in note 35 to the consolidated financial statements. Although Timo Smit is a prescribed officer of Kumba as a member of the Executive Committee (Exco), he is employed by Kumba Singapore Pte and as such, his remuneration is disclosed in the table on page 87. Refer to page 87 of the consolidated financial statements for details of prescribed officers who resigned during the year.

AUDITORS

Current auditors

Deloitte & Touche was appointed as the auditor of Kumba and its subsidiaries from inception on 1 November 2006 and continued in office for the year ended 31 December 2019.

Audit tender

Following an evaluation of the rule published by the Independent Regulatory Board of Auditors in June 2017, prescribing the mandatory rotation of auditors of listed entities in South Africa, effective from 1 April 2023, the Board resolved during 2018 to proceed with an external auditor rotation process. Deloitte & Touche have been the external auditor of the Company and its subsidiaries and joint ventures since inception in 2006.

During 2018, the group embarked on a formal tender process for the selection of a new external auditor to replace Deloitte & Touche from the 2020 financial year onwards. This robust tender process continued in 2019, with the conclusion of all the work required to select and recommend to the shareholders that PricewaterhouseCoopers LLP (PwC) be appointed as the new auditor of the Company and the group with effect from the 2020 financial year. In arriving at the decision to recommend PwC as the new auditor, their independence and competence were considered.

This process is expected to be finalised at the next annual general meeting to be held on 15 May 2020 when the shareholders will be requested to appoint PwC as the external auditor and Sizwe Masondo as the lead audit partner for the 2020 financial year.

SPECIAL RESOLUTIONS

On 10 May 2019, the shareholders of Kumba resolved the following:

(1) In terms of the Listings Requirements of the JSE, the directors are authorised by way of a general authority to issue the authorised but unissued ordinary shares of one cent each in the capital of the Company for cash, as and when suitable opportunities arise, subject to the MoI of the Company, and the Companies Act.

(2) In terms of sections 66(8) and 66(9) of the Companies Act and on recommendation of the Human Resources and Remuneration Committee, the Company is authorised to remunerate its non-executive directors and chairperson of the board for their services as directors and/or pay any fees related thereto as detailed in the following table, which reflects that the directors' fees be increased by 6.0% (exclusive of Value Added Tax), provided that the aforementioned authority to remunerate directors shall be valid until the fifteenth annual general meeting of the Company in 2021.

(3) The Board of Directors of the Company may, subject to compliance with the requirements of the Company's Memorandum of Incorporation, the Companies Act, and the Listings Requirements of the JSE, each as presently constituted and as amended from time to time, authorise the Company to provide direct or indirect financial assistance as contemplated in section 44 and/or section 45 of the Companies Act, by way of loan, guarantee, the provision of security or otherwise.

GOING-CONCERN STATEMENT

The directors have reviewed the group's and the Company's financial budgets with their underlying business plans. In light of the current financial position and existing borrowing facilities, the directors consider it appropriate that the annual financial statements of the group and the Company be prepared on the going-concern basis.

REPORT OF THE AUDIT COMMITTEE

for the year ended 31 December 2019

INTRODUCTION

The Audit Committee (the Committee) is pleased to present its report for the financial year ended 31 December 2019 as recommended by the King IV™ report, the JSE Listings Requirements and the Companies Act. The Committee is constituted as a statutory committee of the Board.

The scope of the Committee extends to all activities of Kumba and its subsidiaries. The Committee has terms of reference in place, which regulate both its statutory duties and those assigned to it by the Board. The terms of reference were reviewed, updated and approved in July 2019, taking into account material changes to the JSE Listings Requirements during the year under review and ensuring that the principles of King IV™ were adequately entrenched therein. The Committee has conducted its affairs in compliance with its mandate and terms of reference and has fulfilled its responsibilities contained therein.

COMPOSITION

The Audit Committee, appointed by the Board and approved by the shareholders in respect of the financial year ended 31 December 2019, comprised the following independent non-executive directors, all of whom have the requisite financial skills, business acumen and experience to fulfil their duties:

- SS Ntsaluba (Chairman)
- MS Bomela
- TP Goodlace
- DD Mokgatle*
- MA Jenkins**

* Ms DD Mokgatle retired as a director at the annual general meeting held on 10 May 2019.
** Ms MA Jenkins was appointed as an independent non-executive director effective 1 November 2019, and as a member of the Committee effective 1 February 2020.

Brief biographies of the Committee members are available on the Company's website. The current members of the Committee will be recommended to shareholders for appointment at the annual general meeting of the Company to be held in May 2020 for the financial year ending 31 December 2020. As part of the annual evaluation of the Board, the performance of the Committee and its members were assessed and it was found to be a well-functioning Committee and all its members received positive ratings.

ATTENDEES AT COMMITTEE MEETINGS

In addition to the Committee members, the Chief Executive, Chief Financial Officer, Compliance Officer, Head of Internal Audit and senior management in the finance department attended meetings of the Committee by invitation, together with the external auditor.

The Chairman of the Committee meets separately with management, and internal and external auditors prior to Committee meetings. Besides the pre-meetings, the Committee meets separately with internal and external auditors at least once a year.

REPORT OF THE AUDIT COMMITTEE CONTINUED

for the year ended 31 December 2019

COMMITTEE MEETING ATTENDANCE

During the year under review, the Committee met five times. Attendance at meetings held during the year is presented in the following table.

	Meeting date					Number of meetings attended
Member	**12/02/2019**	**11/04/2019***	**07/05/2019**	**17/07/2019**	**27/11/2019**	
SS Ntsaluba (Chairman)	✓	✓	✓	✓	✓	**5/5**
MS Bomela	✓	✓	✓	✓	✓	**5/5**
TP Goodlace	✓	✓	✓	✓	✓	**5/5**
DD Mokgatle	✓	✓	✓	R	R	**3/3**

✓ Indicates attendance
* special meeting
R retired as a director at the annual general meeting held on 10 May 2019

ROLE AND RESPONSIBILITIES

The main functions performed by the Committee were as follows:

- reviewed the reporting process and controls in respect of the compilation of the financial information and found the processes and controls to be effective and appropriate
- considered and satisfied itself on the appropriateness of accounting policies and critical judgements, accounting estimates and assumptions
- assessed and confirmed the appropriateness of the going-concern assumption used in the annual financial statements
- reviewed and addressed the findings of the JSE's Thematic Report and Reports Back on Pro-Active Monitoring of financial statements
- reviewed the expertise and experience of the Chief Financial Officer, Bothwell Mazarura, as well as the expertise and resources within the finance function and concluded that both are appropriate
- reviewed legal matters that could have a material impact on the group
- reviewed the interim and year-end results announcements and the annual financial statements and recommended them to the Board for approval
- performed the functions required in terms of section 94(2) of the Companies Act on behalf of the group's subsidiary companies
- monitored the integrity of the Company's integrated reporting process
- reviewed the processes in place for dealing with concerns or complaints in respect of accounting policies, internal audit, the auditing or content of annual financial statements and internal financial controls. There were no substantive complaints during the year under review
- monitored compliance with the Company's business integrity policy and overseeing the management of ethics within the organisation
- reviewed the Company's combined assurance model and satisfied itself as to its completeness
- satisfied itself that the Company has augmented the assurance coverage obtained from management, and from external and internal assurance providers, in accordance with an appropriate combined assurance model
- satisfied itself that the level of unmitigated risks, both individually and in totality, are within the risk appetite of the Company, and that there is sufficient assurance provided to manage risks and the control environment through both internal and external assurance providers
- reviewed the integrity of the narrative in the 2018 sustainability report to ensure that it was reliable and concluded that it did not conflict with the financial information
- evaluated the integrated report for the year under review and assessed its consistency with operational and other information known to the Committee. The report was prepared using appropriate reporting standards
- reviewed the Company's ore reserves and mineral resources report

KEY FOCUS AREAS IN 2019

The significant areas of focus for the Committee in relation to the 2019 financial year included:

- reviewing the adoption of new and amended accounting standards, in particular the implementation of the new accounting standard on leases (IFRS 16) and attendant disclosures
- consideration of the JSE's guidance on proactive monitoring of annual financial statements
- reviewing the group's current tax matters that could have a material impact on the financial statements
- approval and appointment of the new external auditor, effective for the 2020 financial year
- assessment of IT governance and related control environment
- reviewing of the group's significant accounting matters and recommending the approval thereof by the Board which included:

Liabilities for environmental rehabilitation

A comprehensive review of the provision for environmental provision was conducted and management reported to the Committee the procedures undertaken to determine the financial provision.

The Committee reviewed management's assumptions used for the assessment of the financial provision for environmental rehabilitation and was satisfied that it was appropriately performed.

Life-of-mine estimates

Management performed a detailed review of the life-of-mine plans and provided details of the key assumptions applied in the estimates, including estimates for resources and reserves. Management confirmed that the latest estimates were correctly applied to determine the relevant financial information included in the financial statements.

The Committee interrogated management's key assumptions used in the life of mine plans to understand the impact on the financial statements as a whole and was satisfied with management's review.

KEY FOCUS AREAS IN 2020

- continued focus on governance and the regulatory control environment, with specific focus on new JSE Listings Requirements applicable for the year
- ensuring the robustness of the internal control framework over financial reporting to support the Chief Executive and Chief Financial Officer's responsibility statement
- ensuring an efficient external auditor transition
- continued focus on IT governance and related control environment
- reviewing business performance against targets

Internal audit and internal controls

The internal audit function under the auspices of Anglo Business Assurance Services (ABAS) reviews and provides assurance on the adequacy and effectiveness of internal controls and internal financial controls.

During the year under review, the committee:

- reviewed and approved the annual internal audit coverage plan and charter
- evaluated the independence, effectiveness and performance of the internal audit function in terms of its scope, execution of its plan, coverage, independence, skills, resourcing, overall performance and position within the organisation and found it to be satisfactory
- received assurance that proper and adequate accounting records were maintained
- considered the internal audit reports on the Group's systems of internal controls, including financial controls, and business risk management
- reviewed significant issues raised by the internal audit processes and the adequacy of corrective action in response to internal audit findings and considered management's responses to adverse internal audit findings
- met with the head of internal audit independently of management
- assessed the adequacy of the performance of the Head of Internal Audit, as well as the internal audit function, and found it to be satisfactory

REPORT OF THE AUDIT COMMITTEE CONTINUED

for the year ended 31 December 2019

External auditors

The committee is responsible for the appointment, remuneration and oversight of the Group's external auditors, Deloitte & Touche.

During the year under review, the Committee:

- considered and satisfied itself with the independence and objectivity of Deloitte & Touche and Ms Nita Ranchod in their respective capacities as the appointed external audit firm and lead audit partner
- satisfied itself that the external auditor and lead audit partner are both accredited and not included in the JSE's list of disqualified auditors
- approved the external auditors' annual plan for the 2019 annual audit as well as the related scope of work, and the appropriateness of key audit risks identified
- reviewed the findings and recommendation of the external auditors and confirmed that there were no noteworthy unresolved matters at the end of the financial period
- reviewed the quality and effectiveness of the external audit process, based on the committee's own assessment, the views of management and Deloitte & Touche's own assessment, and found it to be satisfactory. Confirmation was obtained from Deloitte & Touche that no material matters had been raised in regulatory or internal reviews of the audit partner
- considered the external auditor's suitability assessment in terms of paragraph 3.84(g)(iii) and section 22.15(h) of the JSE Listings Requirements
- approved the non-audit-related services performed by the external auditor during the 2019 year and determined the external auditor's terms of engagement and fees for the year under review. To safeguard the objectivity and independence of the external auditor, the Company revised its External Auditor Independence Policy, available at the Company's registered office and on the website, which provides guidance on the formal procedure to be followed when the external auditor is considered for non-audit services to ensure the independence of the audit firm and the auditor is not breached. Under the policy, the external auditors are not permitted to perform any work that they may subsequently need to audit or which might either create a conflict of interest or affect the auditors' objectivity and independence. Non-audit services are generally limited to assignments that are closely related to the annual audit or where the work is of such a nature that a detailed understanding of the group is required. Certain non-audit services require prior approval of the Committee while others are prohibited. Fees for audit-related services incurred during the year amounted to R9 million and non-audit services Rnil (2018: R9 million and R0.4 million respectively).

Rotation of audit firm

One of the major focus areas for the Committee during the year under review was the approval and appointment of the new external auditor, effective in the 2020 financial year. Deloitte & Touche has served as auditors for 14 years and the Committee resolved in 2018 to effect the change prior to the mandatory audit firm rotation requirements becoming effective for listed companies. The Board and the Committee, following a formal tender process, appointed PwC as the external auditor of the Company and its subsidiaries and joint ventures, with Sizwe Masondo as the designated audit partner, for the financial year ending 31 December 2020. Deloitte & Touche's appointment as external auditors ends with the finalisation of its responsibilities relating to the 31 December 2019 financial year, on conclusion of the 2020 annual general meeting on 15 May 2020. PwC's appointment as external auditor will be effective immediately after Deloitte & Touche's appointment concluded, subject to further shareholder approval at the Company's AGM. During the course of the 2019 audit PwC has engaged with management and Deloitte & Touche in preparation. The Committee satisfied itself through enquiry that PwC and the audit partner are independent as defined by the Companies Act and as per the standards stipulated in the audit profession. The Committee is also satisfied that the audit firm and designated partner are accredited and do not appear on the JSE's list of disqualified auditors. The Committee wishes to thank Deloitte & Touche for its professional and dedicated service to the Company during its tenure.

The Committee is satisfied that, in respect of the period under review, it has conducted its affairs and discharged its duties and responsibilities in accordance with its terms of reference, the JSE Listings Requirements, the Companies Act and the King™ Report on Corporate Governance.

SS Ntsaluba
Chairman of the Audit Committee

17 February 2020

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF KUMBA IRON ORE LIMITED

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Kumba Iron Ore Limited (the group and Company) set out on pages 27 to 112, which comprise the consolidated and separate statements of financial position as at 31 December 2019 and the consolidated and separate statements of profit or loss, consolidated statements of other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate cash flow statements for the year then ended, and the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Kumba Iron Ore Limited as at 31 December 2019, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the group and Company in accordance with sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

No key audit matters were identified for the separate financial statements.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
COMPLETENESS AND ACCURACY OF ENVIRONMENTAL REHABILITATION AND DECOMMISSIONING PROVISIONS	
As disclosed in note 9 of the consolidated financial statements, the rehabilitation and decommissioning provisions balance as at year-end was R2.5 billion. The determination of these provisions involves management judgement and estimates with respect to the future rehabilitation activities and costs that are expected to be incurred upon closure of the mines in compliance with applicable legislation. The estimated closure liability is also affected by discount rates and inflation. On this basis, we consider the completeness and accuracy of the environmental rehabilitation and decommissioning provisions to be a key audit matter (KAM).	Our audit procedures performed with respect to the completeness and accuracy of environmental rehabilitation and decommissioning provisions included: • Testing the design and implementation of controls to ensure the accuracy of rehabilitation and decommissioning provisions; • Assessing the professional competence and objectivity of management's expert; • Engaging our internal environmental specialist to conduct a detailed review of the latest closure plans for the Sishen and Kolomela mines based on reports prepared by management and their independent expert; • Assessing the closure plans against the requirements of the relevant legislation and mine footprint; • Assessing the reasonableness of the underlying cost assumptions and rehabilitation measures used; • Engaging our internal corporate finance specialist to independently assess the discount rate applied by management; and • A review of the adequacy of the disclosures with respect to the assumptions used in the determination of the rehabilitation provision. Based on the results of the audit procedures above, we determined that the rehabilitation and decommissioning provisions are appropriate.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
LIFE-OF-MINE (LOM) ESTIMATE	
The calculation of the LOM, as disclosed in 5.7 Ore reserves and mineral resource estimate on page 44 of the consolidated financial statements, is complex and involves specialised geological knowledge. The LOM is based on estimated available reserves, as determined by qualified geologists and surveyors. Any changes to the reserves and resources will impact the LOM which could impact the financial information that utilises the LOM estimate, for example, the calculation of depreciation and amortisation on pit and ore processing assets and the discounting of the rehabilitation and decommissioning liability. On this basis, we consider the LOM estimates to be a KAM.	Our audit procedures performed with respect to the LOM estimates included: • Testing the design and implementation of controls for the approval for the LOM estimate; • Assessing the professional competence and objectivity of management's specialists; • Engaging our internal specialists to assess the current Sishen and Kolomela mine plans; • Reviewing of the key assumptions, methodologies and techniques for reasonability; • Assessing compliance of the mineral reserves reporting with the South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves (SAMREC); • A retrospective review of key assumptions used in the model by comparing prior year assumptions to actual achieved metrics of the current year; and • A review of the adequacy of the disclosures with respect to the assumptions used in determination of the LOM estimate. Our procedures led us to conclude that the methods and assumptions applied to determine LOM are reasonable.

Other information
The directors are responsible for the other information. The other information comprises the information included in the document titled "Kumba Iron Ore Limited annual financial statements for the year ended 31 December 2019", which includes the Directors' Report, the Audit Committee's Report and the Certificate of the Company Secretary, as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report and the integrated annual report, which is expected to be made available to us after that date. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements
The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going-concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and/or the Company to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

INDEPENDENT AUDITOR'S REPORT CONTINUED

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going-concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and/or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements
In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2017, we report that Deloitte & Touche has been the auditor of Kumba Iron Ore Limited for 14 years.

Deloitte & Touche

Deloitte & Touche
Registered Auditor
Per: Nita Ranchod
Partner

17 February 2020

Deloitte & Touche
Registered Auditors
Audit – Gauteng
Buildings 1 And 2
Deloitte Place
The Woodlands
Woodlands Drive
Woodmead Sandton

Riverwalk Office Park, Block B
41 Matroosberg Road
Ashlea Gardens X6, Pretoria 0081

PRINCIPAL ACCOUNTING POLICIES

for the year ended 31 December 2019

1. GENERAL INFORMATION

Kumba is the holding company of the Kumba group. Kumba is a mining group of companies focusing on the exploration, extraction, beneficiation, marketing, sale and shipping of iron ore. Kumba produces iron ore at Sishen and Kolomela mines in the Northern Cape province.

Kumba is a public company listed on the JSE Limited and is incorporated and domiciled in the Republic of South Africa.

2. BASIS OF PREPARATION

2.1 Accounting framework

The group and Company financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) as issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) interpretations, the South African Companies Act, No 71 of 2008 (as amended), the Listings Requirements of the JSE Limited, and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Guides as issued by the Financial Reporting Council. The financial statements are authorised for issue by the Company's Board of Directors.

The financial statements have been prepared in accordance with the historical cost convention, except for certain financial instruments, share-based payments, discontinued operations held for sale and biological assets which are measured at fair value.

The consolidated and separate financial statements are prepared on the basis that the group and Company will continue to be a going concern.

The following principal accounting policies and methods of computation were applied by the group and the Company in the preparation of the consolidated and separate financial statements for the financial year ended 31 December 2019. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.2 Statement of compliance

2.2.1 New standards effective for annual periods beginning on or after 1 January 2019

The following accounting standards, amendments to published accounting standards and interpretations which became effective for the year commencing on 1 January 2019 were adopted by the group:

STANDARD, AMENDMENT OR INTERPRETATION	IMPACT ON THE FINANCIAL STATEMENTS
Amendments to IFRS 9 – Prepayment Features with Negative Compensation	No impact on the financial statements
Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures	No impact on the financial statements
Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement	No impact on the financial statements
Annual Improvements to IFRS Standards 2015 – 2017 Cycle: IFRS 3, IFRS 11, IAS 12 and IAS 23	No impact on the financial statements
IFRS 16 *Leases*	See below
IFRIC 23 *Uncertainty over Income Tax Treatments*	See below

IFRS 16 *Leases*

IFRS 16 *Leases* replaces IAS 17 *Leases* along with three interpretations (IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*) and sets out updated requirements on recognition and measurement of leases.

Kumba adopted IFRS 16 *Leases* retrospectively from 1 January 2019 but did not restate comparatives for the 2018 reporting periods as permitted under the modified transition approach in the standard. The cumulative effects of the adjustments arising from the new leasing rules are therefore recognised in the opening retained earnings on 1 January 2019.

PRINCIPAL ACCOUNTING POLICIES CONTINUED

2. BASIS OF PREPARATION CONTINUED

2.2 Statement of compliance continued

2.2.1 New standards effective for annual periods beginning on or after 1 January 2019 continued

Adjustments recognised on adoption of IFRS 16 *Leases*

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which were previously classified as operating leases under the principles of IAS 17 excluding low-value leases or those lease with a remaining lease term of less than 12 months (i.e. short-term leases). These liabilities were measured at the present value of the remaining lease payments, discounted using the group's incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate used to measure the lease liabilities on 1 January 2019 was 11.5%.

Lease liability

The following is a reconciliation of total operating lease commitments at 31 December 2018, as disclosed in the prior year financial statements, to the lease liability recognised on 1 January 2019:

Rand million	1 January 2019
Operating lease commitments disclosed as at 31 December 2018	608
Impact of discounting of lease payments[1]	(207)
Lease liabilities recognised at 1 January 2019	**401**
Current lease liabilities	37
Non-current lease liabilities	364
Lease liabilities recognised at 1 January 2019	**401**

[1] Discounted using the lessee's incremental borrowing rate at date of initial application.

Right-of-use assets

The associated right-of-use assets for all property leases were measured on a retrospective basis as if the new standard had always been applied, net of the accumulated depreciation at 1 January 2019. Other right-of-use assets relating to leasing of equipment were measured at an amount equal to the lease liability.

There were no onerous lease contracts that would require an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of property, plant and equipment:

Rand million	1 January 2019
Residential properties	313
Buildings and infrastructure	25
Machinery, plant and equipment	11
Total right-of-use assets	**349**

The impact of the change in the accounting policy on the statement of financial position on 1 January 2019 was as follows:

- increase in right-of-use assets by R349 million
- increase in lease liabilities by R401 million
- decrease in retained earnings by R52 million (consisting of R40 million attributable to the owners of Kumba and R12 million attributable to non-controlling interests)

2. BASIS OF PREPARATION CONTINUED

2.2 Statement of compliance continued

2.2.1 New standards effective for annual periods beginning on or after 1 January 2019 continued

Practical expedients applied on adoption of IFRS 16

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease
- the non-reassessment of whether an existing lease contract is or contains a lease as defined in IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease*

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases shorter than 12 months. Low-value assets are assets that are below the group's capitalisation threshold. Low-value assets comprise mostly IT-equipment and small items of office furniture.

IFRIC 23 *Uncertainty over Income Tax Treatments*

The interpretation aims to clarify how to apply the recognition and measurement requirements of IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. IFRIC 23 became effective for periods beginning on or after 1 January 2019.

The interpretation does not alter the group's current accounting treatment, i.e. the use of significant judgements or estimates that the group applies in determining its taxable profit (loss), tax bases, unused tax losses, unused tax credits and tax rates. At each reporting period, the group assesses whether the facts and circumstances around the judgements and estimates have changed.

The application of IFRIC 23 did not have an impact on the group and Company financial statements.

Removal of normalised earnings measure from the financial results

Since the 2015 financial year, Kumba presented a measure known as normalised earnings in its interim and annual financial results. Normalised earnings were determined by adjusting the headline earnings attributable to the owners of Kumba for non-recurring expenses or income items for the period. The following items were adjusted for:

- gains or losses on lease receivables
- recognition or derecognition of deferred tax assets
- tax effect of the above adjustments
- non-controlling interests' share of the above adjustments after tax

The normalised earnings ratio is specific to Kumba and is not required in terms of IFRS or the JSE Listings Requirements. This measure was used to determine Kumba's recurring income by removing unusual events from its headline earnings to provide relevant or comparable information to the users of the financial statements. The non-recurring adjustments reported on historically is not expected to arise going forward. As a result, it is considered that the measure does not provide the users of the financial statements with more relevant or comparable information anymore.

The headline earnings and earnings per share measures are standardised ratios reported on the JSE and therefore provide the users of the financial statements with comparable information that can be utilised to compare Kumba's results to other mining companies.

The normalised earnings measure has therefore been removed and will no longer be reported on by the group.

2.2 2 New IFRS accounting standards, amendments and interpretations not yet effective and not early adopted

The accounting standards, amendments to issued accounting standards and interpretations which are relevant to the group but not yet effective at 31 December 2019, are being evaluated for the impact of these pronouncements. These accounting standards are listed in Annexure 4.

PRINCIPAL ACCOUNTING POLICIES CONTINUED

2. BASIS OF PREPARATION CONTINUED

2.3 Currencies

Functional and presentation currency

Items included in the financial statements of each group entity are measured using the functional currency of that entity. The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The group and Company financial results are presented in South African Rand, which is Kumba's functional currency and the group's presentation currency.

All amounts have been rounded to the nearest million, unless otherwise indicated.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of an entity at the prevailing rate of exchange at the transaction date.

Monetary assets and liabilities that are denominated in foreign currencies are translated into the functional currency of an entity at the rate of exchange ruling at the statement of financial position date. Foreign exchange gains and losses arising on translation are recognised in the statement of profit or loss.

Foreign operations

The financial results of all entities that have a functional currency different from the presentation currency of Kumba are translated into the presentation currency (South African Rand).

All assets and liabilities, including fair value adjustments arising on acquisitions, are translated at the rate of exchange ruling at the statement of financial position date. Income and expenditure transactions of foreign operations are translated at the average rate of exchange. Resulting foreign exchange gains and losses arising on translation are recognised in the foreign currency translation reserve (FCTR) as a separate component of other comprehensive income.

Convenience translation from South African Rand to US Dollar

The presentation currency of the group is South African Rand.

Supplementary US Dollar information is provided for convenience only. The conversion to US Dollar is performed as follows:
- assets and liabilities are translated at the closing rate of exchange on statement of financial position date
- income and expenses are translated at average rates of exchange for the years presented
- shareholders' equity, other than attributable earnings for the year, is translated at the closing rate on each statement of financial position date

The resulting translation differences are included in other comprehensive income.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Kumba Executive Committee.

Management has determined the operating segments of the group based on the reports reviewed by the Executive Committee that are used to make strategic decisions. The Executive Committee considers the business principally according to the nature of the products and services provided, with the segment representing a strategic business unit. The reportable operating segments derive their revenue primarily from mining, extraction, production, distribution and selling of iron ore and shipping services charged to external clients.

2.5 Events after the reporting period

Recognised amounts in the financial statements are adjusted to reflect events arising after the statement of financial position date that provide evidence of conditions that existed at the statement of financial position date. Events after the statement of financial position date that are indicative of conditions that arose after the statement of financial position date are dealt with in note 32.

3. COMPANY FINANCIAL STATEMENTS

Subsidiaries, associates and joint arrangements

Investments in subsidiaries, associates and joint arrangements in the separate financial statements presented by Kumba are recognised at cost less any accumulated impairment.

4. CONSOLIDATED FINANCIAL STATEMENTS

4.1 Basis of consolidation

The consolidated financial statements present the statement of financial position and changes therein, operating results and cash flow information of the group. Where necessary, adjustments are made to the results of subsidiaries, joint arrangements and associates to ensure the consistency of their accounting policies with those used by the group.

Intercompany transactions, balances and unrealised profits and losses between group companies are eliminated on consolidation. In respect of joint arrangements and associates, unrealised profits and losses are eliminated to the extent of the group's interest in these entities. Unrealised profits and losses arising from transactions with associates are eliminated against the investment in the associate.

Subsidiaries

Subsidiaries are those entities (including special purpose entities) over which the group has control. Control is achieved where the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Associates

Associates are all entities over which the group is in a position to exercise significant influence but not control, through participation in the financial and operating policy decisions of the investee. Typically, the group owns between 20% and 50% of the voting equity.

Investments in associates are accounted for using the equity method of accounting from the date on which significant influence commences until the date that significant influence ceases and are initially recognised at cost.

Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Joint ventures are accounted for using the equity method.

Equity accounting method

Under the equity method of accounting, interests in associates and joint ventures are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the group's share of losses in an associate or joint venture equals or exceeds its interests in the associate or joint ventures (which includes any long-term interests that, in substance, form part of the group's net investment in the associate or joint ventures), the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated or joint ventures. When subsequent profits are made, previously unrecognised losses are first fully eliminated before the profits are recognised as part of the investment.

The total carrying value of associates and joint ventures, including goodwill, is reviewed when there is objective evidence that the asset is impaired. If impaired, the carrying value of the group's share of the underlying net assets of associates or joint ventures are written down to its estimated recoverable amount and recognised in the statement of profit or loss.

Unrealised gains on transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in the associates and joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Results of associates are equity accounted from their most recent management accounts.

Non-controlling interests

The effects of transactions with non-controlling interests that do not result in loss of control are recorded in equity as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in statement of changes in equity.

PRINCIPAL ACCOUNTING POLICIES CONTINUED

4. CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
STATEMENT OF FINANCIAL POSITION

4.2 Property, plant and equipment (including right-of-use assets)

Land and assets under construction, which include capitalised development and mineral exploration and evaluation costs, are measured at cost less any accumulated impairment and are not depreciated.

All other classes of property, plant and equipment are stated at historical cost less any accumulated depreciation and any accumulated impairment losses.

The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

The cost of items of property, plant and equipment include all costs incurred to bring the assets to the location and condition necessary for their intended use by the group. The cost of self-constructed assets includes expenditure on materials, direct labour and an allocated proportion of project overheads. The cost of property, plant and equipment may also include:

- the estimated costs of decommissioning the assets and site rehabilitation costs to the extent that they relate to the asset
- capitalised pre-production expenditure and waste stripping costs
- deferred waste stripping costs

The cost of items of property, plant and equipment is capitalised into its various components where the useful life of the components differ from the main item of property, plant and equipment to which the component can be logically assigned. Expenditure incurred to replace or modify a significant component of property, plant and equipment is capitalised and any remaining carrying value of the component replaced is written off as an expense in the statement of profit or loss.

Costs incurred on repairing and maintaining assets are recognised in the statement of profit or loss in the period in which they are incurred.

Gains and losses on the disposal of property, plant and equipment, which are represented by the difference between the net disposal proceeds, if any, and the carrying amount of the item, are recognised in the statement of profit or loss.

Refer to 4.16 below for the accounting policy on initial and subsequent recognition of right-of-use assets.

Depreciation

Depreciation commences on self-constructed assets when they are available for use by the group. Depreciation for property, plant and equipment is charged on a systematic basis over the estimated useful lives of the assets after deducting the estimated residual value of the assets, using the straight-line method. Depreciation for right-of-use assets is charged on the same basis except that the period is the shorter of the useful life of the asset (in line with the category of property, plant and equipment to which the asset is classified) and the lease term, unless the title to the asset transfers at the end of the lease term, in which case depreciation is over the useful life, as explained in 4.16 below. The depreciation method applied is reviewed at least at each financial year-end, with any changes accounted for as a change in accounting estimate to be applied prospectively. The depreciation charge for each period is recognised in the statement of profit or loss unless it is included in the carrying amount of another asset.

The useful life of an asset is the period of time over which the asset is expected to be used. The estimated useful lives of assets and their residual values are reassessed annually at the end of each reporting period, with any changes in such accounting estimates being adjusted in the year of reassessment and applied prospectively. The estimated useful lives of items of property, plant and equipment (excluding land and assets under construction that are not depreciated) are:

Mineral properties	10 – 13 years
Residential buildings	5 – 13 years
Buildings and infrastructure	5 – 13 years
Machinery, plant and equipment	
Mobile equipment, built-in process computers and reconditionable spares	2 – 13 years
Fixed plant and equipment	4 – 13 years
Loose tools and computer equipment	5 years
Mineral exploration, site preparation and development	5 – 13 years

4. CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
STATEMENT OF FINANCIAL POSITION CONTINUED

4.2 Property, plant and equipment (including right-of-use assets) continued

Research, development, mineral exploration and evaluation costs

Research, development, mineral exploration and evaluation costs are expensed in the year in which they are incurred until they result in projects that the group:
- evaluates as being technically or commercially feasible
- has sufficient resources to complete development
- can demonstrate that it will generate probable future economic benefits

Once these criteria are met, all directly attributable development costs and ongoing mineral exploration and evaluation costs are capitalised within property, plant and equipment. During the development of a mine, before production commences, stripping expenses are capitalised as part of the investment in construction of the mine. Capitalisation of pre-production expenditure ceases when the mining property is capable of commercial production.

Capitalised pre-production expenditure prior to commercial production is assessed for impairment in accordance with the group's accounting policy on impairment of non-financial assets.

Waste stripping expenses

The removal of overburden or waste material is required to obtain access to an ore body. In the production phase of a mine, the mining costs associated with this process are deferred to the extent that the actual stripping ratio of a component is higher than the expected average reserve life stripping ratio for that component. The deferred costs are charged to operating costs using a unit of production method of depreciation. The ex-pit ore extracted from the related component during the period is expressed as a percentage of the total ex-pit ore expected to be extracted from that component over the reserve life and applied to the balance of the deferred stripping asset for that component. The effect of this will therefore be that the cost of stripping in the statement of profit or loss will be reflective of the average stripping rates for the ore body mined in any given period. This reflects the fact that waste removal is necessary to gain access to the ore body and therefore realise future economic benefit.

The average reserve life stripping ratio for the identified components is calculated as the tonnes of ex-pit waste material expected to be removed over the reserve life per tonne of ex-pit ore extracted. The cost per tonne is calculated as the total mining costs for a mine for the period under review divided by total tonnes handled for the period under review. A component has been identified as a geographically distinct ore body within a pit to which the stripping activities being undertaken within that component could be allocated.

Where the pit profile is such that the actual stripping ratio is below the average reserve life stripping ratio no deferral takes place as this would result in recognition of a liability for which there is no obligation. Instead, this position is monitored and when the cumulative calculation reflects a debit balance deferral commences.

The stripping ratios for each component are reassessed annually at the end of each reporting period. Any changes in such accounting estimates are adjusted in the year of reassessment and applied prospectively.

4.3 Impairment of non-financial assets

The group's non-financial assets, other than inventories and deferred tax, are reviewed annually to determine whether there is any indication that those assets are impaired, or previous impairment has reversed, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment or reversal of previous impairment. Recoverable amounts are estimated for individual assets. Where an individual asset cannot generate cash inflows independently, the assets are grouped at the lowest level for which there is separately identifiable cash-generating units (CGUs). The recoverable amount is determined for the CGUs to which the asset belongs.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount and an impairment loss is recognised in the statement of profit or loss.

PRINCIPAL ACCOUNTING POLICIES CONTINUED

4. CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
STATEMENT OF FINANCIAL POSITION CONTINUED

4.3 Impairment of non-financial assets continued

A previously recognised impairment is reversed insofar as estimates change as a result of an event occurring after the impairment was recognised. An impairment is reversed only to the extent that the asset or CGU's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an impairment is recognised in the statement of profit or loss.

Exploration and evaluation assets are tested for impairment when development of the property commences or whenever facts and circumstances indicate impairment. An impairment is recognised for the amount by which the exploration assets' carrying amount exceeds their recoverable amount. For the purpose of assessing impairment, the relevant exploration and evaluation assets are included in the existing CGUs of producing properties that are located in the same region.

4.4 Financial assets

Recognition and measurement

The group recognises its financial assets in the statement of financial position when and only when it becomes party to the contractual provisions of the instrument.

At initial recognition, the financial assets are measured at fair value plus or minus, in the case of a financial assets not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

At subsequent reporting dates, financial assets at amortised cost are measured at amortised cost, using the effective interest method, less any impairment losses. Other investments classified at fair value through profit or loss are subsequently measured at fair value. The gains and losses from the fair value movements for the period are included in the statement of profit or loss within other gains and losses.

Classification

The group's financial assets are classified into the following measurement categories:
- derivatives and equity instruments at fair value through profit or loss (FVTPL)
- debt instruments at amortised cost

Financial assets at fair value through profit or loss

Financial assets at FVTPL consist of derivative financial assets disclosed as part of long-term prepayments and as part of cash and cash equivalents, a portion of trade receivables and investments held by the environmental trust in the statement of financial position. Trade receivables measured at FVTPL relate to provisionally-priced receivables.

Financial assets at amortised cost

Financial assets are classified as "at amortised cost" only if the asset is held within a business model whose objective is to collect the contractual cash flows and the contractual terms of the asset give rise to cash flows that are solely payments of principal and interest. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

The financial assets at amortised cost consist of cash and cash equivalents, and trade and other receivables, and are disclosed in the statement of financial position.

Trade and other receivables

Trade receivables are amounts due from customers for iron ore sold or shipping services rendered in the ordinary course of business. Other receivables are amounts due to Kumba, which do not result from the sale of iron ore or shipping services rendered and includes interest receivable and other sundry receivable amounts.

If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. A portion of trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment, if any. Where the expected term of a receivable is less than one year, it is presumed that no significant financing component exists.

4. CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
STATEMENT OF FINANCIAL POSITION CONTINUED

4.4 Financial assets continued

Cash and cash equivalents

In the consolidated and separate cash flow statements, cash and cash equivalents comprise bank balances and broker margin accounts. The broker margin accounts on derivatives which meet the definition of cash and cash equivalents are also presented as part of cash and cash equivalents.

Derecognition of financial assets

Financial assets are derecognised when the right to receive cash flows from the asset has expired, the right to receive cash flows has been retained but an obligation to on-pay them in full without material delay has been assumed or the right to receive cash flows has been transferred together with substantially all the risks and rewards of ownership.

4.5 Impairment of financial assets

A financial asset not measured at FVTPL is assessed at each reporting date to determine whether there is any objective evidence that it is impaired as a result of one or more events that occurred after the initial recognition of the asset and that loss has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The group assesses, on a forward looking basis, an expected credit loss, which is the difference between the carrying amount of the financial asset and the amount that is expected to be received in respect of that financial asset. The impairment methodology applied to determine the recoverable amount of the financial asset carried at amortised cost depends on the level of credit risk associated with that specific financial asset. For trade receivables only, the simplified approach permitted by IFRS 9 is applied, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Expected credit losses are recognised in the statement of profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of profit or loss.

4.6 Financial liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity. Financial liabilities are included in current liabilities, except for maturities greater than 12 months after the statement of financial position date, which are classified as non-current liabilities.

The group's financial liabilities comprise trade and other payables and derivative liabilities.

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Recognition and measurement

The group recognises its financial liabilities in the statement of financial position when and only when the entity becomes party to the contractual provisions of the instrument.

At initial recognition, the group measures its financial liabilities at their fair value plus or minus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liability.

At subsequent reporting dates, financial liabilities are carried at amortised cost, using the effective interest method, and any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss.

Derecognition

Financial liabilities are derecognised when the associated obligation has been discharged, cancelled or has expired.

PRINCIPAL ACCOUNTING POLICIES CONTINUED

4. CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
STATEMENT OF FINANCIAL POSITION CONTINUED

4.7 Derivative financial instruments
Derivative instruments are categorised as "at FVTPL" and are classified as current assets or liabilities. All derivative instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at fair value at the date of the statement of financial position. Resulting gains or losses on derivative instruments are recognised in the statement of profit or loss. The broker margin accounts on derivatives which meet the definition of cash and cash equivalents are also presented as part of cash and cash equivalents.

4.8 Offsetting financial instruments
Where a legally enforceable right of offset exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously, or to settle on a net basis, all related financial effects are offset and the net amount is reported in the statement of financial position.

4.9 Inventories
Inventories comprise finished products, work-in-progress and plant spares and stores, and are measured at the lower of cost, determined on a weighted average basis, and net realisable value.

The cost of finished goods and work-in-progress comprises direct labour, other direct costs and fixed production overheads, but excludes finance costs. Fixed production overheads are allocated on the basis of normal capacity. Plant spares and consumable stores are capitalised to the statement of financial position and expensed to the statement of profit or loss as and when they are utilised.

Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and variable selling expenses. Write-downs to net realisable value and inventory losses are expensed in the statement of profit or loss in the period in which the write-downs or losses occur.

Inventories are included in current assets unless the inventory will not be realised within 12 months after the end of the reporting period, in which case they are presented as non-current assets.

4.10 Contract liabilities
At each reporting date, the group recognises contract liabilities in relation to shipping revenue billed to, and paid by, the customer for which the shipping performance obligations had not yet been fulfilled as at the end of the reporting period, as explained in detail in 4.17 below. Contract liabilities are recognised as revenue once the performance obligations have been fulfilled.

4.11 Share capital
Ordinary shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any group entity purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

When issued shares are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the treasury share reserve. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity and the resulting surplus or deficit on the transaction is presented within share premium.

4. CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
STATEMENT OF FINANCIAL POSITION CONTINUED

4.12 Dividends payable

Dividends payable and the related taxation thereon are recognised by the group when the dividend is declared. These dividends are recorded and disclosed as dividends paid in the statement of changes in equity. Dividend withholding tax is levied on the recipient but withheld by the group and remitted to the authorities. A liability is recognised in respect of the tax levied for the period when the dividends are recognised as a liability. Dividend withholding tax is not included in the taxation charge in the statement of profit or loss.

Dividends proposed or declared subsequent to the statement of financial position date are not recognised, but are disclosed in the notes to the consolidated and separate financial statements.

4.13 Provisions

A provision is recognised when the group has a present legal or constructive obligation as a result of past events when it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the obligation can be made.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the statement of financial position date. Provisions are not recognised for future operating losses.

Where the effects of discounting are material, provisions are measured at their present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as finance cost.

Environmental rehabilitation

Environmental rehabilitation provisions

The provision for environmental rehabilitation is recognised as and when an obligation to incur rehabilitation and mine closure costs arises from environmental disturbance caused by the development or ongoing production of a mining property. Estimated long-term environmental rehabilitation provisions are measured based on the group's environmental policy taking into account current technological, environmental and regulatory requirements. Any subsequent changes to the carrying amount of the provision resulting from changes to the assumptions applied in estimating the obligation are recognised in the statement of profit or loss.

Ongoing rehabilitation expenditure

Ongoing rehabilitation expenditure incurred is offset against the recognised provision in the statement of financial position.

Decommissioning provision

The estimated present value of costs relating to the future decommissioning of plant or other site preparation work, taking into account current environmental and regulatory requirements, is capitalised as part of property, plant and equipment, to the extent that it relates to the construction of an asset, and the related provisions are raised in the statement of financial position, as soon as the obligation to incur such costs arises.

These estimates are reviewed at least annually and changes in the measurement of the provision that result from the subsequent changes in the estimated timing or amount of cash flows, or a change in discount rate, are added to, or deducted from, the cost of the related asset in the current period. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in the statement of profit or loss. If the asset value is increased and there is an indication that the revised carrying value is not recoverable, an impairment test is performed in accordance with the accounting policy on "Impairment of non-financial assets" above.

4.14 Deferred tax

Deferred tax is recognised using the liability method, on all temporary differences between the carrying values of assets and liabilities for accounting purposes and the tax bases of these assets and liabilities used for tax purposes and on any tax losses. No deferred tax is provided on temporary differences relating to:

- the initial recognition of goodwill (for deferred tax liabilities only)
- the initial recognition (other than in a business combination) of an asset or liability to the extent that neither accounting nor taxable profit is affected on acquisition
- investments in subsidiaries to the extent they will probably not reverse in the foreseeable future

PRINCIPAL ACCOUNTING POLICIES CONTINUED

4. CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
STATEMENT OF FINANCIAL POSITION CONTINUED

4.14 Deferred tax continued

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised within the same tax entity. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and is adjusted to the extent that it is no longer probable that sufficient taxable profit will be available to allow all of the assets to be recovered.

Deferred tax is calculated at the tax rates and laws that are enacted or substantively enacted in the period when the liability is settled, or when the asset is realised. Deferred tax is recognised in the statement of profit or loss, except when it relates to items recognised directly to equity, in which case the deferred tax is also taken directly to equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the group intends, and is able to, settle its current tax assets and liabilities on a net basis. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future against which the deductible temporary difference can be utilised.

4.15 Employee benefits

Post-employment benefits

The group operates defined contribution plans for the benefit of its employees. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate fund. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The plan is funded by payments from employees and the group. The group's contribution to the funds is recognised as employee benefit expense in the statement of profit or loss in the year to which it relates.

The group does not provide guarantees in respect of the returns in the defined contribution funds and has no further payment obligations once the contributions have been paid.

The group does not provide defined employee benefits to its current or previous employees.

Bonus plans

The group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the achievement of agreed Company financial, strategic and operational objectives, linked to key performance areas. The group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits.

The group recognises termination benefits when it has demonstrated its commitment to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. If the benefits are due more than 12 months after statement of financial position date, they are discounted to present value.

4. CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
STATEMENT OF FINANCIAL POSITION CONTINUED

4.15 Employee benefits continued

Equity compensation benefits

The various equity compensation schemes operated by the group allow certain senior employees, including executive directors, the option to acquire shares in Kumba over a prescribed period in return for services rendered. These options are settled by means of the issue of shares. Such equity-settled share-based payments are measured at fair value at the date of the grant.

The fair value determined at the grant date of the equity-settled share-based payments is charged as employee costs on a straight-line basis over the period that the employees become unconditionally entitled to the options, based on management's estimate of the shares that will vest and adjusted for the effect of non-market-based vesting conditions. These share options are not subsequently revalued.

The fair value of the share options is measured using option pricing models. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of exercise restrictions and behavioural considerations such as volatility, dividend yield and the vesting period. The fair value takes into account the terms and conditions on which these incentives are granted and the extent to which the employees have rendered services to statement of financial position date.

4.16 Leases

For any new contract entered into on or after 1 January 2019, the group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract, or part of the contract, conveys the right to the use of an identified asset for a period of time in exchange for consideration. In its assessment, the group uses the definition of a lease in IFRS 16.

At commencement or on modification of a contract that contains a lease component and one or more additional lease or non-lease components, the group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. For all leases, the group has elected to separate non-lease components and account for the lease and non-lease components separately.

Recognition and initial measurement

At lease commencement date, the group recognises a right-of-use asset and a lease liability in the statement of financial position.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred by the group, an estimate of costs to dismantle and remove or to restore the underlying asset or the site on which it is located and any lease payments made in advance of the lease commencement date, less any lease incentives received.

The right-of-use assets are presented separately in the consolidated statement of financial position.

On commencement date, the group measures the lease liability at the present value of the lease payments that are unpaid at that date, discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the group applies its incremental borrowing rate. Generally, the group uses its incremental borrowing rate.

The group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise fixed payments, including in-substance fixed payments, less any incentives receivable.

PRINCIPAL ACCOUNTING POLICIES CONTINUED

4. CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
STATEMENT OF FINANCIAL POSITION CONTINUED

4.16 Leases continued

Subsequent measurement

Right-of-use asset

The right-of-use asset is subsequently depreciated using the straight-line method from the lease commencement date to the earlier of the useful life of the right-of-use asset or the end of the lease term. In addition, the group applies IAS 36 *Impairment of Assets* to determine whether a right-of-use asset is impaired and accounts for the identified impairment loss as described in the policy for property, plant and equipment.

Lease liability

Subsequent to initial measurement, the lease liability is reduced for payments made and increased for interest incurred. The liability is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset or recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value items

The group has elected not to recognise right-of-use assets and lease liabilities for short-term leases and leases of low-value assets. The group recognises the lease payments associated with these leases as an expense in the statement of profit or loss on a straight-line basis over the lease term.

Variable lease payments

Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in "Other expenses" in the statement of profit or loss as shown in note 3 to the consolidated financial statements.

STATEMENT OF PROFIT OR LOSS

4.17 Revenue recognition

Revenue is recognised in a manner that depicts the pattern of the transfer of goods and services to customers in an amount that reflects the consideration to which the group expects to be entitled in exchange for those goods and services. The identified contracts with customers are evaluated to determine the performance obligations, the transaction price and the point at which the performance obligation is satisfied by transferring promised goods or services to the customers. The transaction price is the amount of consideration due in exchange for transferring the promised goods or services to the customer and is allocated against the performance obligations and recognised in accordance with whether control is recognised over a defined period or at a specific point in time.

Revenue is derived principally from the sale of iron ore and shipping services rendered and is measured at the fair value of consideration received or receivable, after deducting discounts, volume rebates, Value Added Tax and other sales taxes.

The group recognises revenue when it is probable that the group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer and when specific criteria have been met for each of the group's activities as described below.

Sales of goods – iron ore

Local and export revenue from the sale of iron ore is recognised when control has been transferred. This occurs at a point in time which is usually when title and insurance risk have passed to the customer and the goods have been delivered to a contractually agreed location.

There are certain of the group's sales of iron ore which meet the revenue recognition criteria at a certain date but for which the sales price is only determined at an agreed future date. Revenue in respect of such sales is initially recognised at the market iron ore price on the date of initial recognition, being the bill of lading date. At each reporting date, the provisional price of each sale is estimated to be marked to market with reference to the Platts Iron Ore Index (IODEX), with revenue adjusted to reflect the latest provisional price. Once the transaction price for the sale has been confirmed, the difference between the confirmed iron ore price and the provisional price is recognised to revenue. The accounts receivable balance is also adjusted to reflect the correct amount owed by the customer.

Furthermore, the group trades in iron ore price derivatives on sales transactions where there is a quotation period mismatch. Movements in fair value of these derivative financial instruments are recognised as revenue, as trading activities are regarded as part of the group's ordinary activities.

Shipping services

Revenue from shipping services is recognised as and when the performance obligation has been fulfilled and accepted by the customer. Amounts billed to customers in respect of shipping and handling activities are classified as revenue where the group is responsible for the shipping services.

For "cost and freight" (CFR) and "cost, insurance and freight" (CIF) arrangements, the transaction price, as determined above, is allocated to the ore and shipping services using the relative stand-alone selling price method. Under these arrangements, the customer may be required to make a provisional payment on the date of shipment. Therefore, some of the amount paid by the customer relating to shipping services still to be provided is deferred at each reporting date. To measure progress towards complete satisfaction of the shipping service which best represents the group's performance, and therefore the amount to be recognised as revenue for the period, the output method, being the number of shipping days that have elapsed as a proportion of total expected shipping days, is used. This is on the basis that the customer simultaneously receives and consumes the benefits provided by the group as the services are being provided. The deferred revenue is recognised as a contract liability in the statement of financial position.

4.18 Cost of sales

When inventories are sold, the carrying amount is recognised as part of cost of sales. Any write-down of inventories to net realisable value and all losses of inventories or reversals of previous write-downs or losses are recognised in cost of sales in the period the write-down, loss or reversal occurs.

4.19 Income from investments

Interest income

Interest is recognised on the time proportion basis, taking into account the principal amount outstanding and the effective interest rate over the period to maturity, when it is determined that such income will accrue to the group.

Dividend income

Dividend income from investments is recognised by the Company when the shareholders' rights to receive payment have been established. All dividend income received within the group is eliminated on consolidation.

4.20 Employee benefits: short-term benefits

The cost of all short-term employee benefits, such as salaries, bonuses, housing allowances, medical and other contributions is recognised in the statement of profit or loss during the period in which the employee renders the related service.

PRINCIPAL ACCOUNTING POLICIES CONTINUED

4. CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
STATEMENT OF PROFIT OF LOSS CONTINUED

4.21 Operating leases

As explained in sections 2.2.1 and 4.16 above, during 2019 the group changed its accounting policy for leases where the group is the lessee. The change in the accounting policy, together with the impact of the change, are also described in section 2.2.1 above. Payments made under leases which do not meet the IFRS 16 criteria are expensed in the statement of profit or loss on a straight-line basis over the period of the lease.

4.22 Taxation

The income tax charge for the period is determined based on profit before tax for the year and comprises current and deferred tax. Tax is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the related tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax

The current tax charge is the calculated tax payable on the taxable income for the year using tax rates that have been enacted or substantively enacted by the statement of financial position date and any adjustments to tax payable in respect of prior years. Taxable profit differs from net profit as reported in the statement of profit or loss because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are not taxable or deductible.

Dividend tax

Dividend withholding tax is levied on dividend recipients and has no impact on the group taxation charge as reflected in the statement of profit or loss.

4.23 Earnings per share

The group presents basic and diluted earnings per share (EPS) and basic and diluted headline earnings per share (HEPS) data for its ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of Kumba by the weighted average number of ordinary shares outstanding during the year.

HEPS is calculated by adjusting the profit or loss attributable to ordinary shareholders of Kumba for all separately identifiable remeasurements, for example gains and losses arising on disposal of assets, net of related tax (both current and deferred) and related non-controlling interest, other than remeasurements specifically included in headline earnings. The result is divided by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS and HEPS are determined by adjusting the basic and headline earnings attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the financial statements requires the group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and estimates and assumptions of the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires the exercise of judgement based on various assumptions and other factors such as historical experience, current and expected economic conditions, and in some cases actuarial techniques. Actual results could differ from those estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are recognised prospectively.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES CONTINUED

The following key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, have a risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial year:

5.1 Consolidation of special purpose entities

The group sponsors the formation of special purpose entities (SPE) primarily to hold Kumba shares for the benefit of employees. SPEs are consolidated when the substance of the relationship between the group and the SPE indicates control. As it can sometimes be difficult to determine whether the group controls an SPE, management makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question.

5.2 Property, plant and equipment (including right-of-use assets)

The depreciable amount of property, plant and equipment is allocated on a systematic basis over its useful life. Depreciation of right-of-assets is over the shorter of the useful life of the asset (in line with the category of property, plant and equipment to which the asset would be classified) and the lease term, unless the title to the asset transfers at the end of the lease term, in which case depreciation is over the useful life. Selection of the depreciation method and estimation of the useful life of assets are matters of judgement.

In determining the depreciable amount, management makes certain assumptions with regard to the residual value of assets based on the expected estimated amount that the group would currently obtain from disposal of the asset, after deducting the estimated cost of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. If an asset is expected to be abandoned the residual value is estimated at zero.

The estimation of the useful life of the asset is a matter of judgement based on the experience of the group with similar assets. In determining the useful life of items of property, plant and equipment that is depreciated, management considers the expected usage of assets, expected physical wear and tear, legal or similar limits of assets such as mineral rights as well as obsolescence.

This estimate is further impacted by management's best estimation of proved and probable iron ore reserves and the expected future life of each of the mines within the group. The forecast production could be different from the actual iron ore mined. This would generally result from significant changes in the factors or assumptions used in estimating iron ore reserves. These factors could include:

- changes in proved and probable iron ore reserves;
- differences between achieved iron ore prices and assumptions;
- unforeseen operational issues at mine sites; and
- changes in capital, operating, mining, processing, reclamation and logistics costs, discount rates and foreign exchange rates.

Any change in management's estimate of the useful lives and residual values of assets would impact the depreciation charge. Any change in management's estimate of the total expected future life of each of the mines would impact the depreciation charge as well as the estimated rehabilitation and decommissioning provisions.

5.3 Waste stripping costs

The rate at which costs associated with the removal of overburden or waste material is capitalised as development costs or charged as an operating cost is calculated per component of each mine, using management's best estimates of the:

- average reserve life stripping ratio; and
- total expected production over the life of mine.

The average life-of-mine stripping ratio is recalculated when a new life-of-mine plan is designed and approved for use in light of additional knowledge and changes in estimates. Any change in management's estimates would impact the stripping costs capitalised and amortisation of the related asset.

5.4 Provision for environmental rehabilitation and decommissioning

The provisions for environmental rehabilitation and decommissioning costs are calculated using management's best estimate of the costs to be incurred based on the group's environmental policy taking into account current technological, environmental and regulatory requirements discounted to a present value. Estimates are based upon costs that are regularly reviewed, by internal and external experts, and adjusted as appropriate for new circumstances. Actual costs incurred in future periods could differ from the estimates. Additionally, future changes to environmental laws and regulations, life-of-mine estimates and discount rates used could affect the carrying amount of this provision. As a result, the liabilities that we report can vary if our assessment of the expected expenditures changes.

PRINCIPAL ACCOUNTING POLICIES CONTINUED

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES CONTINUED

5.5 Estimation of deemed gross sales value of revenue for calculating mineral royalty

In terms of the Mineral and Petroleum Resources Royalty Act, 28 of 2008 and the Mineral and Petroleum Resources Royalty Administration Act, 29 of 2008, the specified condition for iron ore used to calculate the mining royalty payable is deemed to have been extracted at a 61.5% Fe specified condition. Management is required to make certain judgements and estimates in determining the gross sales value of the ore extracted at the group's mines.

5.6 Provisionally priced revenue from spot sales

Certain of the group's spot sales are provisionally priced at the reporting date as the final sales price for these sales are not settled until a predetermined future date based on the average iron ore price at that time. Revenue on these sales is initially recognised at the current market rate on the bill of lading date, being the date that the revenue recognition criteria is met.

Provisionally-priced sales are marked to market with reference to the Platts Iron Ore Index (IODEX) price at each reporting date. The forward market for iron ore is not considered sufficiently liquid and therefore the closing iron ore price for the month is assumed to continue into the following month for the purposes of calculating the provisionally-priced revenue transactions.

5.7 Ore reserve and mineral resource estimates

Ore reserves and mineral resource estimates are estimates of the amount of ore that can be economically and legally extracted from the group's mining properties. Such reserves and mineral resource estimates and changes to these may impact the group's reported financial position and results, in the following way:

- provisions for environmental rehabilitation and decommissioning provision may change where reserve estimate changes affect expectations about when such activities will occur and the associated cost of these activities
- capitalised waste stripping costs recognised in the statement of financial position, as either part of mine properties or inventory or charged to profit or loss, may change due to changes in stripping ratios
- depreciation charges in the statement of profit or loss may change where such charges are determined using the units of production method, or where the useful life of the related assets change
- the recognition and carrying value of deferred income tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets

The group estimates its ore reserves and mineral resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the ore body and suitable production techniques and recovery rates. Such an analysis requires complex geological judgements to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity and product prices, future capital requirements, transport costs, discount rates, production costs, decommissioning and environmental rehabilitation costs along with geological assumptions and judgements made in estimating the size and grade of the ore body.

The group estimates and reports ore reserves and mineral resources in line with the principles contained in the South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves (SAMREC Code – 2016 edition).

Sishen's mine life reduced by one year to 13 years from 14 years in 2018 and for Kolomela, the remaining reserve life reduced from 13 years to 12 years, mainly as a result of annual production.

6. OTHER ACCOUNTING JUDGEMENTS AND ESTIMATES

6.1 Leases

Identification of non-lease components

In instances where the consideration for mining service contracts is not split for lease and non-lease components, the group estimates the amounts.

Determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise, or not to exercise, an extension option. Extension options are only included in the lease term for instances where the group is reasonably certain that it will extend or will not terminate the lease when the lease expires. For all leases, the most relevant factor includes historical lease durations, related costs and the possible business disruption as a result of replacement of the leased asset.

The lease term is reassessed on an ongoing basis, especially when the option to extend becomes exercisable or on occurrence of a significant event or a significant change in circumstances which affects this assessment, and that is within the control of the group.

Determining the incremental borrowing rate

Interest rate implicit in leases is not available, therefore the group uses the relevant incremental borrowing rate (IBR) to measure its lease liabilities. The IBR is estimated to be the interest rate that the group would pay to borrow:

- over a similar term
- with similar security
- the amount necessary to obtain an asset of a similar value to the right-of-use asset
- in a similar economic environment

The IBR, therefore, is considered to be the best estimate of the incremental rate and requires management's judgement as there are no observable rates available.

6.2 Going-concern

Management considers key financial metrics and loan covenant compliance in its approved medium-term budgets, together with its existing term facilities, to conclude that the going-concern assumption used in the compiling of its annual financial statements is appropriate.

6.3 Segmental reporting

In applying IFRS 8 *Operating Segments*, management makes judgements with regard to the identification of reportable operating segments of the group as well as what constitutes segment results to enable users to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

6.4 Fair value assessment

The assessment of fair value is principally used in accounting for impairment testing and the valuation of certain financial assets and liabilities.

The determination of assumptions used in assessing the fair value of identifiable assets and liabilities is subjective and the use of different valuation assumptions could have a significant impact on financial results. In particular, expected future cash flows, which are used in discounted cash models, are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including Ore Reserves and Resources, together with economic factors such as commodity prices, exchange rates, discount rates and estimates of production costs and future capital expenditure.

The fair value of identifiable financial assets and liabilities that are not traded in an active market is determined by using observable market data (in the case of listed entities, market share price at 31 December of the respective entity) or discounted cash flow (DCF) models (and other valuation techniques) using assumptions considered to be reasonable and consistent with those that would be applied by a market participant. Where discounted cash flows are used, the resulting fair value measurements depend, to a significant extent, on unobservable valuation inputs.

The group uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the statement of financial position date.

PRINCIPAL ACCOUNTING POLICIES CONTINUED

6. OTHER ACCOUNTING JUDGEMENTS AND ESTIMATES CONTINUED

6.5 Impairment of assets

Accounting judgements

The group assesses at each reporting date whether there are any indicators that its assets and cash-generating units (CGUs) may be impaired. Operating and economic assumptions, which could affect the valuation of assets using discounted cash flows, are updated regularly as part of the group's planning and forecasting processes. Judgement is therefore required to determine whether the updates represent significant changes in the service potential of an asset or CGU, and are therefore indicators of impairment or impairment reversal. The judgement also takes into account the group's long-term economic forecasts, market consensus and sensitivity analysis of the discounted cash flow models used to value the group's assets. Assets (other than goodwill) that have been previously impaired are assessed for indicators of both impairment and impairment reversal. Such assets are, by definition, carried on the statement of financial position at a value close to their recoverable amount at the last assessment. Therefore, in principle any change to operational plans or assumptions, economic parameters, or the passage of time, could result in further impairment or impairment reversal if an indicator is identified.

The calculation of the recoverable amount of a CGU is based on assessments of the higher of the fair value less costs of disposal or value in use. The cash flow projections used in these assessments are subject to the areas of judgement outlined below. Refer to note 2 for more detailed disclosure on impairment of property, plant and equipment.

Cash flow projections for impairment testing

Expected future cash flows used in discounted cash flow models are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including Ore Reserves and Mineral Resources, together with economic factors such as commodity prices, exchange rates, discount rates and estimates of production costs and future capital expenditure. Where discounted cash flow models based on management's assumptions are used, the resulting fair value measurements are considered to be at level 3 in the fair value hierarchy, as defined in IFRS 13 *Fair Value Measurement*, as they depend to a significant extent on unobservable valuation inputs.

Cash flow projections are based on financial budgets and life-of-mine plans (LoMPs) or, for non-mine assets, an equivalent appropriate long-term forecast, incorporating key assumptions as detailed below:

- ***Reserves and resources***
  Ore reserves and, where considered appropriate, mineral resources, are incorporated in projected cash flows, based on ore reserves and mineral resource statements and exploration and evaluation work undertaken by appropriately qualified persons. Mineral resources are included where management has a high degree of confidence in their economic extraction, despite additional evaluation still being required prior to meeting the requirements of reserve classification.
- ***Commodity and product prices***
  Commodity and product prices are based on latest internal forecasts, benchmarked with external sources of information, to ensure they are within the range of available analyst forecasts. Where existing sales contracts are in place, the effects of such contracts are taken into account in determining future cash flows.
- ***Foreign exchange rates***
  Foreign exchange rates are based on latest internal forecasts, benchmarked with external sources of information. Foreign exchange rates are kept constant (on a real basis) for the long term.
- ***Discount rates***
  Cash flow projections used in fair value less costs of disposal impairment models are discounted based on a discount rate of 7% (2018: 7%). To the extent that specific risk factors were not incorporated into the discount rate, adjustments were made to the cash flow projections.
- ***Operating costs, capital expenditure and other operating factors***
  Operating costs and capital expenditure are based on financial budgets covering a five-year period. Cash flow projections beyond five years are based on LoMP as applicable, and internal management forecasts. Cost assumptions incorporate management experience and expectations.

6. OTHER ACCOUNTING JUDGEMENTS AND ESTIMATES CONTINUED

6.6 Equity-settled share-based payment reserve

Management makes certain judgements in respect of selecting appropriate fair value option pricing models to be used in estimating the fair value of the various share-based payment arrangements in respect of employees and special purpose entities. Judgements and assumptions are also made in calculating the variable elements used as inputs in these models. The inputs that are used in the models include, but are not limited to, the expected vesting period and related conditions, share price, dividend yield, share option life, risk-free interest rate and annualised share price volatility (refer note 22).

6.7 Deferred tax assets

The group recognises the net future tax benefit related to deferred income tax assets, to the extent that it can be regarded as probable that the deductible temporary differences will reverse in the foreseeable future, or that there is a probability of utilising assessed losses. Assessing the recoverability of deferred income tax assets requires the group to make significant estimates related to expectations of future taxable income on a subsidiary by subsidiary basis. Estimates of future taxable income are based on forecast cash flows from operations. To the extent that future cash flows differ significantly from estimates, the ability of the group to realise the net deferred tax assets recorded at statement of financial position date could be impacted.

STATEMENT OF FINANCIAL POSITION

as at 31 December

Rand million	Notes	2019	2018
ASSETS			
Property, plant and equipment	2	**38,953**	37,723
Right-of-use assets	3	**482**	—
Biological assets		**17**	3
Investments held by environmental trust	4	**652**	621
Long-term prepayments and other receivables	5	**206**	216
Inventories	6	**3,670**	2,410
Deferred tax assets	10	**1**	—
Non-current assets		**43,981**	40,973
Inventories	6	**5,995**	6,236
Trade and other receivables	7	**3,737**	4,157
Contract assets		**—**	9
Current tax assets		**363**	6
Cash and cash equivalents	8	**12,865**	11,670
Current assets		**22,960**	22,078
Total assets		**66,941**	63,051
EQUITY AND LIABILITIES			
Shareholders' equity		**36,230**	35,260
Non-controlling interests	23	**11,294**	10,927
Total equity		**47,524**	46,187
Liabilities			
Lease liabilities	3	**513**	—
Provisions	9	**2,486**	2,239
Deferred tax liabilities	10	**9,313**	8,805
Non-current liabilities		**12,312**	11,044
Lease liabilities	3	**29**	—
Provisions	9	**94**	72
Trade and other payables	11	**6,676**	5,460
Contract liabilities	11	**306**	288
Current liabilities		**7,105**	5,820
Total liabilities		**19,417**	16,864
Total equity and liabilities		**66,941**	63,051

STATEMENT OF PROFIT OR LOSS

for the year ended 31 December

Rand million	Notes	**2019**	2018
Revenue	12	**64,285**	45,725
Operating expenses	13	**(35,319)**	(29,365)
Expected credit losses on financial assets		**(155)**	–
Operating profit	14	**28,811**	16,360
Finance income	17	**792**	499
Finance costs	17	**(351)**	(179)
Profit before taxation		**29,252**	16,680
Taxation	18	**(7,936)**	(4,026)
Profit for the year from continuing operations		**21,316**	12,654
Discontinued operation			
Loss from discontinued operation	20	**–**	(59)
Profit for the year		**21,316**	12,595
Attributable to:			
Owners of Kumba		**16,259**	9,615
Non-controlling interests		**5,057**	2,980
		21,316	12,595
Basic earnings/(loss) per share attributable to the ordinary equity holders of Kumba (Rand per share)			
From continuing operations		**50.73**	30.22
From discontinued operation		**–**	(0.14)
Total basic earnings per share		**50.73**	30.08
Diluted earnings/(loss) per share attributable to the ordinary equity holders of Kumba (Rand per share)			
From continuing operations		**50.58**	30.01
From discontinued operation		**–**	(0.14)
Total diluted earnings per share		**50.58**	29.87

STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 31 December

Rand million	**2019**	2018
Profit for the year	**21,316**	12,595
Other comprehensive income for the year[1]	**(91)**	523
Exchange differences on translation of foreign operations	**(91)**	523
Total comprehensive income for the year	**21,225**	13,118
Attributable to:		
Owners of Kumba	**16,189**	10,014
Non-controlling interests	**5,036**	3,104
	21,225	13,118

[1] There is no tax attributable to items included in other comprehensive income and all items will subsequently be reclassified to profit or loss.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December

Rand million	Share capital and share premium	Treasury shares	Equity-settled share-based payments reserve	Foreign currency translation reserve	Retained earnings	Share-holders' equity	Non-controlling interests	Total equity
Notes	21	21	22				23	
Balance at 31 December 2017	367	(421)	186	916	33,721	**34,769**	10,777	**45,546**
Net movement in treasury shares under employee share incentive schemes	–	(112)	–	–	–	**(112)**	–	**(112)**
Equity-settled share-based payment expenses	–	–	94	–	–	**94**	–	**94**
Vesting of shares under employee share incentive schemes	–	73	(77)	–	4	**–**	–	**–**
Liquidation of subsidiary[1]	–	–	–	(3)	3	**–**	–	**–**
Total comprehensive income for the year	–	–	–	399	9,615	**10,014**	3,104	**13,118**
Dividends paid	–	–	–	–	(9,505)	**(9,505)**	(2,954)	**(12,459)**
Balance at 31 December 2018	**367**	**(460)**	**203**	**1,312**	**33,838**	35,260	**10,927**	46,187
Adoption of IFRS 16 on 1 January 2019	**–**	**–**	**–**	**–**	**(40)**	**(40)**	**(12)**	**(52)**
Restated balance on 1 January 2019	**367**	**(460)**	**203**	**1,312**	**33,798**	**35,220**	**10,915**	**46,135**
Net movement in treasury shares under employee share incentive schemes	**–**	**(324)**	**–**	**–**	**–**	**(324)**	**–**	**(324)**
Equity-settled share-based payment expenses	**–**	**–**	**128**	**–**	**–**	**128**	**–**	**128**
Vesting of shares under employee share incentive schemes	**–**	**412**	**(148)**	**–**	**(264)**	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**(70)**	**16,259**	**16,189**	**5,036**	**21,225**
Dividends paid	**–**	**–**	**–**	**–**	**(14,983)**	**(14,983)**	**(4,657)**	**(19,640)**
Balance at 31 December 2019	**367**	**(372)**	**183**	**1,242**	**34,810**	**36,230**	**11,294**	**47,524**

[1] Relates to liquidation of a subsidiary, Kumba International BV.

Dividend per share **Rand**	**2019**	2018
Interim	**30.79**	14.51
Final[1]	**15.99**	15.73
Total	**46.78**	30.24

[1] The final dividend for 2019 was declared subsequent to the year-end and is presented for information purposes only.

Equity-settled share-based payments reserve

The equity-settled share-based payments reserve comprises the fair value of goods received or services rendered that has been settled through the issue of shares or share options.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial results of foreign operations to the presentation currency of Kumba.

STATEMENT OF CASH FLOWS

for the year ended 31 December

Rand million	Notes	**2019**	2018
Cash flows from operating activities			
Cash receipts from customers		**64,695**	45,116
Cash paid to suppliers and employees		**(30,038)**	(26,210)
Cash generated from operations	24	**34,657**	18,906
Finance income received	25	**781**	513
Finance expense paid	25	**(267)**	(108)
Taxation paid	26	**(7,781)**	(4,077)
		27,390	15,234
Cash flows utilised in investing activities			
Additions to property, plant and equipment	28	**(5,603)**	(4,463)
Increase in financial asset at fair value through profit or loss		**(207)**	—
Proceeds from disposal of property, plant and equipment		**6**	17
		(5,804)	(4,446)
Cash flows utilised in financing activities			
Purchase of treasury shares		**(324)**	(112)
Dividends paid to owners of Kumba	27	**(14,983)**	(9,505)
Dividends paid to non-controlling shareholders	27	**(4,657)**	(2,954)
Payment of lease liabilities		**(82)**	—
		(20,046)	(12,571)
Net increase/(decrease) in cash and cash equivalents		**1,540**	(1,783)
Cash and cash equivalents at beginning of year	8	**11,670**	13,874
Foreign currency exchange losses on cash and cash equivalents		**(345)**	(421)
Cash and cash equivalents at end of year	8	**12,865**	11,670

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December

1. SEGMENTAL REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Kumba Executive Committee.

The Kumba Executive Committee considers the business principally according to the nature of the products and services provided, with the identified segments each representing a strategic business unit. "Other segments" comprise corporate, administration and other expenditure not allocated to the reported segments.

The total reported segment revenue comprises revenue from external customers and is measured in a manner consistent with that disclosed in the statement of profit or loss. The performance of the operating segments is assessed based on earnings before tax, interest, depreciation and amortisation (EBITDA), which is considered to be a more appropriate measure of profitability for the group's business. Finance income and finance costs are not allocated to segments, as treasury activity is managed on a central group basis.

Total segment assets comprise finished goods inventory and work-in-progress only, which is allocated based on the operations of the segment and the physical location of the asset.

Depreciation, staff costs, impairment of assets and additions to property, plant and equipment are not reported to the CODM per segment but are significant items which are included in EBITDA and/or reported on for the group as a whole.

	Products[1]			Services			
Rand million	**Sishen mine**	**Kolomela mine**	**Thabazimbi mine**	**Logistics[2]**	**Shipping operations**	**Other**	**Total**
2019							
Statement of profit or loss							
Revenue (from external customers)	40,698	17,972	–	–	5,615	–	64,285
EBITDA	28,695	12,513	–	(6,500)	1	(1,337)	33,372
Significant items in the statement of profit or loss:							
Depreciation	3,174	1,241	–	10	–	113	4,538
Impairment charge	23	–	–	–	–	–	23
Staff costs	2,942	1,011	–	40	–	960	4,953
Statement of financial position							
Total segment assets[3]	4,170	3,056	–	1,064	–	–	8,290
Statement of cash flows							
Additions to property, plant and equipment							
Expansion capital expenditure	592	–	–	–	–	–	592
Stay-in-business capital expenditure	1,693	684	–	–	–	–	2,377
Deferred stripping	1,981	653	–	–	–	–	2,634

[1] Derived from extraction, production and selling of iron ore.
[2] No revenue is reported for this segment as its performance is reviewed with reference to volumes railed and rail tariffs achieved.
[3] From the 2019 financial year, the CODM considers work-in-progress inventory, in addition to finished product inventory, as a key focus area for decision-making purposes. Therefore, the work-in-progress inventory balance is included in total segment assets for 2019.

1. SEGMENTAL REPORTING CONTINUED

	Products[1]			Services			
Rand million	Sishen mine	Kolomela mine	Thabazimbi mine	Logistics[2]	Shipping operations	Other	Total[3]
2018							
Statement of profit or loss							
Revenue (from external customers)	29,383	11,665	—	—	4,677	—	45,725
EBITDA	20,261	7,443	(63)	(6,184)	145	(1,036)	20,566
Significant items in the statement of profit or loss:							
Depreciation	3,096	1,136	—	10	—	27	4,269
Staff costs	2,855	955	—	40	—	776	4,626
Statement of financial position							
Total segment assets	713	673	—	161	—	3	1,550
Statement of cash flows							
Additions to property, plant and equipment							
Expansion capital expenditure	506	—	—	—	—	—	506
SIB capital expenditure	2,508	597	—	3	—	—	3,108
Non-cash additions	(820)	—	—	—	—	—	(820)
Deferred stripping	1,370	299	—	—	—	—	1,669

1 Derived from extraction, production and selling of iron ore.
2 No revenue is reported for this segment as its performance is reviewed with reference to volumes railed and rail tariffs achieved.
3 The amounts in the total column for 2018 are inclusive of the Thabazimbi mine amounts. These amounts are not included in each line item on the statement of profit or loss as Thabazimbi mine was disclosed separately as a discontinued operation.

Rand million	Note	**2019**	**2018**
Reconciliation of reportable segments' assets to inventories			
Inventories			
Finished product		**2,664**	**1,550**
Work-in-progress		**5,626**	**—**
Segment assets		**8,290**	**1,550**
Plant spares and stores		**1,375**	**1,418**
Work-in-progress		**—**	**5,678**
Balance per statement of financial position	6	**9,665**	**8,646**

Rand million	Note	**2019**	2018
Reconciliation of operating profit to EBITDA			
Operating profit per statement of profit or loss		**28,811**	16,360
Operating loss of discontinued operation		**—**	(63)
Add back:			
Depreciation		**4,538**	4,269
Impairment charge		**23**	—
EBITDA		**33,372**	20,566

GEOGRAPHICAL ANALYSIS

Geographical analysis of revenue and non-current assets:
All non-current assets, excluding investments in associates and joint ventures, are located in South Africa.

Refer to note 12 for the geographical analysis of revenue.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

2. PROPERTY, PLANT AND EQUIPMENT

Rand million	Land	Mineral properties	Residential buildings	Buildings and infra-structure	Machinery, plant and equipment	Mineral exploration, site preparation and develop-ment	Assets under construction	Total
2019								
Cost								
Balance at beginning of year	342	621	3,480	6,097	35,768	10,032	5,200	61,540
Additions (refer to note 28)	–	–	–	–	197	2,634	2,882	5,713
Capital acquisitions	–	–	–	–	197	–	2,882	3,079
Deferred stripping	–	–	–	–	–	2,634	–	2,634
Changes in decommissioning provision (refer to note 9)	–	–	–	34	23	–	5	62
Disposals and scrapping	(12)	–	(19)	–	(58)	–	(44)	(133)
Transfers between asset classes	20	–	173	595	2,460	2,969	(6,217)	–
Balance at 31 December 2019	350	621	3,634	6,726	38,390	15,635	1,826	67,182
Accumulated depreciation								
Balance at beginning of year	–	373	871	1,794	18,305	2,474	–	23,817
Depreciation	–	21	177	364	2,980	907	–	4,449
Disposals and scrapping	–	–	(16)	–	(44)	–	–	(60)
Balance at 31 December 2019	–	394	1,032	2,158	21,241	3,381	–	28,206
Impairment charge								
Balance at beginning of year	–	–	–	–	–	–	–	–
Impairment charge	–	–	–	–	23	–	–	23
Balance at 31 December 2019	–	–	–	–	23	–	–	23
Carrying amount at 31 December 2019	350	227	2,602	4,568	17,126	12,254	1,826	38,953

2. PROPERTY, PLANT AND EQUIPMENT CONTINUED

Rand million	Land	Mineral properties	Residential buildings	Buildings and infra-structure	Machinery, plant and equipment	Mineral exploration, site preparation and development	Assets under construction	Total
2018								
Cost								
Balance at beginning of year	293	621	3,475	6,082	33,554	8,532	4,305	56,862
Additions (refer to note 28)	74	–	–	–	1,610	1,669	1,930	5,283
Capital acquisitions	74	–	–	–	1,610	–	1,930	3,614
Deferred stripping	–	–	–	–	–	1,669	–	1,669
Changes in decommissioning provision (refer to note 9)	–	–	–	(33)	(18)	–	30	(21)
Disposals and scrapping	(25)	–	–	(27)	(514)	(6)	(12)	(584)
Transfers between asset classes	–	–	5	75	1,136	(163)	(1,053)	–
Balance at 31 December 2018	342	621	3,480	6,097	35,768	10,032	5,200	61,540
Accumulated depreciation								
Balance at beginning of year	–	352	693	1,489	15,703	1,349	–	19,586
Depreciation	–	21	168	332	3,047	701	–	4,269
Notional depreciation on impairment charge	–	–	10	–	3	430	–	443
Disposals and scrapping	–	–	–	(27)	(448)	(6)	–	(481)
Balance at 31 December 2018	–	373	871	1,794	18,305	2,474	–	23,817
Impairment charge								
Balance at beginning of year	–	–	10	–	3	430	–	443
Notional depreciation on impairment charge	–	–	(10)	–	(3)	(430)	–	(443)
Balance at 31 December 2018	–	–	–	–	–	–	–	–
Carrying amount at 31 December 2018	342	248	2,609	4,303	17,463	7,558	5,200	37,723

The group generated proceeds from the disposal of items of property, plant and equipment of R6 million (2018: R17 million).

The estimated replacement value of assets for insurance purposes and assets under construction at cost amounts to R78 billion (2018: R71 billion).

A register of land and buildings is available for inspection at the registered office of the Company.

None of the assets are encumbered as security for any of the group's liabilities, nor is the title to any of the assets restricted.

Rand million	**2019**	2018
Capital commitments		
Capital commitments include all items of capital expenditure for which specific Board approval has been obtained up to statement of financial position date. Capital expenditure will be financed principally from cash generated from operations.		
Capital expenditure still in the study phase of the project pipeline for which specific Board approvals have not yet been obtained are excluded.		
Capital expenditure contracted for plant and equipment	**705**	694
Capital expenditure authorised for plant and equipment but not contracted	**806**	1,555

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3. LEASES

This note provides information for leases where the group is a lessee.

Amounts recognised in the statement of financial position:
(a) Right-of-use assets:

Rand million	Residential buildings	Buildings and infrastructure	Machinery, plant and equipment	Total
Recognised on adoption of IFRS 16 on 1 January 2019	313	25	11	349
Additions	31	53	138	222
Depreciation	(41)	(22)	(26)	(89)
Carrying amount at 31 December 2019	303	56	123	482

The right-of-use assets in relation to the leased properties do not meet the definition of an investment property.

There were no right-of-use assets derecognised during the year.

(b) Lease liabilities:

Rand million	31 December 2019	1 January 2019
Recognised on adoption of IFRS 16 on 1 January 2019	401	401
New leases capitalised during the year	223	—
Lease payments made during the year	(140)	—
Finance costs	58	—
Balance at 31 December 2019	542	401
Current	29	37
Non-current	513	364
Carrying amount at 31 December 2019	542	401

In the past, the group only recognised lease assets and lease liabilities in relation to leases that were classified as "finance leases" under IAS 17 *Leases*. The assets would have been presented in property, plant and equipment and the liabilities as part of the group's borrowings. The were no financial leases at 31 December 2018 and therefore, no adjustments were recognised on adoption of IFRS 16 on 1 January 2019.

Amounts recognised in the statement of profit or loss:

Rand million	31 December 2019	31 December 2018
Depreciation on right-of-use asset	89	—
Interest expense on lease liabilities[1]	58	—
Lease expenses relating to low-value assets	19	—
Variable lease payments	46	—
Income from sub-leasing of right-of-use assets	(40)	(37)
Operating leases under IAS 17[2]	—	190
Net effect	172	153

[1] Included in finance costs. Refer to note 17.
[2] Prior year amount includes expenses for low-value assets, short-term leases and variable lease payments.

3. LEASES CONTINUED

Amounts recognised in the statement of cash flows:

The total cash outflow for leases in 2019 was R140 million, including R58 million for finance costs.

The group's leases consist mainly of leasing of buildings and mining equipment. With the exception of leases of low-value underlying assets, each lease is reflected on the statement of financial position as a right-of-use asset and a lease liability. Lease payments are fixed. Variable lease payments which do not depend on an index or a rate are excluded from the initial measurement of the lease liability and the related right-of-use asset. The group classifies and depreciates its right-of-use assets in a consistent manner to its property, plant and equipment (see note 2).

Lease payments are fixed.

4. INVESTMENTS HELD BY ENVIRONMENTAL TRUST

Rand million	2019	2018
Balance at beginning of year	621	952
Movement in investment in environmental trusts comprising:	31	(331)
Transfer to Thabazimbi Rehabilitation Trust	–	(329)
Gain/(loss) on return of investments	31	(2)
Balance at end of year	**652**	621
Comprising:	652	621
Equity	348	111
Cash	162	215
Bonds	142	295
Balance at end of year	**652**	621

The trust aims to achieve its objectives by investing in a diversified portfolio of equity and debt securities of predominantly South African listed companies as well as South African sovereign and corporate debt. Each mine's portfolio is managed separately according to each individual mine's risk and life-of-mine profile.

The movement in the environmental trust includes fair value movements as well as dividend and interest income, where applicable. This movement is recognised in "Net finance gains/losses" (refer to note 16).

These investments may only be utilised for the purposes of settling decommissioning and rehabilitation obligations relating to the group's mining operations. The investment returns are reinvested by the trust. Refer to note 9 for the environmental rehabilitation and decommissioning provisions.

5. LONG-TERM PREPAYMENTS AND OTHER RECEIVABLES

Rand million	2019	2018
Prepayments	127	132
Other receivables[1]	79	84
Balance at end of year	**206**	216
Maturity profile of long-term prepayments and other receivables		
1 to 2 years	36	102
2 to 5 years	78	77
More than 5 years	44	37
	158	216

[1] The 2019 amount includes R48 million for a long-term receivable measured at FVTPL which does not have a maturity date and therefore not included in the maturity analysis.

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for the year ended 31 December

6. INVENTORIES

Rand million	**2019**	2018
Finished products	**2,664**	1,550
Work-in-progress	**5,626**	5,678
Plant spares and stores	**1,375**	1,418
Total inventories	**9,665**	8,646
Non-current portion of work-in-progress inventories	**3,670**	2,410
Current portion of inventories	**5,995**	6,236
Total inventories	**9,665**	8,646

During the year, the group provided an amount of R210 million (2018: R157 million) against plant spares and stores. R32 million (2018: Rnil million) of finished product inventory was written off to a zero carrying amount.

No inventories were encumbered during the year.

Work-in-progress inventory balances which will not be processed within the next 12 months are presented as non-current.

7. TRADE AND OTHER RECEIVABLES AND CONTRACT ASSETS

Rand million	**2019**	2018
Trade receivables	**2,454**	2,596
Provision for credit losses – trade receivables	**(155)**	–
Net trade receivables	**2,299**	2,596
Other receivables[1]	**1,174**	1,470
Provision for credit losses – other receivables	**(1)**	(1)
Net trade and other receivables	**3,472**	4,065
Prepayments	**115**	92
Prepaid shipping costs	**149**	–
Derivative financial instruments	**1**	–
Balance at end of year (excluding contract assets)	**3,737**	4,157
Contract assets	**–**	9
Balance at end of year (including contract assets)	**3,737**	4,166

[1] Other receivables mainly comprise of a VAT receivable of R745 million (2018: R1,062 million) and sundry receivables of R369 million (2018: R262 million).

Credit risk

Kumba is largely exposed to the credit risk relating to end-user customers within the steel manufacturing industry. Refer to note 34 for detailed disclosure regarding the group's approach to credit risk management.

Significant concentrations of credit risk

R1,299 million (2018: R1,790 million) or 53% (2018: 69%) of the total outstanding trade receivables balance of R2,454 million (2018: R2,596 million) consists of individual end-user customers with an outstanding balance in excess of 5% of the total trade receivables balance as at 31 December 2019.

The historical level of customer default is minimal and as a result, the credit quality of year-end receivables is considered to be high.

7. TRADE AND OTHER RECEIVABLES AND CONTRACT ASSETS CONTINUED

Rand million	2019	2018
Trade receivables credit risk exposure by geographical area[1]		
South Africa	**146**	528
Europe	**449**	148
Asia	**1,704**	1,920
	2,299	2,596
Trade receivables credit risk exposure by currency[1]		
Rand	**146**	528
US Dollar	**2,153**	2,068
	2,299	2,596
Ageing of trade receivables[1]		
Not past due	**2,299**	2,596
	2,299	2,596

[1] Net amount after deducting expected credit losses.

Trade receivables are non-interest-bearing and are generally on terms of 30 days.

The full amount of R9 million in relation to the contract assets at 31 December 2018 was recognised in the statement of profit or loss during 2019.

A provision for credit losses of R155 million (2018: Rnil) was raised against trade receivables. The group uses a provision matrix to calculate expected credit losses for trade receivables which incorporates forward-looking information. For 2019, amounts longer than 30 days or where there is a dispute, were considered and provided accordingly. Management has not raised any other expected credit losses on its other debtors as there has never been a history of default events or any historical credit loss experiences.

Set out below is the movements in the allowance for expected credit losses of trade receivables:

Rand million	2019	2018
Balance at beginning of period	**1**	1
Expected credit losses raised during the year	**155**	—
Balance at end of period	**156**	1

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

8. CASH AND CASH EQUIVALENTS AND DEBT FACILITIES

Rand million	2019	2018
Bank balance and cash	**12,868**	11,643
Broker margin accounts	**(3)**	27
Cash and cash equivalents	**12,865**	11,670

The broker margin accounts represent the initial and variation margins settled in cash equal to the value of the derivative contract on a daily basis. These broker margin accounts have been classified as cash and cash equivalents because they are short term, readily convertible to cash and are subject to insignificant risk changes in value.

Rand million	2019	2018
Currency analysis of cash and cash equivalents		
Rand	**4,773**	5,617
US Dollar	**8,083**	6,048
Euro	**4**	2
Other	**5**	3
	12,865	11,670

Refer to note 34 for detailed disclosure regarding the group's approach to credit risk management.

Short-term deposit facilities were placed with subsidiaries of the ultimate holding company during the year under review (refer to note 33).

Debt facilities

Rand million	Maturity date	Interest rate at 31 December	Facility 2019	Facility 2018
Unsecured loans				
Revolving syndicated facility at a variable interest rate of JIBAR plus a margin which varies based on the period of the borrowing	2024	2019 Not applicable 2018 Not applicable	8,000	12,000
Call loan facility at floating call rates[1]	Open	2019 Not applicable 2018 Not applicable	8,200	8,320
Total			16,200	20,320

[1] No amount from this facility was drawn down in 2019. This is a facility held with a related party.

The group's debt facilities consist of a committed R8 billion (2018: R12 billion) revolving credit facility which matures in 2024. This R8 billion revolving credit facility became effective from 6 December 2019 and it replaces the previous revolving credit facility of R12 billion that was due to expire in February 2020. The group's debt facilities also include uncommitted facilities of R8.2 billion (2018: R8.3 billion). The committed and uncommitted facilities at 31 December 2019 and 31 December 2018 were undrawn.

9. PROVISIONS

Rand million	Employee benefits cash-settled share-based payments	Environ-mental rehabilitation	Decom-missioning	Other	Total
Non-current provisions	**87**	**2,055**	**344**	**—**	**2,486**
Current portion of provisions	**—**	**94**	**—**	**—**	**94**
Total provisions	**87**	**2,149**	**344**	**—**	**2,580**
2019					
Balance at beginning of year	**72**	**1,968**	**271**	**—**	**2,311**
Unwinding of discount (refer to note 25)	**—**	**72**	**11**	**—**	**83**
Increase in provision charged to the statement of profit or loss	**23**	**133**	**—**	**—**	**156**
Exchange differences on translation	**(2)**	**—**	**—**	**—**	**(2)**
Capitalised to property, plant and equipment (refer to note 2)	**—**	**—**	**62**	**—**	**62**
Utilised during the year	**(6)**	**(24)**	**—**	**—**	**(30)**
Balance at 31 December 2019	**87**	**2,149**	**344**	**—**	**2,580**
Expected timing of future cash flows					
Within 1 year	**—**	**94**	**—**	**—**	**94**
2 to 5 years	**87**	**—**	**—**	**—**	**87**
More than 5 years	**—**	**2,055**	**344**	**—**	**2,399**
	87	**2,149**	**344**	**—**	**2,580**
Estimated undiscounted obligation	**87**	**3,428**	**612**	**—**	**4,127**
2018					
Non-current provisions	71	1,897	271	—	2,239
Current portion of provisions	1	71	—	—	72
Total provisions	72	1,968	271	—	2,311
Balance at beginning of year (including disposal group classified as held for sale)	41	2,536	464	15	3,056
Unwinding of discount (refer to note 25)	—	75	14	—	89
Increase in provision charged to the statement of profit or loss	23	559	—	5	587
Exchange differences on translation	10	—	—	—	10
Capitalised to property, plant and equipment (refer to note 2)	—	24	(45)	—	(21)
Utilised during the year	(2)	(255)	(148)	(6)	(411)
Transferred to liabilities of disposal group classified as held for sale	—	(971)	(14)	(14)	(999)
Balance at 31 December 2018	72	1,968	271	—	2,311
Expected timing of future cash flows					
Within 1 year	1	71	—	—	72
2 to 5 years	71	—	—	—	71
More than 5 years	—	1,897	271	—	2,168
	72	1,968	271	—	2,311
Estimated undiscounted obligation	72	2,942	722	—	3,737

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for the year ended 31 December

9. PROVISIONS CONTINUED

Cash-settled share-based payments

At 31 December 2019, the provision represented share awards of Anglo American plc shares made by the group to certain employees.

Environmental rehabilitation

Provision is made for environmental rehabilitation costs where either a legal or constructive obligation is recognised as a result of past events. Estimates are based upon costs that are reviewed regularly and adjusted as appropriate for new circumstances.

Decommissioning

The decommissioning provision relates to decommissioning of property, plant and equipment where either a legal or constructive obligation is recognised as a result of past events. Estimates are based upon costs that are regularly reviewed and adjusted.

Funding of environmental rehabilitation and decommissioning (refer to note 4)

The group funds the environmental rehabilitation and decommissioning obligations through a combination of the Kumba Iron Ore Rehabilitation Trust and financial guarantees (refer to note 29). The carrying value of the investment held by the Trust amounted to R652 million at 31 December 2019 (2018: R621 million).

Other

Other provisions in 2018 related to rail and port activities as well as social labour plans.

Significant accounting estimates and assumptions

The measurement of the environmental rehabilitation and decommissioning provisions is a key area where management's judgement is required. The closure provisions are measured at the present value of the expected future cash flows required to perform the rehabilitation and decommissioning. This calculation requires the use of certain estimates and assumptions when determining the amount and timing of the future cash flows and the discount rate. The closure provisions are updated at each reporting date, for changes in the estimates of the amount or timing of future cash flows, inflationary changes in the expected cash flows, utilisation of prior year provisions and changes in the discount rate. The LoMP on which accounting estimates are based only includes proved and probable ore reserves as disclosed in Kumba's annual ore reserves and mineral resources statement.

The resultant changes in the provisions are summarised as follows and are as a result of the change in Sishen mine's reserve life:

Rand million	Environmental rehabilitation	Decom-missioning	Total
Change in provision	133	62	**195**
Revised estimates of closure costs	133	62	**195**
Expected timing of future cash flows	—	—	**—**

The increase in the revised estimates of closure costs for the environmental rehabilitation provision was mostly due to the increase in waste dumps and infrastructure footprints. There was no change in the expected timing of future cash flows. The R62 million increase in the decommissioning provision was capitalised to property, plant and equipment whereas the R133 million increase in the environmental rehabilitation provision was recognised in the statement of profit or loss, decreasing the profits attributable to the owners of Kumba by R73 million (2018: R227 million). The change in estimate had an insignificant effect on profit or earnings per share of R0.23 (2018: R0.71).

The carrying value of the closure provisions is sensitive to the estimates and assumptions used in its measurement. If the discount rate had been 1% higher than management's estimate, the group would have decreased the provision by R258 million (2018: R243 million). On the other hand, if the discount rate had been 1% lower than management's estimate, the group would have increased the current provision by R301 million (2018: R274 million).

10. DEFERRED TAX

Rand million	2019	2018
Deferred tax assets		
Reconciliation		
Balance at beginning of year	–	72
Current year utilisation	–	(72)
Recognition of deferred tax asset on assessed loss	1	—
	1	—
Expected timing:		
Deferred tax assets to be recovered within 12 months	1	—
	1	—
Deferred tax assets attributable to the following temporary differences:		
Estimated tax losses	1	—
Total deferred tax assets	1	—

There are no unused tax losses for which deferred tax asset was recognised at 31 December 2019 (2018: Rnil).

Rand million	2019	2018
Deferred tax liabilities		
Reconciliation		
Balance at beginning of year	8,805	8,860
Prior year adjustment	103	(218)
Current year charge	405	163
	9,313	8,805
Deferred tax liabilities attributable to the following temporary differences:		
Property, plant and equipment	10,179	9,374
Environmental rehabilitation provision	(602)	(816)
Decommissioning provision	(67)	(68)
Environmental rehabilitation trust asset	182	266
Leave pay accrual	(82)	(74)
Other[1]	(145)	123
Lease liabilities	(152)	—
Total deferred tax liabilities	9,313	8,805

[1] This amount comprises many immaterial amounts (less than R1 million) which have been aggregated, no individual disclosure is provided.

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for the year ended 31 December

11. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

Rand million	2019	2018
Trade payables	**4,548**	4,071
Other payables[1]	**1,831**	1,124
Leave pay accrual	**297**	265
Total trade and other payables (excluding contract liabilities)	**6,676**	5,460
Contract liabilities[2]	**306**	288
Total trade and other payables (including contract liabilities)	**6,982**	5,748
Currency analysis of trade and other payables		
Rand	**5,330**	4,881
US Dollar	**1,627**	867
Other	**25**	—
	6,982	5,748

[1] Other payables include a short-term incentive accrual of R556 million (2018: R485 million) and sundry payables of R1,104 million (2018: R489 million).
[2] The full amount of R288 million in relation to the contract liabilities at 31 December 2018 was recognised as revenue during 2019.

Trade payables are non-interest-bearing and are generally on terms of 60 days.

12. REVENUE

Rand million	2019	2018
Sale of iron ore[1]	**58,670**	41,048
Services rendered – shipping	**5,615**	4,677
	64,285	45,725
Geographical analysis of revenue		
Domestic – South Africa	**2,557**	2,787
Export	**61,728**	42,938
China	**33,853**	24,350
Rest of Asia	**12,178**	9,587
Europe	**15,078**	8,263
Middle East and North Africa	**196**	738
Americas	**423**	—
	64,285	45,725

[1] Included within the sale of iron ore are net gains from derivative financial instruments of R1,192 million (2018: R116 million).

13. OPERATING EXPENSES

Rand million	Note	2019	2018
Operating expenditure by function			
Production costs		**20,657**	19,211
Movement in work-in-progress inventories		**51**	(1,440)
Cost of goods produced		**20,708**	17,771
Movement in finished product inventories		**14**	167
Net finance losses/(gains)	16	**80**	(116)
Other		**172**	(22)
Cost of goods sold		**20,974**	17,800
Cost of services rendered – shipping		**5,605**	4,532
Total cost of sales		**26,579**	22,332
Impairment charge		**23**	—
Mineral royalty		**2,411**	876
Selling and distribution costs		**6,501**	6,194
Distribution costs		**6,492**	6,189
Selling costs		**9**	5
Sub-lease rentals received		**(40)**	(37)
Operating expenses (including expected credit losses)		**35,474**	29,365
Less: expected credit losses		**(155)**	—
Operating expenses (excluding expected credit losses)		**35,319**	29,365

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for the year ended 31 December

13. OPERATING EXPENSES CONTINUED

Rand million	Notes	2019	2018
Cost of goods sold comprises:			
Staff costs		**4,953**	4,626
Salaries and wages		**4,300**	4,050
Equity-settled share-based payments		**128**	94
Cash-settled share-based payments		**19**	23
Termination benefits		**7**	10
Pension and medical aid contributions	15	**499**	449
Outside services		**3,545**	3,738
Raw materials and consumables		**1,835**	1,473
Deferred stripping costs capitalised		**(2,634)**	(1,669)
Depreciation of property, plant and equipment		**4,538**	4,269
Mineral properties		**21**	21
Residential buildings		**177**	168
Buildings and infrastructure		**364**	332
Machinery, plant and equipment		**2,980**	3,047
Mineral exploration, site preparation and development		**907**	701
Right-of-use assets (refer to note 3)		**89**	—
Repairs and maintenance		**2,341**	1,386
Legal fees		**28**	38
Professional fees		**195**	187
Technical services and project studies		**186**	153
General expenses[1]		**2,116**	1,927
Expected credit losses		**155**	—
Petroleum products		**2,520**	2,391
Net finance losses/(gains)	16	**80**	(116)
Energy costs		**439**	374
Own work capitalised		**(60)**	(129)
Corporate costs		**672**	424
Net movement in finished product and work-in-progress inventories		**65**	(1,272)
Cost of goods sold		**20,974**	17,800

[1] This comprises mostly rental expenses for equipment, insurance, advertising, sponsorships, donations and IT expenses.

14. SIGNIFICANT ITEMS INCLUDED IN OPERATING PROFIT

Rand million	2019	2018
Operating profit includes the following amounts:		
Staff costs	**4,876**	4,489
Employee expenses	**4,722**	4,362
Net restructuring costs	**7**	10
Share-based payments expenses	**147**	117
Directors' emoluments (refer to note 35)	**30**	31
Executive directors		
Emoluments received as directors of the Company	**16**	15
Bonuses and cash incentives	**7**	8
Non-executive directors – emoluments received as directors of the Company	**7**	8
Prescribed officers' remuneration (excluding executive directors – refer to note 35)	**47**	37
Rental expenses	**124**	190
Equipment[1]	**124**	71
Property	**–**	119
Auditors' remuneration	**9**	9
Audit fees	**9**	9
Other services	**–**	*
Research and development cost	**2**	*
Net loss on disposal or scrapping of property, plant and equipment	**66**	86
Operating sub-lease rentals received		
Property	**(40)**	(37)

[1] This consists of all rental expenses that do not meet the IFRS 16 recognition criteria, including R46 million in relation to variable lease payments and R19 million for lease payments for low-value assets.

* Amount is less than R1 million.

15. EMPLOYEE BENEFITS: DEFINED CONTRIBUTION FUNDS

15.1 Retirement fund

At the end of 2019 and 2018, the following independent funds providing pension and other benefits were in existence:

- Kumba Iron Ore Selector Pension and Provident Fund
- Iscor Employees Umbrella Provident Fund

Members pay contributions of 7% and an employers' contribution of 9.5% is expensed as incurred. All funds are governed by the South African Pension Funds Act of 1956. Membership of each fund and employer contributions to each fund were as follows:

	2019		2018	
	Working members (number)	**Employer contributions (Rand million)**	Working members (number)	Employer contributions (Rand million)
Kumba Iron Ore Selector Pension and Provident Funds	**2,875**	**181**	2,799	164
Iscor Employees Umbrella Provident Fund	**3,204**	**121**	3,204	113
Total	**6,079**	**302**	6,003	277

Due to the nature of these funds, the accrued liabilities equate to the total assets under control of these funds.

15.2 Medical funds

The group contributes to medical aid schemes for the benefit of permanent employees and their dependants. The contributions charged against income amounted to R195 million (2018: R174 million). The group has no obligation to fund post-retirement medical aid contributions for current or retired employees.

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16. NET FINANCE LOSSES/(GAINS)

Rand million	2019	2018
Finance losses/(gains) recognised in operating profit		
Net (gains)/losses on derivative financial instruments		
Unrealised (gains)/losses	**(113)**	21
Net foreign currency losses/(gains)		
Realised gains	**(166)**	(39)
Unrealised losses/(gains)	**181**	(108)
Net fair value losses on financial assets measured at fair value through profit or loss[1]	**178**	10
	80	(116)

[1] This amount includes R206 million in respect of a fair value loss on a long-term loan receivable measured at fair value through profit or loss, net of a R31 million fair value gain on investments held by the environmental trust (refer to note 4).

17. NET FINANCE INCOME

Rand million	Note	2019	2018
Interest expense		**210**	108
Interest expense on leases[1]		**58**	—
Unwinding of discount on provisions	9	**83**	71
Total interest expense		**351**	179
Interest received on cash and cash equivalents		**(792)**	(499)
Net finance income		**(441)**	(320)

[1] Calculated using the effective interest method.

18. TAXATION

Rand million	2019	2018
Taxation expense		
Current taxation	**7,429**	4,009
Deferred taxation	**507**	17
	7,936	4,026
Charges/(release) to the statement of profit or loss		
South African normal taxation		
Current year	**7,396**	4,028
Prior year	**(284)**	(174)
Foreign taxation[1]		
Current year	**317**	155
Income taxation	**7,429**	4,009
Deferred taxation		
Current year	**404**	235
Prior year	**103**	(218)
	7,936	4,026
Reconciliation of taxation rates	**%**	%
Taxation as a percentage of profit before taxation	**27.1**	24.0
Taxation effect of:		
Disallowable expenditure[2]	**(0.4)**	(0.2)
Tax allowances[3]	**(0.2)**	—
Rate difference between South African and foreign subsidiaries	**0.8**	1.8
Prior year over-provision	**0.6**	2.4
Equity-settled share-based payments	**0.1**	—
Standard taxation rate	**28.0**	28.0

[1] This relates to tax incurred in the United Kingdom and Singapore.
[2] This percentage comprises many immaterial amounts which have been aggregated, no individual disclosure is provided.
[3] This relates mostly to learnership allowances.

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19. EARNINGS AND HEADLINE EARNINGS PER SHARE

Attributable earnings per share is calculated by dividing the profit or loss attributable to shareholders of Kumba by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the group and held as treasury shares.

For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential dilutive ordinary shares as a result of share options granted to employees under the employee share incentive schemes. A calculation is performed to determine the number of shares that could have been acquired at fair value, determined as the average annual market share price of the Company's shares based on the monetary value of the subscription rights attached to the outstanding share options.

Rand million	2019	2018
Profit attributable to equity holders of Kumba	**16,259**	9,615
Number of shares		
Weighted average number of ordinary shares in issue	**320,554,087**	319,601,762
Potential dilutive effect of outstanding share options[1]	**918,340**	2,318,079
Diluted weighted average number of ordinary shares in issue	**321,472,427**	321,919,841

[1] The dilution adjustment of 918,340 shares at 31 December 2019 (2018: 2,318,079 shares) is a result of the share options previously granted under the various employee share incentive schemes not yet vested.

Reconciliation of headline earnings

The calculation of headline earnings per share is based on the basic earnings per share calculation adjusted for the following items:

	2019		2018	
Rand million	Gross adjustment	Net attributable	Gross adjustment	Net attributable
Profit attributable to equity holders of Kumba	**16,259**	**16,259**	9,615	9,615
Impairment charge	**23**	**13**	—	—
Net loss on disposal or scrapping of property, plant and equipment	**66**	**37**	86	52
Net loss on disposal of discontinued operations	**—**	**—**	18	10
	16,348	**16,309**	9,719	9,677
Taxation effect of adjustments	**(23)**	**—**	(23)	—
Non-controlling interest in adjustments	**(16)**	**—**	(19)	—
Headline earnings	**16,309**	**16,309**	9,677	9,677

Rand	2019	2018
Attributable earnings per share		
Basic	**50.73**	30.08
Diluted	**50.58**	29.87
Headline earnings per share		
Basic	**50.88**	30.28
Diluted	**50.73**	30.06

20. DISCONTINUED OPERATION AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

As previously reported, Kumba and ArcelorMittal SA announced on 12 October 2018 the transfer of the Thabazimbi mine from Sishen Iron Ore Company Proprietary Limited (SIOC) to ArcelorMittal SA. On 1 November 2018, the employees, assets and liabilities as well as the mining rights and the assumed liabilities of Thabazimbi mine were transferred at a nominal purchase consideration, from SIOC to Thabazimbi Iron Ore Mine (Pty) Ltd, previously ArcelorMittal South Africa Operations (Pty) Ltd (a wholly owned subsidiary of ArcelorMittal SA).

As a result, the Thabazimbi operation ceased to be classified as a discontinued operation from 1 November 2018.

Analysis of the result of the Thabazimbi mine for 2018 was as follows:

Rand million	**2019**	2018
Operating expenses[1]	–	(64)
Operating loss	–	(64)
Net finance loss[2]	–	(18)
Loss before tax	–	(82)
Taxation	–	23
Loss after tax of discontinued operation	–	(59)
Attributable to the owners of Kumba	–	(45)
Attributable to the non-controlling interests	–	(14)
Loss after income tax of discontinued operation	–	(59)
Cash flow utilised in discontinued operation		
Net cash flows utilised in operating activities	–	(118)

[1] Operating expenses were incurred on closure activities.
[2] This amount relates to discounting of the rehabilitation provision.

21. SHARE CAPITAL AND SHARE PREMIUM (INCLUDING TREASURY SHARES)

Number of shares	**2019**	2018
Authorised		
Ordinary shares of R0.01 each	**500,000,000**	500,000,000
Issued		
Ordinary shares of R0.01 each	**322,085,974**	322,085,974
Reconciliation of issued shares		
Number of shares at beginning of year	**322,085,974**	322,085,974
Number of shares at end of year	**322,085,974**	322,085,974
Shares held in reserve reconciliation (unissued shares)		
Authorised shares at beginning of year not issued	**177,914,026**	177,914,026
Unissued shares	**177,914,026**	177,914,026

No new shares were issued during 2019 and 2018.

The unissued shares are under the control of the directors of Kumba until the next annual general meeting. All issued shares are fully paid up. There are no rights, preferences or restrictions attached to these shares.

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for the year ended 31 December

21. SHARE CAPITAL AND SHARE PREMIUM (INCLUDING TREASURY SHARES) CONTINUED

Reconciliation of treasury shares held

Number of shares	2019	2018
Beginning of year	2,565,164	2,626,977
Purchased during the year	793,677	395,399
Issued to employees under the Bonus Share Plan (BSP), the Long-Term Incentive Plan (LTIP) and the SIOC Employee Benefit Scheme (Karolo)	(1,946,897)	(457,212)
Number of treasury shares at end of year	1,411,944	2,565,164

All treasury shares are held in respect of employee share schemes and are available for utilisation for the purposes of these schemes, as disclosed in note 22. At 31 December 2019, all treasury shares were held as conditional share awards under the Bonus and Retention Share Plan as well as the SIOC Employee Benefit Scheme (Karolo).

Rand million	2019	2018
Reconciliation of share capital and premium (net of treasury shares)		
Balance at beginning of year	(93)	(54)
Net movement in treasury shares under employee share incentive schemes	88	(39)
Purchase of treasury shares under employee share incentive schemes[1]	(324)	(112)
Shares issued to employees under employee share incentive schemes	412	73
Balance at end of year	(5)	(93)
Comprises		
Share capital	3	3
Share premium	364	364
Treasury shares	(372)	(460)

[1] The average price paid for the purchase of the shares in 2019 was R408.37 per share (2018: R284.12 per share).

22. EQUITY-SETTLED SHARE-BASED PAYMENTS RESERVE

Rand million	2019	2018
Balance at beginning of year	203	186
Equity-settled share-based payments expense	128	94
Employee share incentive schemes:		
Karolo	37	6
BSP	80	84
PSP	4	—
LTIP	7	4
Vesting of shares under employee share incentive schemes	(148)	(77)
Balance at end of year	183	203

Refer to Annexure 3: “Equity-settled share-based payment schemes” for a description, detailed movements and the valuation assumptions of each share scheme for the year under review.

23. NON-CONTROLLING INTEREST

Rand million	2019	2018
Balance at beginning of year	10,927	10,777
Adoption of IFRS 16 on 1 January 2019	(12)	—
Total restated equity at beginning of period	10,915	10,777
Profit for the year	5,057	2,980
Exxaro	4,398	2,592
SIOC Community Development Trust	659	388
Dividends paid	(4,657)	(2,954)
Exxaro	(4,050)	(2,569)
SIOC Community Development Trust	(607)	(385)
Interest in movement in equity reserves	(21)	124
Foreign currency translation reserve	(21)	124
Balance at end of year	**11,294**	10,927

Details relating to non-controlling interests are disclosed in note 33.

24. CASH GENERATED FROM OPERATIONS

Rand million	2019	2018
Operating profit (including discontinued operation)	28,811	16,296
Adjusted for:		
Depreciation of property, plant, equipment and right-of-use assets	4,538	4,269
Movement in provisions	127	180
Unrealised foreign currency revaluations and fair value adjustments	248	522
Loss on disposal or scrapping of property, plant and equipment	66	86
Loss on disposal of discontinued operations	—	18
Impairment charge	23	—
Other non-cash movements	—	(704)
Movement in non-current financial assets and prepayments	8	(42)
Equity-settled share-based payments expenses	128	94
Cash flows from operations	**33,949**	20,719
Working capital movements		
Increase in inventories	(947)	(1,831)
Decrease/(increase) in trade and other receivables	412	(609)
Increase in trade and other payables	1,243	627
	34,657	18,906

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for the year ended 31 December

25. NET FINANCE INCOME RECEIVED

Rand million	Note	**2019**	2018
Net finance income per the statement of profit or loss		**441**	320
Finance costs paid by discontinued operation		**–**	(18)
Adjusted for:			
Notional interest on provisions (refer to note 9)	9	**83**	89
Movement in interest receivable		**(10)**	14
		514	405
Finance income received		**781**	513
Finance cost paid		**(267)**	(108)
		514	405

26. TAXATION PAID

Rand million	**2019**	2018
Taxation (assets)/liabilities at beginning of year	**(6)**	59
Income taxation per the statement of profit or loss (refer to note 18)	**7,429**	4,009
Income taxation for the discontinued operation	**–**	(23)
Translation of taxation for foreign operations	**(5)**	26
Taxation assets at end of year	**363**	6
Taxation paid per the statement of cash flow	**7,781**	4,077
Comprising normal taxation:		
South Africa	**7,561**	3,985
Foreign operations	**220**	92
	7,781	4,077

27. DIVIDENDS PAID

Rand million	**2019**	2018
Dividends paid to owners of Kumba	**14,983**	9,505
Dividends paid to non-controlling shareholders	**4,657**	2,954
Total dividends per the statement of changes in equity	**19,640**	12,459

28. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

Rand million	**2019**	2018
Investment to expand operations	**647**	506
Investments to maintain operations	**2,432**	3,108
Deferred stripping costs capitalised	**2,634**	1,669
Total capital expenditure for the year	**5,713**	5,283
Non-cash additions	**(110)**	(820)
Additions per the statement of cash flows	**5,603**	4,463

29. GUARANTEES AND REGULATORY UPDATE

Rand million	2019	2018
Guarantees		
Environmental trust closure liability guarantees to the DMR	**3,013**	2,880
Guarantees provided to BNP Paribas for iron ore swaps trading activities	**284**	287
Operational guarantees to the DMR	**20**	17
	3,317	3,184

29.1 Environmental obligations

Total guarantees issued in favour of the DMR in respect of the group's environmental closure liabilities at 31 December 2019 were R3 billion (2018: R2.9 billion).

As a result of the annual revision of closure costs, a shortfall of R363 million (2018: R586 million) arose. Guarantees in respect of the shortfall will be issued in due course.

29.2 Carbon Tax Bill

As announced in the 2019 Budget Speech, the Carbon Tax Bill was legislated under the Customs and Excise Act as an environmental levy on greenhouse gas emissions. The Carbon Tax Bill was implemented on 1 June 2019 at an initial tax rate of R120 per tonne of carbon dioxide equivalent and is expected to increase at an annual rate of consumer price inflation plus 2% until the end 2022, and thereafter at the applicable Consumer Price Index (CPI) rate. The final rules and forms for the implementation of the carbon tax were released by SARS on 23 December 2019. Based on the initial tax rate, it is estimated that for the period 1 June to 31 December 2019, an amount of approximately R12 million would be paid in carbon tax through the fuel levy, and is payable on 31 July 2020. The estimate excludes scope 2 emissions from electricity which were postponed to 2023.

30. COMMITMENTS

Lease commitments

This relates to future cash outflows that Kumba is exposed to that are not reflected in the measurement of the lease liabilities. This includes exposure from variable lease payments for certain equipment items and lease payments for low-value equipment items.

Rand million	2019	2018
Lease commitments[1]		
The future cash outflows not reflected in the measurement of the lease liabilities are as follows:		
Property[1]		
Within 1 year	**–**	87
Between 1 and 2 years	**–**	130
Between 2 to 5 years	**–**	343
More than 5 years	**–**	36
Subtotal	**–**	596
Plant and equipment		
Within 1 year	**72**	1
Between 1 and 2 years	**118**	11
Between 2 to 5 years	**21**	–
Subtotal	**211**	12
Total lease commitments	**211**	608

[1] Lease liabilities were recognised for all property leases as disclosed in note 3. Refer to note 34 for the maturity analysis of lease liabilities.

Shipping commitments

Refer to note 33 for the group's shipping commitments to its fellow subsidiary, Anglo American Marketing Limited (AAML).

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31. CONTINGENT LIABILITIES

As previously reported, on 29 June 2018, the South African Revenue Service (SARS) issued the group with additional income tax assessments relating to a tax audit on the deductibility of certain expenditure incurred, covering the 2012 to 2014 years of assessment. The group objected against these assessments after consultation with external tax and legal advisers. On 11 December 2018, SARS advised that it disallowed the objection. On 21 February 2019, the group submitted an appeal against this outcome and is currently in discussions with SARS as part of the alternative dispute resolution (ADR) proceedings in an attempt to resolve the matter and as such, no further information which may seriously prejudice the group's position in this matter has been disclosed.

Based on the external legal and tax advice obtained, the group believes that these matters have been appropriately treated in the results for the year ended 31 December 2019.

32. EVENTS AFTER THE REPORTING PERIOD

32.1 Dividends

A final cash dividend of R15.99 per share was declared by the Board on 17 February 2020 from profits accrued during the financial year ended 31 December 2019. The total cash dividend for the year amounted to R46.78 per share. The estimated total cash flow of the final Kumba dividend, payable on 16 March 2020, is R5.2 billion.

32.2 Other

The directors are not aware of any other matters or circumstances arising since the end of the year and up to the date of this report, not otherwise dealt with in this report.

33. RELATED-PARTY TRANSACTIONS

During the year, the Company and its subsidiaries, in the ordinary course of business, entered into various sales and purchases of goods and services with the group's related parties, as detailed below. The effect of these transactions is included in the results of the group.

Shareholders

The principal shareholders of the Company are detailed under "Shareholder analysis" on pages 115 to 116.

Ultimate holding company

Anglo American plc is the group's ultimate holding company, through its 100% held subsidiary Anglo South Africa Proprietary Limited (ASA).

Subsidiaries of ultimate holding company

The Company regularly transacts with its fellow subsidiaries. The most significant transactions are the shipping arrangements entered into with Anglo American Marketing Limited (AAML), the clearing of funds being repatriated to South Africa that are placed on short-term deposit with Anglo American Capital Proprietary Limited and corporate office recharges for services performed.

Anglo American SA Finance Limited (AASAF) acts as an agent for the Company in respect of all foreign exchange transactions and performs a back office treasury function for the group. Short-term cash deposits are placed with the entity, and funds are drawn down from this entity in the form of borrowings when required, resulting in both interest paid and interest received from AASAF.

Holding company

ASA holds a 69.71% interest in the Company (2018: 69.71%).

Fellow subsidiaries

The Company regularly transacts with Anglo Operations Limited in respect of centralised services provided to Anglo American group companies.

Subsidiaries of the Company

Details of investments in and loans to/(from) subsidiaries are disclosed in Annexure 1.

Associates and joint ventures

Details of investments in associates and joint ventures are disclosed in Annexure 2.

33. RELATED-PARTY TRANSACTIONS CONTINUED

Entities with significant influence over SIOC

Exxaro is SIOC's 20.62% (2018: 20.62%) Black Economic Empowerment shareholder. Details of dividends paid to Exxaro as well as its proportionate share of earnings for the year is detailed in note 23.

Special purpose entities

The group controls the following special purpose entities which are consolidated:

Entity	Nature of business
Kumba Iron Ore Rehabilitation Trust	Trust fund for mine closure
Kumba BSP Trust	Share incentive scheme administrator

Directors, senior management and prescribed officers

Details relating to the Company's directors' and the group's Executive Committee and prescribed officers' remuneration and shareholdings (including share options) are disclosed in note 35.

Related-party transactions

Rand million	2019	2018
Purchase of goods and services and finance charges		
Subsidiaries of ultimate holding company	**5,681**	4,572
Shipping services	**5,681**	4,572
Fellow subsidiaries	**613**	458
Corporate operations (including shared services)	**515**	376
Research	**98**	82
Entities with significant influence over SIOC[1]	**236**	211
	6,530	5,241
Sale of goods and services and finance income		
Subsidiaries of ultimate holding company[2]		
Finance income	**710**	452
Sale of goods	**2,256**	*
	2,966	452
Amounts owing to related parties (after eliminating inter-company balances)		
Trade payables		
Subsidiaries of ultimate holding company	**1,196**	630
Anglo Operations Limited	**103**	55
	1,299	685
Amounts owing by related parties (after eliminating inter-company balances)		
Subsidiaries of ultimate holding company	**11,462**	10,271
Interest receivable	**52**	41
Insurance receivable	**49**	—
Cash and cash equivalents	**11,117**	10,228
Long-term receivables	**24**	—
Trade receivables	**220**	2
Associates and joint ventures		
Loans	**111**	111
	11,573	10,382

[1] Goods purchased from Exxaro which consisted mainly of ferrosilicon.
[2] Interest was earned at an average rate of 6.95% (2018: 6.99%) on cash deposits held with AASAF.
* Amount is less than R1 million.

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33. RELATED-PARTY TRANSACTIONS CONTINUED

Rand million	2019	2018
Shipping services commitments		
The future commitments under contracts of affreightment are as follows:		
Within 1 year	**2,692**	1,460
Between 1 and 2 years	**1,256**	2,990
2 to 5 years	**1,296**	1,755
More than 5 years	**442**	—
	5,686	6,205

AAML enters into contracts of affreightment with shipping service providers, and then enters into back-to-back arrangements with Kumba in respect of all the contracts on the same terms and conditions. The commitments disclosed represent Kumba's future commitments to AAML.

Entities with significant non-controlling interests

SIOC is the only consolidated subsidiary with non-controlling interests. SIOC is incorporated in South Africa.

These non-controlling interests are as follows:

Exxaro Resources Proprietary Limited	20.62%
SIOC Community Development Trust	3.09%

The non-controlling interests in the consolidated financial statements are as follows:

Rand million	2019	2018
Profit for the year allocated to non-controlling interest	**5,057**	2,980
Accumulated non-controlling interests at 31 December	**11,294**	10,927

Summarised financial information of SIOC

Rand million	2019	2018
Statement of profit or loss		
Revenue	**55,007**	38,209
Operating expenses	**(28,634)**	(24,005)
Operating profit	**26,373**	14,204
Net financing income	**383**	203
Income from investments	**2,509**	2,441
Profit before taxation	**29,265**	16,848
Taxation	**(7,705)**	(3,716)
Profit for the year	**21,560**	13,132
Statement of financial position		
Non-current assets	**45,486**	42,476
Current assets	**19,175**	19,045
Total assets	**64,661**	61,521
Shareholders' equity	**47,039**	45,173
Non-current liabilities	**12,432**	11,232
Current liabilities	**5,190**	5,116
Total equity and liabilities	**64,661**	61,521
Statement of cash flows		
Cash flows from operating activities	**25,584**	15,129
Cash flows utilised in investing activities	**(5,709)**	(4,446)
Cash flows utilised in financing activities	**(19,981)**	(12,487)
Net decrease in cash and cash equivalents	**(106)**	(1,804)

34. FINANCIAL RISK MANAGEMENT

The group is exposed to credit risk, liquidity risk and market risk (currency, interest rate and commodity price risk) from the use of financial instruments. Overall responsibility for establishment and oversight of the risk management framework rests with the Board of Directors. The Board, through its various sub-committees, is responsible for the development, monitoring and communication of the processes for managing risk across the group.

The group maintains an integrated, enterprise-wide, risk management programme (IRM). The group applies a logical, systematic and repetitive methodology to identify, analyse, assess, treat and monitor all risks, whether they are insurable or not. The risk management process is continuous, with well-defined steps, which support better decision making by contributing a greater insight into risks and their impacts. Risks from all sources are identified and once they pass the materiality threshold, a formal process begins in which various factors and consequences are identified and the correlation with other risks and the current risk mitigating strategy is reviewed. One of the challenges is to ensure that mitigating strategies are geared to deliver reliable and timely risk information to support better decision making.

The risk assessment and reporting criteria are designed to provide the Executive Committee, via the Management Risk Committee and the Board, with a consistent, enterprise-wide perspective of the key risks. The reports which are submitted monthly to the Executive Committee and quarterly to the management and the Board, include an assessment of the likelihood and impact of risks materialising, as well as risk mitigation initiatives and their effectiveness, risk appetite and tolerance.

In conducting its review of the effectiveness of risk management, the Board considers the key findings from the ongoing monitoring and reporting processes within the combined assurance framework as well as from management. The Board also takes into account material changes and trends in the risk profile and consider whether the control system, including reporting, adequately supports the Board in achieving its risk management objectives.

SIOC, in conjunction with AASAF (a subsidiary of the ultimate holding company), provides a treasury function to the group, coordinates access to domestic and international financial markets, and manages the financial risks relating to the group's operations.

In 2015, the group started entering into iron ore price swap contracts and iron ore price futures contracts to manage market risk (more specifically, commodity price risk). These derivatives allow the group to more closely align prices achieved from sales transactions with reference prices set by the group. Hedge accounting is not applied. The iron ore derivatives are entered into by the group's marketing team. Each derivative is linked to a sale made to a customer. Margin accounts are used to manage the risk related to the derivatives. These margin deposits serve as collateral for the open iron ore derivative position.

The broker margin accounts are included in cash and cash equivalents, refer to note 8.

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34. FINANCIAL RISK MANAGEMENT CONTINUED

34.1 Measurement basis of financial instruments

Rand million	Notes	Fair value through profit or loss (FVTPL)[1]	Amortised cost	Total
2019				
Financial assets				
Investments held by the environmental trust	4	**652**	**—**	**652**
Derivative financial asset	7	**1**	**—**	**1**
Trade receivables[2]	7	**2,153**	**146**	**2,299**
Long-term receivables	5	**48**	**—**	**48**
Other receivables	5, 7	**—**	**508**	**508**
Cash and cash equivalents	8	**(3)**	**12,868**	**12,865**
Financial liabilities				
Lease liabilities	3	**—**	**(542)**	**(542)**
Trade payables	11	**—**	**(4,548)**	**(4,548)**
Other payables	11	**—**	**(1,275)**	**(1,275)**
		2,851	**7,157**	**10,008**
2018				
Financial assets				
Investments held by the environmental trust	4	621	—	621
Trade receivables	7	—	2,596	2,596
Long-term receivables	5	47	—	47
Other receivables	5, 7	—	491	491
Cash and cash equivalents	8	27	11,643	11,670
Financial liabilities				
Trade payables	11	—	(4,071)	(4,071)
Other payables	11	—	(1,124)	(1,124)
		695	9,535	10,230

[1] These financial assets and financial liabilities are mandatorily measured at fair value through profit or loss.
[2] The trade receivable amount is after taking into account the provision for expected credit losses.

34.2 Credit risk

Credit risk is the risk of financial loss to the group if a counterparty to a financial instrument fails to meet its contractual obligations. The group is exposed to counterparty risk from the investments made by the environmental trust, outstanding customer balances, guarantees in favour of the group, cash deposits with financial institutions and from the use of derivative instruments. The objective of managing credit risk is to avoid losses due to a default by a counterparty, or to minimise losses in the event of a default.

34.2.1 Credit risk policy: Investments, cash and cash equivalents and derivatives

The group's policy is to strictly limit exposure to individual counterparties by reference to published short-term and long-term credit ratings from recognised credit rating agencies. The group invests in high quality investments with reputable service providers.

The group's exposure and the credit ratings of its counterparties are continuously monitored. The policy requires diversification of credit exposures amongst these financial institutions and defines acceptable daily settlement limits. Individual limits for counterparties whose rating fall within the credit rating guidelines of the group's policy are approved by the Chief Financial Officer and for counterparties with ratings outside of the policy guidelines, the limits must be approved by the Board.

34. FINANCIAL RISK MANAGEMENT CONTINUED

34.2 Credit risk continued

34.2.2 Credit risk policy: Trade and other receivables

The group's credit policy is used for the management of counterparty risk associated with trade receivables originating from export and domestic sales contracts. This policy seeks to mitigate and minimise the risk of financial loss should customers become unable to meet their obligations to the group. It defines the requirement for sanctions and compliance reviews, the application of secure payment terms, primarily letters of credit from acceptable banks, as well as credit risk assessments and the establishment of credit limits prior to contracting. Credit limits are reviewed and approved at least annually and the group's exposure to its counterparties is regularly monitored at the appropriate level.

34.2.3 Credit risk exposure

Rand million	Notes	2019	2018
Trade receivables[1]	7	**2,299**	2,596
Cash and cash equivalents	8	**12,865**	11,643
Investment made by the environmental trust	4	**652**	621
Other receivables	5, 7	**508**	491
Guarantees issued in favour of the group		**—**	730

[1] The decrease in trade receivables is mainly due to the provision for expected credit loss on a trade receivable.

34.2.4 Collateral

Other than the guarantees disclosed in the table above, the group does not hold any other material collateral in respect of its financial assets subject to credit risk.

34.3 Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its financial obligations as they become due. The objectives of the group's liquidity risk management processes are to maintain adequate cash and credit facilities to meet all short-term obligations and ensure that the group can meet all known and forecast strategic commitments. The Kumba treasury function must maintain cash and committed facilities to meet at least 125% of all known and forecast commitments for the next 18 months using debt instruments as deemed appropriate. As a general rule, it is the group's policy that no security be provided. However, exceptions are allowed on a case by case basis where it is required for a transaction to proceed. Facilities creating security or encumbrances over assets need the prior consent of the group's Chief Financial Officer. The group's credit facilities are detailed under note 8. Kumba was not in breach of any of its financial covenants during the year. The group's debt facilities consist of a committed R8 billion (31 December 2018: R12 billion) revolving credit facility which matures in 2024 and uncommitted facilities of R8.2 billion (31 December 2018: R8.3 billion). The committed and uncommitted facilities at 31 December 2019 and 31 December 2018 were undrawn.

Financial guarantees issued to third parties need to be approved by the group's Executive Committee up to R500 million, and by the Board if the value exceeds R500 million. The group issued financial guarantees in the current year amounting to R538 million in respect of the shortfall for the environmental provisions (2018: Rnil).

At 31 December 2019, the expected cash flows from trade and other receivables maturing in the short term and the cash and cash equivalents are sufficient to meet the obligations associated with the group's financial liabilities as at that date.

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34. FINANCIAL RISK MANAGEMENT CONTINUED

34.3 Liquidity risk continued

Maturity profile of the group's financial liabilities

Rand million	Notes	Within 1 year	1 to 2 years	3 or more years	Total
2019					
Financial liabilities					
At amortised cost:					
Lease liabilities[1]	3	**134**	**264**	**391**	**789**
Trade payables	11	**4,548**	**–**	**–**	**4,548**
Other payables	11	**1,275**	**–**	**–**	**1,275**
		5,957	**264**	**391**	**6,612**
2018					
Financial liabilities					
At amortised cost:					
Trade payables	11	4,071	–	–	4,071
Other payables	11	1,124	–	–	1,124
		5,195	–	–	5,195

[1] This represents the contractual undiscounted cash flows.

34.4 Market risk

Market risk includes currency risk, interest rate risk and commodity price risk.

All derivative activities are for risk management purposes only and not to engage in speculative transactions. Hedging is conducted in strict compliance with the group's treasury risk policy. Currently, the group does not apply any form of hedge accounting.

34.4.1 Foreign exchange risk

The group's earnings are exposed to movements in exchange rates. Kumba's iron ore export prices are determined in US Dollar and the group negotiates iron ore prices in that currency with customers. Currency movements of the US Dollar against the Rand therefore could have a significant effect on the financial position and results of Kumba. Certain operating costs and capital expenditure are also denominated in foreign currencies. The group's functional currency for the preparation of financial accounts is the South African Rand. The group is therefore exposed to currency risk in respect of non-Rand cash flows for revenues, operating costs and capital expenditure. The group aligned both its export and import hedging policies with that of the Anglo American group. In line with the policy, hedging requires approval subject to the limit defined in the treasury policy. The hedging of foreign currency exposures on the group's behalf via suppliers and third parties is also prohibited.

It is the group's policy to be fully exposed to operating cost and revenue currency risk, i.e. not to hedge foreign currency operating costs and revenues. The objective of managing currency risk on capital expenditure is to broadly offset foreign currency capital expenditure with the future streams of foreign currency denominated revenues, i.e. natural or economic hedging. Net US Dollar export proceeds are repatriated and sold in equal tranches on a weekly basis at the ruling spot price.

34. FINANCIAL RISK MANAGEMENT CONTINUED

34.4 Market risk continued

34.4.1 Foreign exchange risk continued

The average Rand/US$ exchange rate for 2019 of US$1: R14.45 (2018: US$1: R13.24) was used to translate the statement of profit or loss and statement of cash flows, whilst the statement of financial position was translated at the closing rate at the last day of the reporting year using an exchange rate of US$1: R14.03 (2018: US$1: R14.38). The group's financial instrument exposure to currency risk, excluding derivatives, is summarised below:

Rand million	Notes	Rand	US Dollar	Euro	Other
2019					
Financial assets					
Investments held by the environmental trust[1]	4	**652**	**–**	**–**	**–**
Trade receivables[3]	7	**146**	**2,153**	**–**	
Other receivables[2]	5, 7	**508**	**–**	**–**	**–**
Cash and cash equivalents[2]	8	**4,773**	**8,083**	**4**	**5**
Financial liabilities					
Trade and other payables[2]	11	**(4,171)**	**(1,627)**	**–**	**(25)**
Net exposure		**1,908**	**8,609**	**4**	**(20)**
2018					
Financial assets					
Investments held by the environmental trust[1]	4	621	–	–	–
Trade receivables[2]	7	528	2,068	–	–
Other receivables[2]	5, 7	491	–	–	–
Cash and cash equivalents[2]	8	5,617	6,048	2	3
Financial liabilities					
Trade and other payables[2]	11	(4,881)	(867)	–	–
Net exposure		2,376	7,249	2	3

[1] Measured at fair value through profit or loss.
[2] Measured at amortised cost and at fair value through profit or loss.
[3] A portion of trade receivable is measured at FVTPL and the remaining balance at amortised cost.

Sensitivity analysis

A movement in exchange rates of 5%, with all other variables held constant, against the US Dollar would have increased/(decreased) profit or loss and equity by the amounts shown on page 84, based on the net US$ denominated financial instrument balances at 31 December 2019. The analysis has been performed on the same basis followed for 2018.

This analysis considers the impact of changes in foreign exchange rates on profit or loss and equity, excluding foreign exchange translation differences resulting from the translation of group entities that have a functional currency different from the presentation currency, into the group's presentation currency (and recognised in the foreign currency translation reserve).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

34. FINANCIAL RISK MANAGEMENT CONTINUED

34.4 Market risk continued

34.4.1 Foreign exchange risk continued

Rand million	Impact on total comprehensive income and shareholders' equity – Increase	Impact on total comprehensive income and shareholders' equity – Decrease
2019		
US Dollar	**32**	**(29)**
2018		
US Dollar	27	(24)

34.4.2 Interest rate risk

The group's earnings are exposed to movements in floating interest rates on investments and floating rate debt when drawn. The Company is not exposed to fair value interest rate risk as the Company does not have any fixed interest-bearing financial instruments carried at fair value.

The group's policy is to borrow at floating rates of interest and managing interest rate risks on borrowings to minimise the after-tax cost of debt to the group. Fixed rate debt requires approval from the Board. Cash is primarily at floating rates of interest, subject to tax, legal, currency and liquidity constraints, with the primary purpose of preserving the capital value of cash and maintaining adequate liquidity levels.

Sensitivity analysis

Changes in market interest rates affect the interest income or expense of floating rate financial instruments. A change in the market interest rate of 50 basis points, with all other variables held constant, would have a zero impact on profit or loss and equity shown below, based on the net floating rate financial instrument balances at 31 December 2019. The analysis has been performed on the same basis followed for 2018.

Rand million	Impact on total comprehensive income and shareholders' equity – Increase	Impact on total comprehensive income and shareholders' equity – Decrease
2019		
Floating interest rate instruments	**–**	**–**
2018		
Floating interest rate instruments	–	–

34. FINANCIAL RISK MANAGEMENT CONTINUED

34.4 Market risk continued

34.4.3 Commodity price risk

The Company's earnings are exposed to movements in the prices of iron ore that it produces and the commodities that it purchases, for example energy and material costs. As a commodity producer the group wishes to remain exposed to individual commodity prices for the ultimate benefit of its shareholders. It is the group's policy not to hedge commodity price risks.

Certain of the group's sales are provisionally priced, meaning that the selling price is determined normally 30 to 180 days after delivery to the customer, based on quoted market prices stipulated in the contract, and as a result are susceptible to future price movements. As at 31 December 2019, R2,153 million (2018: R1,040 million) of the trade receivables balance were subject to price movements.

A movement in the iron ore prices of 10% with all other variables held constant would have increased/(decreased) profit or loss and equity as shown below, based on the balance of trade receivables that are subject to provisional pricing at 31 December 2019.

	Impact on total comprehensive income and shareholders' equity	
Rand million	**Increase**	**Decrease**
2019		
Iron ore price	**215**	**(215)**
2018		
Iron ore price	104	(104)

34.5 Fair value estimation

The carrying value of financial instruments not carried at fair value, which include local trade receivables, cash and cash equivalents, trade payables and lease liabilities approximates fair value because of the short period to maturity of these instruments or as a result of market-related variable interest rates. The table below presents the group's assets and liabilities that are measured at fair value:

Rand million	**Level 1**[1]	**Level 2**[2]	**Level 3**[3]
2019			
Investments held by the environmental trust	**652**	**—**	**—**
Long-term prepayments and other receivables	**—**	**—**	**48**
Derivative financial instruments classified as cash and cash equivalent	**—**	**(3)**	**—**
Trade receivables[4]	**—**	**2,153**	**—**
	652	**2,150**	**48**
2018			
Investments held by the environmental trust	621	—	—
Long-term prepayments and other receivables	—	—	47
Derivative financial instruments classified as cash and cash equivalent	—	27	—
	621	27	47

[1] Level 1 fair value measurements are derived from unadjusted quoted prices in active markets for identical assets or liabilities.
[2] Level 2 fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly (i.e. derived from prices).
[3] Level 3 fair value measurements are derived from valuation techniques that include inputs (such as recent transactions for similar assets and iron ore price) that are not based on observable market data.
[4] This includes only those receivables that are carried at fair value.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

34. FINANCIAL RISK MANAGEMENT CONTINUED

34.5 Fair value estimation continued

Fair value gains and losses recognised in operating profit are disclosed in note 16 “Finance gains/(losses)”.

The iron ore derivatives are measured at fair value using market-related inputs. The measurement is therefore classified within level 2 of the fair value hierarchy. The inputs used in the model are the forward iron ore price on the inception date as well as the iron ore price on the date the fair value calculation is performed.

There were no transfers between level 1 and level 2, or between level 2 and level 3 in the year ended 31 December 2019 or in the year ended 31 December 2018. All the resulting fair value estimates are included in level 1 or level 2 except for the long-term receivable, which is a level 3 financial asset. The movements in the fair value of the level 3 financial assets are shown as follows:

Rand million	2019	2018
Balance at beginning of period	**47**	47
Increase in financial assets during the year	**207**	—
Fair value loss for the year	**(206)**	—
Balance at end of period	**48**	47

The long-term other receivables at 31 December 2019 relate to exploration projects. The fair value was determined using the market approach which applies available market information of sales transactions for similar recent projects. The significant unobservable inputs used in the valuation model related to the size and grade of the ore deposit determined by geological exploration results.

There were no changes made to any of the valuation techniques applied as of 31 December 2018.

34.6 Capital management

The group strives to maintain strong credit ratings. In managing its capital, the group’s priority is to ensure a robust statement of financial position to provide resilience in times of volatility and enable the group to take advantage of opportunities when they arise, and returning excess capital to shareholders unless there are compelling value-accretive opportunities for investment. The group maintains a healthy appetite for moderate gearing in the event of attractive merger and acquisition opportunities. The priority is to not use debt as a cushion for margin stress brought by market volatility. The group’s capital expenditure is to be funded from cash generated from operations. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The group’s cash and cash equivalents and debt at statement of financial position date were as follows:

Rand million	2019	2018
Cash and cash equivalents	**12,865**	11,670
Lease liabilities	**(542)**	—
Net	**12,323**	11,670
Total equity	**47,524**	46,187

35. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION

2019 single figure remuneration

	Guaranteed pay and benefits			Additional payments		Short-term incentive	Long-term incentive				Total emoluments
R'000	Base salary	Benefits[5]	Total guaranteed pay	Circum-stantial payments[6]	Dividend equivalent	Cash bonus (paid March 2020)[7]	Deferred bonus arrange-ment (DBA)[8]	Forfeitable share plan (FSP)[9]	Long-term incentive plan (LTIP)	Total long-term incentive	2019
Executive directors											
TM Mkhwanazi[2, 10]	8,275	265	8,540	2,788	–	5,308	7,579	–	28,000	35,579	52,215
BA Mazarura[10]	4,431	265	4,696	–	–	1,777	2,488	–	6,252	8,740	15,213
Sub-total	**12,706**	**530**	**13,236**	**2,788**	**–**	**7,085**	**10,067**	**–**	**34,252**	**44,319**	**67,428**
Prescribed officers											
PJP Fourie[2, 10]	2,594	376	2,970	681	–	882	1,235	–	4,140	5,375	9,908
SA Martin[3]	2,756	265	3,021	74	–	897	1,256	–	–	1,256	5,248
GM Mc Gavigan	3,081	267	3,348	761	–	996	1,394	–	–	1,394	6,499
Y Mfolo	2,557	264	2,821	546	–	837	1,172	–	–	1,172	5,376
TS Smit[4]	6,912	1,093	8,005	3,727	1,732	–	–	–	–	–	13,464
SV Tyobeka	3,079	264	3,343	649	–	994	1,392	–	–	1,392	6,378
DR Strange	7,073	284	7,357	–	–	1,820	–	–	–	–	9,177
CD Appollis[1]	1,140	169	1,309	109	–	–	–	–	–	–	1,418
Sub-total	**29,192**	**2,982**	**32,174**	**6,547**	**1,732**	**6,426**	**6,449**	**–**	**4,140**	**10,589**	**57,468**
Total	**41,898**	**3,512**	**45,410**	**9,335**	**1,732**	**13,511**	**16,516**	**–**	**38,392**	**54,908**	**124,896**

Notes

1 Resigned on 31 July 2019.

2 LTIP value includes the vesting value of R4,139,819.62 in respect of the vesting of Anglo American plc shares previously awarded during their employment at Anglo American Coal SA.

3 Internal transfer from Anglo American Coal SA.

4 Employed by Anglo American Marketing Limited (Singapore branch) and emoluments are paid in Singapore Dollars and Pound Sterling. The DBA and LTIP shares awarded is settled in Anglo American plc shares. Included in circumstantial payments are cost of living-related allowances and the dividend equivalent related to the Anglo American plc shares.

5 Benefits include the employer's contribution to retirement fund and medical aid.

6 Includes long-service leave, cash in lieu of share awards, leave encashment and retention bonus payment.

7 Cash bonus is based on 2019 performance and will be paid in March 2020.

8 Face value of DBA shares awarded in March 2020 based on the 2019 bonus value.

9 No FSP shares were awarded in 2019 as the awards were replaced by LTIP awards as reflected in the unvested awards and cash flow table.

10 Value of LTIP shares awarded in 2017 with a performance period ending 31 December 2019, based on a 100% achievement of performance conditions and a three-day VWAP on 31 December 2019 of R403.45.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

35. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION CONTINUED

2018 single figure remuneration

	Guaranteed pay and benefits			Additional payments	Short-term incentive	Long-term incentive				Total emoluments
R'000	Base salary	Benefits[5]	Total guaranteed pay	Circum-stantial payments[6]	Cash bonus (paid March 2019)[7]	Deferred bonus arrange-ment (DBA)[8]	Forfeitable share plan (FSP)[9]	Long-term incentive plan (LTIP)	Total long-term incentive	2018
Executive directors										
TM Mkhwanazi[2, 10]	7,936	306	8,242	2,898	6,230	9,345	–	16,934	26,279	43,649
BA Mazarura	3,700	266	3,966	35	1,534	2,147	–	–	2,147	7,682
NB Mbazima[2]	–	–	–	–	–	–	–	86,954	86,954	86,954
FT Kotzee[1, 2]	–	–	–	–			–	26,287	26,287	26,287
Sub-total	**11,636**	**572**	**12,208**	**2,933**	**7,764**	**11,492**	**–**	**130,175**	**141,667**	**164,572**
Prescribed officers										
PJP Fourie[10]	2,447	354	2,801	678	899	1,258	760	4,140	6,158	10,536
SA Martin[3]	1,286	139	1,425	–	562	787		–	787	2,774
GM Mc Gavigan	2,892	266	3,158	838	1,093	1,530	858	–	2,388	7,477
Y Mfolo	2,383	277	2,660	599	853	1,194	721	–	1,915	6,027
TS Smit[4]	5,844	1,093	6,937	3,727	3,605	5,047	–	15,381	20,428	34,697
SV Tyobeka	2,887	266	3,153	726	1,091	1,528	857	–	2,385	7,355
CD Appollis	1,844	272	2,116	4	469	656	–	–	656	3,245
Sub-total	**19,583**	**2,667**	**22,250**	**6,572**	**8,572**	**12,000**	**3,196**	**19,521**	**34,717**	**72,111**
Total	**31,219**	**3,239**	**34,458**	**9,505**	**16,336**	**23,492**	**3,196**	**149,696**	**176,384**	**236,683**

Notes

1. Resigned on 11 May 2017. LTIP value refers to award retained in terms of separation agreement.
2. Value of LTIP shares awarded in 2016 with a performance period ending 31 December 2018, based on a 100% achievement of performance conditions and a three-day volume weighted average price (VWAP) on 31 December 2018 of R276.94.
3. Emoluments are from 1 July 2018. Cash bonus includes a pro-rated bonus earned during his employment at Anglo American Coal SA.
4. Employed by Anglo American Marketing Limited (Singapore branch) and emoluments are paid in Singapore Dollars and Pound Sterling. The DBA and LTIP shares awarded are settled in Anglo American plc shares. Included in circumstantial payments are cost of living-related allowances as well as a dividend equivalent related to the Anglo American plc shares.
5. Benefits include employer contribution to retirement fund and medical aid.
6. Includes cash in lieu of dividends, leave encashment and retention bonus payment.
7. Cash bonus is based on 2018 performance, paid in March 2019.
8. Face value of DBA shares awarded in March 2019 based on the 2018 bonus value.
9. Face value of FSP shares awarded in 2018.
10. LTIP value includes the vesting value calculated at R367.53 of Anglo American plc shares previous awarded when employed by Anglo American Coal SA.

35. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION CONTINUED

2019 single figure remuneration

R'000	Directors' fees	Committee fees	Total emoluments
Non-executive directors			
MS Bomela	188	325	513
N Dlamini	245	245	490
S French	245	164	409
MSV Gantsho	1,479	—	1,479
TP Goodlace	1,144	—	1,144
MA Jenkins[2]	42	55	97
NB Langa-Royds	245	589	834
DD Mokgatle[1]	99	395	494
SS Ntsaluba	245	645	890
S Pearce[3]	99	66	165
BP Sonjica	251	487	738
D Wanblad[4]	145	124	269
Total	**4,427**	**3,095**	**7,522**

[1] Resigned 10 May 2019

[2] Appointed 1 November 2019

[3] Resigned 31 May 2019

[4] Appointed 31 May 2019

2018 single figure remuneration

R'000	Directors' fees	Committee fees	Total emoluments
Non-executive directors			
MS Bomela	231	393	624
N Dlamini	231	153	384
S French	231	153	384
MSV Gantsho	1,389	—	1,389
TP Goodlace	643	422	1,065
NB Langa-Royds	250	530	780
DD Mokgatle	231	1,016	1,247
AJ Morgan[1]	94	424	518
SS Ntsaluba	231	665	896
S Pearce	231	153	384
BP Sonjica	231	495	726
Total	**3,993**	**4,404**	**8,397**

[1] Resigned 11 May 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

35. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION CONTINUED

Interests of executive directors and the prescribed officers – unvested awards and cash flow

The interests of the executive directors and of prescribed officers in shares of the Company granted in terms of the various long-term incentive schemes are shown in the tables below:

				Number of shares						
2019	Scheme	Award date	Earliest date of vesting	Opening balance on 1 January 2019	Granted during 2019	Forfeited during 2019	Vesting during 2019	Closing balance on 31 December 2019	Value of receipts R'000[2]	Estimated fair value on 31 December 2019[3] R'000
Executive directors										
TM Mkhwanazi	DBA	1 March 2017	1 March 2020	5,205	–	–	–	5,205	242	2,100
	DBA	1 March 2017	1 March 2022	2,082	–	–	–	2,082	97	840
	DBA	1 June 2017	1 March 2020	5,171	–	–	–	5,171	241	2,086
	DBA	1 June 2017	1 March 2022	2,585	–	–	–	2,585	120	1,043
	DBA	9 April 2018	1 March 2012	12,575	–	–	–	12,575	585	5,073
	DBA	9 April 2018	1 March 2023	6,288	–	–	–	6,288	293	2,537
	DBA	1 March 2019	1 March 2022	–	16,357	–	–	16,357	761	6,599
	DBA	1 March 2019	1 March 2025	–	8,179			8,179	380	3,300
	LTIP	15 September 2016	1 March 2019	23,774	–	–	23,774	–	8,996	–
	LTIP	1 June 2017	1 March 2020	43,748	–	–	–	43,748	–	17,650
	LTIP[5]	1 June 2018	1 March 2021	30,184	–	–	–	30,184	–	5,366
	LTIP[5]	31 May 2019	1 March 2022	–	24,776	–	–	24,776	–	8,477
Sub-total				**131,612**	**49,312**	**–**	**23,774**	**157,150**	**11,715**	**55,071**
BA Mazarura	DBA	9 April 2018	1 March 2021	1,617	–	–	–	1,617	75	652
	DBA	1 March 2019	1 March 2022	–	5,637	–	–	5,637	262	2,274
	LTIP	1 September 2017	1 March 2020	15,496	–	–	–	15,496	–	6,252
	LTIP[5]	1 June 2018	1 March 2021	9,798	–	–	–	9,798	–	1,742
	LTIP[5]	31 May 2019	1 March 2022	–	9,048	–	–	9,048	–	3,096
Sub-total				**26,911**	**14,685**	**–**	**–**	**41,596**	**337**	**14,016**
NB Mbazima	DBA	1 March 2015	1 March 2018	–	–	–	–	–	–	–
	DBA[1]	1 March 2015	1 March 2020	7,772	–	–	7,772	–	3,921	–
	DBA	1 April 2016	1 March 2019	95,684	–	–	95,684	–	36,206	–
	DBA[1]	1 April 2016	1 March 2021	47,836	–	–	47,836	–	24,132	–
	LTIP	1 March 2015	1 March 2018	–	–	–	–	–	–	–
	LTIP	1 April 2016	1 March 2019	313,980	–	–	313,980	–	118,807	–
Sub-total				**465,272**	**–**	**–**	**465,272**	**–**	**183,066**	**–**
FT Kotzee	LTIP	1 March 2015	1 March 2018	–				–	–	–
	LTIP	1 April 2016	1 March 2019	94,918			94,918	–	35,916	–
Sub-total				**94,918**	**–**	**–**	**94,918**	**–**	**35,916**	**–**

Footnotes are detailed on page 92.

35. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION CONTINUED

Interests of executive directors and the prescribed officers – unvested awards and cash flow continued

2019	Scheme	Award date	Earliest date of vesting	Number of shares: Opening balance on 1 January 2019	Granted during 2019	Forfeited during 2019	Vesting during 2019	Closing balance on 31 December 2019	Value of receipts[2] R'000	Estimated fair value on 31 December 2019[3] R'000
Prescribed officers										
PJP Fourie	DBA	9 April 2018	1 March 2021	3,246	–	–	–	3,246	151	1,310
	DBA	1 March 2019	1 March 2022	–	3,303	–	–	3,303	154	1,333
	FSP	1 May 2017	1 May 2020	5,281	–	–	–	5,281	246	2,131
	FSP	9 April 2018	1 March 2021	2,773	–	–	–	2,773	129	1,119
	LTIP	31 May 2019	1 March 2022	–	4,552	–	–	4,552	–	1,690
Sub-total				**11,300**	**7,855**	**–**	**–**	**19,155**	**680**	**7,583**
GM Mc Gavigan	DBA	1 March 2015	1 March 2018	–	–	–	–	–	–	–
	DBA	1 April 2016	1 March 2019	21,607	–	–	21,607	–	8,176	–
	DBA	1 March 2017	1 March 2020	3,712	–	–	–	3,712	173	1,498
	DBA	9 April 2018	1 March 2021	5,128	–	–	–	5,128	239	2,069
	DBA	1 March 2019	1 March 2022	–	4,018	–	–	4,018	187	1,621
	FSP	1 March 2015	1 March 2018	–	–	–	–	–	–	–
	FSP	1 April 2016	1 March 2019	15,769	–	–	15,769	–	5,967	–
	FSP	1 March 2017	1 March 2020	5,091	–	–	–	5,091	237	2,054
	FSP	9 April 2018	1 March 2021	3,131	–	–	–	3,131	146	1,263
	LTIP	31 May 2019	1 March 2022	–	5,142	–	–	5,142	–	1,910
Sub-total				**54,438**	**9,160**	**–**	**37,376**	**26,222**	**15,125**	**10,415**
Y Mfolo	DBA	1 March 2015	1 March 2018	–	–	–	–	–	–	–
	DBA	1 April 2016	1 March 2019	22,263	–	–	22,263	–	8,424	–
	DBA	1 March 2017	1 March 2020	5,352	–	–	–	5,352	249	2,159
	DBA	9 April 2018	1 March 2021	3,518	–	–	–	3,518	164	1,419
	DBA	1 March 2019	1 March 2022	–	3,135	–	–	3,135	146	1,265
	FSP	1 March 2015	1 March 2018	–	–	–	–	–	–	–
	FSP	1 April 2016	1 March 2019	19,496	–	–	19,496	–	7,377	–
	FSP	1 March 2017	1 March 2020	4,266	–	–	–	4,266	198	1,721
	FSP	9 April 2018	1 March 2021	2,631	–	–	–	2,631	122	1,061
	LTIP	31 May 2019	1 March 2022	–	4,320	–	–	4,320	–	1,604
Sub-total				**57,526**	**7,455**	**–**	**41,759**	**23,222**	**16,680**	**9,229**

Footnotes are detailed on page 92.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

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35. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION CONTINUED

Interests of executive directors and the prescribed officers – unvested awards and cash flow continued

				Number of shares						
2019	Scheme	Award date	Earliest date of vesting	Opening balance on 1 January 2019	Granted during 2019	Forfeited during 2019	Vesting during 2019	Closing balance on 31 December 2019	Value of receipts[2] R'000	Estimated fair value on 31 December 2019[3] R'000
Prescribed officers										
SV Tyobeka	DBA	1 March 2015	1 March 2018	–	–	–	–	–	–	–
	DBA	1 April 2016	1 March 2019	25,528	–	–	25,528	–	9,660	–
	DBA	1 March 2017	1 March 2020	6,200	–	–	–	6,200	288	2,501
	DBA	9 April 2018	1 March 2021	4,850	–	–	–	4,850	226	1,957
	DBA	1 March 2019	1 March 2022	–	4,011	–	–	4,011	187	1,618
	FSP	1 March 2015	1 March 2018	–	–	–	–	–	–	–
	FSP	1 April 2016	1 March 2019	20,959	–	–	20,959	–	7,931	–
	FSP	1 March 2017	1 March 2020	4,616	–	–	–	4,616	215	1,862
	FSP	9 April 2018	1 March 2021	3,126	–	–	–	3,126	145	1,261
	LTIP	31 May 2019	1 March 2022	–	5,134	–	–	5,134	–	1,907
Sub-total				**65,279**	**9,145**	**–**	**46,487**	**27,937**	**18,652**	**11,106**
CD Appollis[4]	DBA	9 April 2018	31 July 2019	182	–	182	–	–	3	–
	DBA[4]	1 March 2019	31 July 2019	–	1,723	1,723	–	–	27	–
Sub-total				**182**	**1,723**	**1,905**	**–**	**–**	**30**	**–**
SA Martin	DBA	1 March 2019	1 March 2022	–	2,066	–	–	2,066	96	834
	LTIP	31 May 2019	1 March 2022	–	4,632	–	–	4,632	–	1,720
Sub-total				**–**	**6,698**	**–**	**–**	**6,698**	**96**	**2,554**
Total				**907,438**	**99,335**	**1,907**	**709,586**	**295,282**	**282,198**	**107,421**

1 Share vesting accelerated as per scheme rules due to his retirement from the Anglo American group on 30 June 2019.

2 Includes dividend payments received on 18 March 2019 and 19 August 2019 as well as the face value of shares which vested during 2019.

3 Sum total of the estimated fair value of unvested DBA and FSP shares, the 2017 LTIP award (estimated vesting of 100%), the 2018 LTIP award (estimated vesting of 47%) and the 2019 LTIP award (estimated vesting of 95%). The value is based on a three-day VWAP on 31 December 2019 of R403.45. The anticipated dividend equivalent, based on the estimated LTIP vesting, is also included.

4 Unvested share awards forfeited as a result of her resignation on 31 July 2019.

5 Post vesting of the executive director's LTIP awards for 2018 onwards, an additional two-year holding period, subject to claw-back conditions, will apply.

35. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION CONTINUED

Interests of executive directors and the prescribed officers – unvested awards and cash flow continued

				Number of shares						
2018	Scheme	Award date	Earliest date of vesting	Opening balance on 1 January 2018	Granted during 2018	Forfeited during 2018	Vesting during 2018	Closing balance on 31 December 2018	Value of receipts R'000[3]	Estimated fair value on 31 December 2018[4] R'000
Executive directors										
TM Mkhwanazi	DBA	1 March 2017	1 March 2020	5,205	–	–	–	5,205	154	1,441
	DBA	1 March 2017	1 March 2022	2,082	–	–	–	2,082	61	577
	DBA	1 June 2017	1 March 2020	5,171	–	–	–	5,171	153	1,432
	DBA	1 June 2017	1 March 2022	2,585	–	–	–	2,585	76	716
	DBA	9 April 2018	1 March 2012	–	12,575	–	–	12,575	182	3,483
	DBA	9 April 2018	1 March 2023	–	6,288	–	–	6,288	91	1,741
	LTIP	15 September 2016	1 March 2019	23,774	–	–	–	23,774	–	6,584
	LTIP	1 June 2017	1 March 2020	43,748		–	–	43,748	–	6,962
	LTIP	1 June 2018	1 March 2021		30,184	–	–	30,184	–	3,525
Sub-total				**82,565**	**49,047**	**–**	**–**	**131,612**	**717**	**26,461**
BA Mazarura	DBA	9 April 2018	1 March 2021	–	1,617	–	–	1,617	23	448
	LTIP	1 September 2017	1 March 2020	15,496	–	–	–	15,496	–	2,466
	LTIP	1 June 2018	1 March 2021	–	9,798	–	–	9,798	–	1,144
Sub-total				**15,496**	**11,415**	**–**	**–**	**26,911**	**23**	**4,058**
NB Mbazima[5]	DBA[2]	1 March 2015	1 March 2018	15,543	–	–	15,543	–	4,585	–
	DBA	1 March 2015	1 March 2020	7,772	–	–	–	7,772	229	2,152
	DBA	1 April 2016	1 March 2019	143,520	–	–	–	143,520	4,235	39,746
	LTIP[1,2]	1 March 2015	1 March 2018	54,409	–	6,782	47,627	–	13,337	–
	LTIP	1 April 2016	1 March 2019	313,980	–	–		313,980	–	86,954
Sub-total				**535,224**	**–**	**6,782**	**63,170**	**465,272**	**22,386**	**128,852**
FT Kotzee[5]	LTIP[1]	1 March 2015	1 March 2018	16,819	–	2,096	14,723	–	5,139	–
	LTIP	1 April 2016	1 March 2019	94,918	–	–	–	94,918	–	26,287
Sub-total				**111,737**	**–**	**2,096**	**14,723**	**94,918**	**5,139**	**26,287**

Footnotes are detailed on page 94.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

35. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION CONTINUED

Interests of executive directors and the prescribed officers – unvested awards and cash flow continued

				Number of shares						
2018	Scheme	Award date	Earliest date of vesting	Opening balance on 1 January 2018	Granted during 2018	Forfeited during 2018	Vesting during 2018	Closing balance on 31 December 2018	Value of receipt[3] R'000	Estimated fair value on 31 December 2018[4] R'000
Prescribed officers										
PJP Fourie	DBA	9 April 2018	1 March 2021	–	3,246	–	–	3,246	47	899
	FSP	1 May 2017	1 May 2020	5,281		–	–	5,281	156	1,463
	FSP	9 April 2018	1 March 2021	–	2,773	–	–	2,773	40	768
Sub-total				**5,281**	**6,019**	**–**	**–**	**11,300**	**243**	**3,130**
GM Mc Gavigan	DBA[2]	1 March 2015	1 March 2018	4,557	–	–	4,557	–	1,344	–
	DBA	1 April 2016	1 March 2019	21,607	–	–	–	21,607	638	5,984
	DBA	1 March 2017	1 March 2020	3,712	–	–	–	3,712	110	1,028
	DBA	9 April 2018	1 March 2021	–	5,128		–	5,128	74	1,420
	FSP[2]	1 March 2015	1 March 2018	2,921	–	–	2,921	–	862	–
	FSP	1 April 2016	1 March 2019	15,769	–	–	–	15,769	465	4,367
	FSP	1 March 2017	1 March 2020	5,091	–	–	–	5,091	150	1,410
	FSP	9 April 2018	1 March 2021	–	3,131	–	–	3,131	45	867
Sub-total				**53,657**	**8,259**	**–**	**7,478**	**54,438**	**3,688**	**15,076**
Y Mfolo	DBA[2]	1 March 2015	1 March 2018	3,792	–	–	3,792	–	1,119	–
	DBA	1 April 2016	1 March 2019	22,263	–	–	–	22,263	657	6,166
	DBA	1 March 2017	1 March 2020	5,352	–	–	–	5,352	158	1,482
	DBA	9 April 2018	1 March 2021		3,518	–	–	3,518	51	974
	FSP[2]	1 March 2015	1 March 2018	3,628	–	–	3,628	–	1,070	–
	FSP	1 April 2016	1 March 2019	19,496	–	–	–	19,496	575	5,399
	FSP	1 March 2017	1 March 2020	4,266	–	–	–	4,266	126	1,181
	FSP	9 April 2018	1 March 2021	–	2,631	–	–	2,631	38	729
Sub-total				**58,797**	**6,149**	**–**	**7,420**	**57,526**	**3,794**	**15,931**
SV Tyobeka	DBA[2]	1 March 2015	1 March 2018	4,756	–	–	4,756	–	1,403	–
	DBA	1 April 2016	1 March 2019	25,528	–	–	–	25,528	753	7,070
	DBA	1 March 2017	1 March 2020	6,200	–	–	–	6,200	183	1,717
	DBA	9 April 2018	1 March 2021	–	4,850	–	–	4,850	70	1,343
	FSP[2]	1 March 2015	1 March 2018	3,911	–	–	3,911	–	1,154	–
	FSP	1 April 2016	1 March 2019	20,959	–	–	–	20,959	619	5,804
	FSP	1 March 2017	1 March 2020	4,616	–	–	–	4,616	136	1,278
	FSP	9 April 2018	1 March 2021	–	3,126	–	–	3,126	45	866
Sub-total				**65,970**	**7,976**	**–**	**8,667**	**65,279**	**4,363**	**18,078**
CD Appollis	DBA	9 April 2018	1 March 2021	–	182	–	–	182	3	50
Sub-total				**–**	**182**	**–**	**–**	**182**	**3**	**50**
Total				**928,727**	**89,047**	**8,878**	**101,458**	**907,438**	**40,356**	**237,923**

1 Shares forfeited are due to performance conditions of the 2015 award not fully being met.

2 Share vesting delayed to 9 April 2018 due to employee being subject to an embargo.

3 Includes dividend payments received on 12 March 2018 and 20 August 2018 as well as face value of share vestings during 2018.

4 Sum total of the estimated fair value of unvested DBA and FSP shares, 2016 LTIP award (estimated vesting of 100%), 2017 LTIP award (estimated vesting of 65%) and 2018 LTIP award (estimated vesting of 53%). The value is based on a three-day VWAP on 31 December 2018 of R276.94.

5 Awards were made during his tenure as an executive director and awards were retained in terms of separation agreement.

35. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION CONTINUED

Directors' beneficial interest in Kumba

The aggregate beneficial interest in Kumba at 31 December 2019 of the directors of the Company and their immediate families (none of whom has a holding greater than 1%) in the issued shares of the Company are detailed below. There have been no material changes to the shareholding since 31 December 2019 and the date of approval of these annual financial statements.

	2019			2018		
Capacity and name	**Number of shares**	**Long-term incentive scheme shares[1]**	**Total beneficial interest**	Number of shares	Long-term incentive scheme shares	Total beneficial interest
Executive directors						
TM Mkhwanazi	**11,826**	**157,150**	**168,976**	—	131,612	131,612
BA Mazarura	**—**	**41,596**	**41,596**	—	26,911	26,911
NB Mbazima	**—**	**—**	**—**	—	465,272	465,272
FT Kotzee	**—**	**—**	**—**	—	94,918	94,918
Sub-total	**11,826**	**198,746**	**210,572**	—	718,713	718,713
Non-executive director						
DD Mokgatle[2]	**428**	**—**	**428**	428	—	428
SS Ntsaluba	**500**	**—**	**500**	—	—	—
Sub-total	**928**	**—**	**928**	428	—	428
Total	**12,754**	**198,746**	**211,500**	428	718,713	719,141

[1] Granted under the rules of the Bonus Share Plan, Bonus and Retention Share Plan and Performance Share Plan and disclosed in the tables above.
[2] Resigned as Non-Executive Director on 10 May 2019. Total indirect interest held by spouse.

STATEMENT OF FINANCIAL POSITION

as at 31 December

Rand million	Notes	**2019**	2018
ASSETS			
Investments in subsidiaries	1	**62**	262
Deferred tax assets		**1**	—
Non-current assets		**63**	262
Cash and cash equivalents	2	**304**	233
Current assets		**304**	233
Total assets		**367**	495
EQUITY AND LIABILITIES			
Share capital and premium	3	**367**	367
Reserves		**29**	57
Retained loss		**(227)**	(120)
Total equity		**169**	304
Other payables		**197**	168
Current tax liabilities	8	**1**	22
Current liabilities		**198**	190
Total liabilities		**198**	190
Total equity and liabilities		**367**	494

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December

Rand million	Notes	2019	2018
Revenue	4	**14,983**	9,509
Net operating expenses	5	**(40)**	(57)
Operating profit		**14,943**	9,452
Finance income		**79**	58
Finance cost		**(2)**	–
Sundry income		**14**	–
Profit before taxation		**15,034**	9,510
Taxation	6	**(1)**	(16)
Profit for the year		**15,033**	9,494
Total comprehensive income for the year		**15,033**	9,494

The Company did not have any non-owner changes in equity during the year other than the profit for the year, therefore no separate statement of other comprehensive income is presented for the years ended 31 December 2019 and 31 December 2018.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December

Rand million	Share capital (note 3)	Share premium (note 3)	Equity-settled share-based payment reserve	Retained loss	Total
Balance at 31 December 2017	3	364	67	(115)	319
Equity-settled share-based payments	–	–	10	–	10
Vesting of shares under employee share incentive schemes	–	–	(20)	4	(16)
Liquidation of companies[1]	–	–	–	3	3
Total comprehensive income for the year	–	–	–	9,494	9,494
Dividends paid	–	–	–	(9,505)	(9,505)
Balance at 31 December 2018	**3**	**364**	**57**	**(120)**	**304**
Equity-settled share-based payments	**–**	**–**	**18**	**–**	**18**
Vesting of shares under employee share incentive schemes	**–**	**–**	**(46)**	**(157)**	**(203)**
Total comprehensive income for the year	**–**	**–**	**–**	**15,033**	**15,033**
Dividends paid	**–**	**–**	**–**	**(14,983)**	**(14,983)**
Balance as at 31 December 2019	**3**	**364**	**29**	**(227)**	**169**

[1] Relates to liquidation of the subsidiary – Kumba International BV.

STATEMENT OF CASH FLOWS

for the year ended 31 December

Rand million	Notes	**2019**	2018
Cash flows from operating activities			
Cash generated from operations	7	**14,988**	9,478
Finance income received		**79**	58
Finance costs paid		**(2)**	—
Dividends withholding tax refunded		**14**	—
Dividends paid		**(14,983)**	(9,505)
Taxation paid		**(22)**	(17)
		74	14
Cash flows utilised in investing activities			
Loan repaid by subsidiary		**200**	28
		200	28
Cash flows utilised in financing activities			
Vesting of shares under employee share incentive schemes		**(203)**	(16)
		(203)	(16)
Net increase in cash and cash equivalents		**71**	26
Cash and cash equivalents at beginning of year		**233**	207
Cash and cash equivalents at end of year	2	**304**	233

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December

1. INVESTMENTS IN SUBSIDIARIES

Rand million	2019	2018
Reflected as non-current assets		
Shares at cost	**3**	3
Long-term loan to subsidiary	**59**	259
Net investments in subsidiaries	**62**	262

Investments in subsidiaries are accounted for at cost.

The loan to Sishen Iron Ore Company Proprietary Limited (SIOC) bears interest at a variable market-related interest rate of 6.5% and does not have any repayment terms.

For further details of interests in significant subsidiaries, refer to Annexure 1.

2. CASH AND CASH EQUIVALENTS

Rand million	2019	2018
Cash	**304**	233
Currency analysis of cash and cash equivalents		
Rand	**304**	233

Credit risk
Cash and cash equivalents are held with financial institutions with long-term investment grade credit rating and with the capacity for payment of financial commitments considered strong.

Fair value of cash and cash equivalents
The carrying amount of cash and cash equivalents approximate their fair value because of the short period to maturity of these instruments.

3. SHARE CAPITAL AND SHARE PREMIUM

Number of shares	2019	2018
Authorised		
500,000,000 ordinary shares of R0.01 each	**500,000,000**	500,000,000
Issued		
Ordinary shares of R0.01 each	**322,085,974**	322,085,974
Reconciliation of issued shares		
Number of shares at beginning of year	**322,085,974**	322,085,974
Number of shares at end of year	**322,085,974**	322,085,974

For further details, refer to note 21 of the group consolidated financial statements.

Rand million	2019	2018
Reconciliation of share capital and premium		
Share capital	**3**	3
Share premium	**364**	364
	367	367

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

4. REVENUE

Rand million	2019	2018
Dividends received from subsidiaries (refer to note 9)	**14,983**	9,509

5. NET OPERATING EXPENSES

Rand million	2019	2018
Cost by nature		
Salaries and wages	**34**	30
Equity-settled share-based payments	**18**	10
General charges	**8**	34
Cost recoveries	**(18)**	(17)
Reversal of expected credit losses	**(2)**	—
	40	57
The above costs are stated after including:		
Directors' remuneration[1]	**30**	31
Executive directors		
Emoluments received as directors of the Company	**16**	15
Bonuses and cash incentives	**7**	8
Non-executive directors – emoluments as directors of the Company	**7**	8

[1] Refer to note 35 in the group consolidated financial statements.

6. TAXATION

Rand million	2019	2018
Charge to income		
SA normal tax		
Current year	**1**	16
Total	**1**	16

	%	%
Reconciliation of taxation rates		
Taxation as a percentage of profit before taxation	**0.1**	0.1
Taxation effect of:		
Disallowable expenditure[1]	**–**	(0.1)
Exempt income[2]	**27.9**	28.0
Standard tax rate	**28.0**	28.0

[1] These percentages comprise many immaterial amounts which have been aggregated, no individual disclosure is required.
[2] This relates to dividend income received from a subsidiary.

7. CASH GENERATED BY OPERATIONS

Rand million	2019	2018
Operating profit	**14,943**	9,452
Adjusted for:		
Share-based payment expense	**18**	10
Reversal of expected credit losses	**(2)**	—
Working capital movements:		
Increase in other payables	**29**	16
Cash flows utilised in operating activities	**14,988**	9,478

8. CURRENT TAX LIABILITIES

Rand million	2019	2018
Current tax liability at beginning of year	**22**	23
Amounts charged to the statement of profit or loss	**1**	16
Amount paid during the year	**(22)**	(17)
Current tax liability at end of year	**1**	22

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

9. RELATED-PARTY TRANSACTIONS

During the year, Kumba in the ordinary course of business, entered into various transactions for the rendering of services to its subsidiary, SIOC, as well as its holding company, Anglo American plc. Certain deposits and borrowings are also placed with the holding company. The holding company also acts as an agent for the Company in respect of all foreign exchange transactions and performs a back office treasury function for the group. The effect of these transactions is included in the results of the group. These transactions occurred under terms that are no less favourable than those arranged with third parties.

Holding company

Anglo American plc is Kumba's ultimate holding company. The interest in the group is held through a 69.71% shareholding by Anglo South Africa Proprietary Limited (2018: 69.71%).

Subsidiaries

Details of investments in and loans to/from subsidiaries are disclosed in Annexure 1.

Shareholders

The principal shareholders of the Company are detailed under "Shareholder analysis" on pages 115 to 116.

Related-party transactions:

Rand million	2019	2018
Rendering of services		
SIOC – payroll costs[1]	**154**	46
Rendering of services and finance income		
SIOC – finance income[2]	**75**	60
SIOC – management fees[3]	**21**	19
Amounts owing by related parties		
SIOC – loan[4]	**59**	259
Dividends paid (by)/to Kumba		
SIOC	**14,983**	9,505
Holding company	**(10,445)**	(6,626)

[1] This relates to payroll-related costs recovered from Kumba by SIOC.
[2] This relates to finance income and a service recovery fee.
[3] This relates to management fees receivable from SIOC.
[4] This relates to a loan receivable from SIOC.

Directors

Details relating to the Company's directors' remuneration and shareholdings (including share options) are disclosed in note 35 of the consolidated financial statements.

10. EVENTS AFTER THE REPORTING PERIOD

Dividend

A final cash dividend of R15.99 per share was declared by the Board on 17 February 2020 from profits accrued during the financial year ended 31 December 2019. The total cash dividend for the year amounted to R46.78 per share. The estimated total cash flow of the final Kumba dividend, payable on 16 March 2020, is R5.2 billion.

The directors are not aware of any other matter or circumstance arising since the end of the year and up to the date of this report, not otherwise dealt with in this report.

ANNEXURE 1:

INVESTMENTS IN SUBSIDIARIES

for the year ended 31 December

Rand '000	Country of incorporation[1]	Principal place of business[1]	Nature of business[2]	Percentage holding	Nominal issued capital R	Investments at cost 2019	Investments at cost 2018	Loans to subsidiaries 2019	Loans to subsidiaries 2018
Direct investments									
Sishen Iron Ore Company Proprietary Limited	RSA	RSA	A	76%	100	**3,009**	3,009	**58,600**	259,243
KIO Investment Holdings Proprietary Limited	RSA	RSA	C	100%	1,000	**–**	–	**–**	–
Total investments in subsidiaries						**3,009**	3,009	**58,600**	259,243

Indirect subsidiaries

	Country of incorporation[1]	Principal place of business[1]	Nature of business[2]	Percentage holding
Kumba International Trading Limited	JE	UK	B	100%
Kumba Iron Ore Holdings SARL	NE	LUX	C	100%
KIO Exploration Liberia SARL	LUX	LUX	C	*
Kumba Singapore Pte Limited	SNG	SNG	B	100%
Sibelo Resources Development Proprietary Limited	RSA	RSA	C	100%

* KIO Exploration Liberia SARL was liquidated during 2019.

Special purpose entities[3]

	Country of incorporation[1]	Principal place of business[1]	Nature of business[2]	Percentage holding
Kumba Iron Ore Rehabilitation Trust[4]	RSA	RSA	D	100%
Kumba BSP Trust[4]	RSA	RSA	E	100%
SIOC Employee Benefit Trust	RSA	RSA	E	100%

[1] RSA – South Africa, NE – Netherlands, LUX – Luxembourg, SNG – Singapore, JE – Jersey
[2] A – Mining, B – Iron ore marketing and sales, C – Dormant, D – Mine closure fund, E – Share incentive scheme administrator.
[3] Controlled by Kumba.
[4] The trusts have a 28 February year-end as it is a requirement from the South African Revenue Service. Where the financial year-ends are not co-terminous with that of the group, financial information has been obtained from published information on management accounts as appropriate.

ANNEXURE 2:

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

for the year ended 31 December

Rand '000	Country of incorporation[1]	Principal place of business[1]	Nature of business[2]	Number of shares held	Percentage holding	Investment at cost	Group loan balance **2019**	Group loan balance 2018	Company loan balance **2019**	Company loan balance 2018
ASSOCIATES										
Unlisted										
Manganore Iron Mining Limited	RSA	RSA	B	25,000	50%	2	**–**	–	**–**	–
INCORPORATED JOINT VENTURES										
Unlisted										
Polokwane Iron Ore Company Proprietary Limited	RSA	RSA	A	4,000	50%	3,740	**111,039**	110,994	**–**	–
Anglo American Kumba Exploration Liberia Limited	LIB	LIB	A	*	*	*	**–**	–	**–**	–
						3,740	**111,039**	110,994	**–**	–

[1] RSA – South Africa, LIB – Liberia.
[2] A – Exploration, B – Dormant.
* Liquidated during 2019

The financial year-end for Manganore Iron Mining Limited is 30 June. Where the financial year-ends are not co-terminous with that of the group, financial information has been obtained from published information or management accounts as appropriate.

The aggregated carrying values of joint ventures and associates is less than R1 million, therefore a summary of statement of financial position and statement of profit or loss are not disclosed.

ANNEXURE 3:

EQUITY-SETTLED SHARE-BASED PAYMENT SCHEMES

for the year ended 31 December

EMPLOYEE SHARE INCENTIVE SCHEMES

Employees of the group participate in the following share incentive schemes:
- Bonus and Retention Share Plan (BRP)
- Performance Share Plan (PSP)
- Bonus Share Plan (BSP)
- Long-Term Incentive Plan (LTIP) (for executive directors)
- SIOC Employee Benefit Share Scheme (Karolo)

(1) BONUS AND RETENTION SHARE PLAN (BRP)

Description of scheme

The BSP, which was approved and adopted by shareholders on 20 March 2009 for a 10-year period, reached its tenth anniversary in March 2019, and was therefore terminated. Consequently, the BRP for executive directors and senior employees was implemented during 2019, replacing the BSP. The adoption and implementation of the BRP was approved by shareholders at the annual general meeting on 10 May 2019.

The BRP is offered to senior managers and key executives who have the opportunity and the responsibility to contribute towards Kumba's overall strategic objectives. The BRP has two components:
- a payment of an annual cash bonus
- a forfeitable award of Kumba shares linked to the participant's annual cash bonus award known as bonus shares

The number of bonus shares awarded is determined with reference to the amount of the annual cash bonus an employee receives which is directly linked to the employee's personal performance and potential. The shares are held in an escrow agent and released to the employee three years after the award date (subject to continuous employment). During the three-year period, the employee is entitled to all rights attaching to the bonus shares including dividend entitlements and voting rights.

Movement in the number of share awards granted

	2019 award
Balance at beginning of year	–
Bonus shares awarded	**4,304**
Balance at 31 December 2019	**4,304**

[1] This relates to the pro rata portion of the bonus shares granted to employees who are considered good leavers in terms of the share rules.

	Number of awards award	Expiry date
Vesting period of awards granted		
Less than 1 year	1,291	2020
1 to 2 years	1,291	2021
2 to 5 years	1,722	2022 – 2024

ANNEXURE 3:

EQUITY-SETTLED SHARE-BASED PAYMENT SCHEMES CONTINUED

for the year ended 31 December

(1) BONUS AND RETENTION SHARE PLAN (BRP) CONTINUED

Valuation of scheme

The share awards granted under the BRP are considered equity-settled.

The share-based payment expense is measured using the fair value of the share awards issued under the BRP which was determined using the Kumba share price on grant date.

	2019 award
Fair value assumptions	
Share price on date of grant (Rand)	**457.29**
Expected share option life (years)	**3**
Expected dividend yield (%)	**5.00**

The risk-free interest rate for the period within the contractual term of the awards is based on South African government bonds.

The historical volatility of the Kumba share price is used in determining the expected volatility.

(2) PERFORMANCE SHARE PLAN (PSP)

Description of scheme

Long-Term Incentive awards (LTIP awards) were granted to the executive directors under the Kumba Long-Term Incentive Plan (LTIP) rules. The LTIP awards have performance conditions attached to the vesting and do not qualify for shareholder rights over the three-year vesting period.

At the annual general meeting held on 10 May 2019, the shareholders approved the adoption and implementation of the Kumba Amended PSP Rules. The PSP scheme was therefore implemented during 2019, replacing the LTIP. No new conditional awards were made under the LTIP scheme during the year. All new conditional awards are now granted in terms of the PSP scheme. The PSP awards have performance conditions attached to the vesting and do not qualify for shareholder rights over the vesting period. The payment of dividend equivalents which will be incorporated into the awards for the qualifying prescribed officers and senior managers to offset the loss of dividend rights associated with the conditional share award pre-vesting. No dividend equivalent policy will apply for the executive directors.

Movement in the number of conditional awards granted

	Number of conditional award
	2019 award
Balance at beginning of year	**–**
Conditional awards issued	**82,784**
Balance at 31 December 2019	**82,784**

	Number of conditional awards	Expiry date
Vesting period of conditional awards granted		
Less than 1 year	–	2020
1 to 2 years	–	2021
2 to 5 years	82,784	2022 – 2023

(2) PERFORMANCE SHARE PLAN (PSP) CONTINUED

Valuation of scheme

The conditional awards granted under the PSP are considered equity-settled.

The share-based payment expense is measured using the fair value of the conditional award issued under the PSP which was determined using the Monte Carlo option pricing model.

	2019 award
Fair value assumptions	
Share price on date of grant (Rand)	**450.02**
Annualised expected volatility (%)	**50.00**
Expected share option life (years)	**3**
Expected dividend yield (%)	**5.00**
Risk-free interest rate (%)	**7.60**

The risk-free interest rate for the period within the contractual term of the awards is based on South African government bonds.

The historical volatility of the Kumba share price is used in determining the expected volatility.

(3) BONUS SHARE PLAN (BSP)

Description of scheme

The BSP for executive directors and senior managers was adopted and implemented during 2009, and terminated in March 2019 when it reached its tenth anniversary in March 2019, as mentioned above. The BSP was offered to senior managers and key executives who have the opportunity and the responsibility to contribute towards Kumba's overall strategic objectives. The BSP had two components:

- a payment of an annual cash bonus
- a forfeitable award of Kumba shares linked to the participant's annual cash bonus award known as bonus shares

The number of bonus shares awarded is determined with reference to the amount of the annual cash bonus an employee receives which is directly linked to the employee's personal performance and potential. The shares are held by an escrow agent and released to the employee three years after the award date (subject to continuous employment). During the three-year period, the employee is entitled to all rights attaching to the bonus shares including dividend entitlements and voting rights.

The BSP scheme was replaced by the BRP scheme, as mentioned above. All awards granted since July 2019 are awarded on the BRP scheme.

Movement in the number of share awards granted

	2019 award	2018 award	2017 award	2016 award	2015 award
Balance at beginning of year	**–**	270,419	355,803	1,485,596	7,772
Bonus shares awarded	**220,688**	—	—	—	—
Awards forfeited	**(7,258)**	(13,549)	(33,715)		—
Awards exercised[1]	**–**	(6,477)	(8,542)	(84,429)	(7,772)
Awards exercised on vesting	**–**	(2,409)	(423)	(1,401,167)	—
Balance at 31 December 2019	**213,430**	247,984	313,123	—	—
Balance at beginning of year	**–**	—	381,817	1,639,192	294,738
Bonus shares awarded	**–**	282,709	—	—	—
Awards forfeited	**–**	(2,578)	(2,420)	(79,705)	—
Awards exercised[1]	**–**	(9,712)	(14,196)	(73,294)	—
Awards exercised on vesting	**–**	—	(9,398)	(597)	(286,966)
Balance at 31 December 2018	**–**	270,419	355,803	1,485,596	7,772

[1] This relates to the pro rata portion of the bonus shares granted to employees who are considered good leavers in terms of the share rules.

ANNEXURE 3:

EQUITY-SETTLED SHARE-BASED PAYMENT SCHEMES CONTINUED

for the year ended 31 December

(3) BONUS SHARE PLAN (BSP) CONTINUED

	Number of awards	Expiry date
Vesting period of awards granted		
Less than 1 year	310,865	2020
1 to 2 years	239,287	2021
2 to 5 years	224,385	2022 – 2024

Valuation of scheme
The share awards granted under the BSP are considered equity-settled.

The share-based payment expense was measured using the fair value of the share awards issued under the BSP which was determined using the grant date share price of Kumba's shares.

	2019 award	2018 award	2017 award	2016 award
Fair value assumptions				
Share price on date of grant (Rand)	**378.39**	331.35	213.43	84.39
Expected share option life (years)	**3**	3	3	3
Expected dividend yield (%)	**5.00**	5.00	5.00	—
Risk-free interest rate (%)	**7.60**	5.63	6.50	6.14

The risk-free interest rate for the period within the contractual term of the awards is based on South African government bonds.

The historical volatility of the Kumba share price is used in determining the expected volatility.

(4) LONG-TERM INCENTIVE PLAN (LTIP)

Description of scheme
Similar to the BSP, the LTIP also came to an end during 2019 after reaching its tenth anniversary. The LTIP has been replaced by the PSP scheme. Senior employees received annual grants of conditional awards of Kumba shares.

The conditional awards would vest after the performance period of three years, and to the extent that specific performance conditions had been satisfied. No retesting of the performance conditions was allowed. The performance conditions for the LTIP awards made to date are subject to the achievement of stretching performance targets relating to total shareholder return (TSR) and to an operating measure, currently return on capital employed (ROCE), over a fixed three-year period.

The performance conditions would determine if, and to what extent, the conditional award will vest. Upon vesting the employee will be entitled to shares in Kumba to settle the value of the vested portion of the conditional award. The conditional awards which will not vest at the end of the remaining three-year period will lapse.

Upon retrenchment, ill-health, disability, retirement or death a proportion of the remaining unvested conditional awards shall vest on the date of cessation of employment. The proportion of awards that vests under the LTIP would reflect the number of months' service and in the opinion of the Remuneration Committee, the extent to which the performance conditions have been met.
On resignation or termination of employment, all unexercised (vested and unvested) conditional awards will lapse on the date of cessation of employment.

The main intention of the LTIP is to settle the benefits by delivering Kumba shares to employees.

The aggregate number of shares which would be allocated under the LTIP when added to the total number of unvested conditional awards, unexercised share appreciation rights and share options allocated to employees under any other managerial share scheme, would not exceed 10% of the number of issued ordinary shares of Kumba.

(4) LONG-TERM INCENTIVE PLAN (LTIP) CONTINUED

Movement in the number of conditional awards granted

	Number of conditional awards			
	2019 award	2018 award	2017 award	2016 award
Balance at beginning of year	**–**	39,982	59,244	432,672
Conditional awards vested	**–**	—	—	(432,672)
Balance at 31 December 2019	**–**	39,982	59,244	—
Balance at beginning of year	**–**	—	59,244	432,672
Conditional awards issued	**–**	39,982	—	—
Balance at 31 December 2018	**–**	39,982	59,244	432,672

	Number of conditional awards	**Expiry date**
Vesting period of conditional awards granted		
Less than 1 year	59,244	2020
1 to 2 years	39,982	2021

Valuation of scheme

The conditional awards granted under the LTIP are considered equity-settled.

The share-based payment expense is measured using the fair value of the conditional award issued under the LTIP which was determined using the Monte Carlo option pricing model.

	2019 award	2018 award	2017 award	2016 award
Fair value assumptions				
Share price on date of grant (Rand)	**–**	288.86	213.43	84.39
Annualised expected volatility (%)	**–**	50.00	50.00	50.00
Expected share option life (years)	**–**	3.00	3.00	3.00
Expected dividend yield (%)	**–**	5.00	5.00	—
Risk-free interest rate (%)	**–**	7.60	7.80	7.48

The risk-free interest rate for the period within the contractual term of the awards is based on South African government bonds.

The historical volatility of the Kumba and, where applicable, the Kumba Resources share price is used in determining the expected volatility.

ANNEXURE 3:

EQUITY-SETTLED SHARE-BASED PAYMENT SCHEMES CONTINUED

for the year ended 31 December

(5) SIOC EMPLOYEE BENEFIT SHARE SCHEME (KAROLO)

Description of scheme

Karolo scheme became effective in August 2018, comprising an annual grant of free Kumba shares, which vest after three years, to qualifying employees. The first award was successfully made on 6 August 2018. The shares are held by an agent and released to the employee three years after the award date, subject to continuous employment. During the three-year period, the employee is entitled to all rights attached to the bonus shares, including dividend entitlements and voting rights.

Movement in the number of share awards granted

	2019 award	2018 award
Balance at beginning of year	**–**	319,715
Bonus shares awarded	**236,862**	18,029
Awards forfeited	**(2,004)**	(6,951)
Awards exercised[1]	**(572)**	(2,254)
Balance at 31 December 2019	**234,286**	328,539
Balance at beginning of year	**–**	–
Bonus shares awarded	**–**	320,318
Awards exercised[1]	**–**	(603)
Balance at 31 December 2018	**–**	319,715

[1] This relates to the pro-rata portion of the shares granted to employees who are considered good leavers in terms of the share rules.

	Number of awards	**Expiry date**
Vesting period of awards granted		
Less than 1 year	–	2020
1 to 2 years	328,539	2021
2 to 5 years	234,286	2022 – 2024

Valuation of scheme

The share awards granted under the Karolo scheme are considered equity-settled.

The share-based payment expense is measured using the fair value of the share award issued under the Karolo scheme which was determined using the grant date share price of Kumba's shares.

	2019 award	2018 award	2017 award	2016 award
Fair value assumptions				
Share price on date of grant (Rand)	**435.56**	280.75	–	–
Expected share option life (years)	**3.00**	3.00	–	–
Expected dividend yield (%)	**5.00**	5.00	–	–

The risk-free interest rate for the period within the contractual term of the awards is based on South African government bonds.

The historical volatility of the Kumba share price is used in determining the expected volatility.

The aggregate number of shares which may be allocated under the BRP, PSP, BSP, LTIP and Karolo when added to the total number of unvested conditional awards and share options allocated to employees under any other managerial share scheme, may not exceed 31,194,612 shares. At the end of 2019, a total of 29,670,936 shares (2018: 28,223,409 shares) were available for utilisation under the share incentive schemes.

ANNEXURE 4:

NEW AND AMENDED STANDARDS NOT YET ADOPTED BY THE GROUP

A number of new standards and amendments to standards and interpretations are in issue but are not effective for annual periods beginning on 1 January 2019 and have not been applied in preparing these consolidated financial statements.

AMENDMENTS TO IFRS 3 – DEFINITION OF A BUSINESS

These are amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. It clarifies the minimum requirements for a business, it removes the assessment of whether market participants are capable of replacing any missing elements, it offers guidance to help entities assess whether an acquired process is substantive, it narrows the definitions of a business and of outputs, and it introduces an optional fair value concentration test.

The amendments are all effective for annual periods beginning on or after 1 January 2020.

These amendments are not expected to have any significant impact on the financial statements.

AMENDMENTS TO IAS 39, IFRS 7 AND IFRS 9 – INTEREST RATE BENCHMARK REFORM

This amendment addresses the effects of Interbank Offered Rates (IBOR) reform on financial reporting. This amendment provides temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR).

The amendments must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight. Early application is permitted and must be disclosed.

The amendments are all effective for annual periods beginning on or after 1 January 2020.

These improvements are not expected to have any significant impact on the financial statements.

AMENDMENTS TO IAS 1 AND IAS 8 – DEFINITION OF MATERIAL

The amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

These amendments must be applied prospectively. Early application is permitted and must be disclosed.

These amendments are all effective for annual periods beginning on or after 1 January 2020.

These amendments are not expected to have any significant impact on the financial statements.

THE CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

The revised Conceptual Framework for Financial Reporting (the Conceptual Framework) is not a standard, and none of the concepts override those in any standard or any requirements in a standard. The purpose of the Conceptual Framework is to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The Conceptual Framework is accompanied by a Basis for Conclusions. The Board has also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the Conceptual Framework. In most cases, the standard references are updated to refer to the Conceptual Framework. There are exemptions in developing accounting policies for regulatory account balances for two standards, namely, IFRS 3 *Business Combinations* and for those applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The changes to the Conceptual Framework may affect the application of IFRS in situations where no standard applies to a particular transaction or event.

INSURANCE CONTRACTS

IFRS 17 *Insurance Contracts* is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts*.

ANNEXURE 4:

NEW AND AMENDED STANDARDS NOT YET ADOPTED BY THE GROUP CONTINUED

The standard applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of the standard is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, the standard provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core model of the standard is the general model, supplemented by:
- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The standard is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* on or before the date it first applies the standard.

This standard is not applicable to the Group.

AMENDMENTS TO IFRS 10 AND IAS 28 – SALE OR CONTRIBUTION OF ASSETS BETWEEN AN INVESTOR AND ITS ASSOCIATE OR JOINT VENTURE

The amendments address the conflict between IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFRS 3 *Business Combinations.* Any gain or loss resulting from the sale or contribution of assets that does not constitute a business. However, it is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

In December 2015, the IASB decided to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method. Early application of the amendments is still permitted and must be disclosed.

The amendments must be applied prospectively.

This standard in unlikely to have any significant impact on the financial statements.

ANNEXURE 5:

STATEMENT OF FINANCIAL POSITION – US DOLLAR CONVENIENCE TRANSLATION

(supplementary information) – as at 31 December

US Dollar million	2019	2018
ASSETS		
Property, plant and equipment	**2,777**	2,624
Right-of-use assets	**36**	—
Biological assets	*	*
Investments held by environmental trust	**46**	43
Long-term prepayments and other receivables	**15**	15
Inventories	**262**	168
Deferred tax assets	**—**	—
Non-current assets	**3,136**	2,850
Inventories	**427**	434
Trade and other receivables	**267**	289
Contract assets	**—**	*
Current tax assets	**26**	—
Cash and cash equivalents	**917**	812
Current assets	**1,637**	1,535
Total assets	**4,773**	4,385
EQUITY AND LIABILITIES		
Shareholders' equity	**2,583**	2,452
Non-controlling interests	**805**	760
Total equity	**3,388**	3,212
Liabilities		
Lease liabilities	**37**	—
Provisions	**177**	156
Deferred tax liabilities	**664**	612
Non-current liabilities	**878**	768
Lease liabilities	**2**	—
Provisions	**7**	5
Trade and other payables	**476**	380
Contract liabilities	**22**	20
Current liabilities	**507**	405
Total liabilities	**1,385**	1,173
Total equity and liabilities	**4,773**	4,385
EXCHANGE RATE		
Translated at closing Rand/US$ exchange rate	**14.03**	14.38

* Amount is less than US$1 million.

ANNEXURE 6:

STATEMENT OF PROFIT OR LOSS – US DOLLAR CONVENIENCE TRANSLATION

(supplementary information) – for the year ended 31 December

US Dollar million	**2019**	2018
Revenue	**4,448**	3,453
Operating expenses	**(2,444)**	(2,218)
Expected credit losses on financial assets	**(11)**	–
Operating profit	**1,993**	1,235
Finance income	**55**	38
Finance costs	**(24)**	(14)
Profit before taxation	**2,024**	1,259
Taxation	**(549)**	(304)
Profit for the year from continuing operations	**1,475**	955
Discontinued operation		
Loss from discontinued operation	**–**	(4)
Profit for the year from continuing operation	**1,475**	951
Attributable to:		
Owners of Kumba	**1,125**	726
Non-controlling interests	**350**	225
	1,475	951
Basic earnings/(loss) per share attributable to the ordinary equity holders of Kumba (US Dollar per share)		
From continuing operations	**3.51**	2.28
From discontinued operation	**–**	(0.01)
Total basic earnings per share	**3.51**	2.27
Diluted earnings/(loss) per share attributable to the ordinary equity holders of Kumba (US Dollar per share)		
From continuing operations	**3.50**	2.27
From discontinued operation	**–**	(0.01)
Total diluted earnings per share	**3.50**	2.26
EXCHANGE RATE		
Translated at average Rand/US$ exchange rate	**14.45**	13.24

SHAREHOLDER ANALYSIS

Register date: 27 December 2019

Issued share capital: 322,085,974

	Number of shareholdings	%	Number of shares	%
SHAREHOLDER SPREAD				
1 – 1,000 shares	11,999	88.43	2,175,974	0.67
1,001 – 10,000 shares	1,194	8.8	4,051,252	1.26
10,001 – 100,000 shares	287	2.12	8,965,959	2.78
100,001 – 1,000,000 shares	74	0.55	18,604,357	5.78
1,000,001 shares and over	13	0.10	288,288,432	89.51
Totals	**13,567**	**100.00**	**322,085,974**	**100.00**
DISTRIBUTION OF SHAREHOLDERS				
Strategic investor	1	0.01	224,535,915	69.71
Government	2	0.01	41,517,207	12.89
Banks/brokers	309	2.28	34,439,816	10.69
Close corporations	70	0.52	92,703	0.03
Endowment funds	26	0.19	54,958	0.02
Individuals	11,567	85.25	4,976,642	1.54
Insurance companies	27	0.20	1,664,489	0.52
Investment companies	2	0.01	48,337	0.02
Medical schemes	4	0.03	45,868	0.01
Mutual funds	254	1.87	6,526,450	2.03
Other corporations	42	0.31	21,941	0.01
Private companies	192	1.42	393,930	0.12
Public companies	7	0.05	71,653	0.02
Retirement funds	107	0.79	5,452,031	1.69
Share trusts	3	0.02	628,724	0.2
Sovereign wealth funds	9	0.07	676,159	0.21
Trusts	945	6.97	939,151	0.29
Totals	**13,567**	**100.00**	**322,085,974**	**100.00**
PUBLIC/NON-PUBLIC SHAREHOLDERS				
Non-public shareholders	**17**	**0.12**	**268,003,096**	**83.21**
Directors, associates and Exco of the Company	11	0.08	156,646	0.05
Strategic holdings	2	0.01	266,034,530	82.60
Related holdings	4	0.03	1,811,920	0.56
Public shareholders	**13,550**	**99.88**	**54,082,878**	**16.79**
Totals	**13,567**	**100.00**	**322,085,974**	**100.00**

	Number of shares	%
BENEFICIAL SHAREHOLDERS HOLDING 2% OR MORE		
Anglo American	224,535,915	69.71
Industrial Development Corporation of South Africa Limited	41,498,615	12.88
Totals	**266,034,530**	**82.59**

SHAREHOLDER ANALYSIS CONTINUED

Register date: 27 December 2019

Issued share capital: 322,085,974

BREAKDOWN OF NON-PUBLIC HOLDINGS

	Number of shares	%
DIRECTORS, ASSOCIATES AND EXECUTIVES OF THE COMPANY		
Mazarura, BA (Chief Financial Officer)	**7,254**	**0.00**
Mazarura, BA	7,254	0.00
Mkhwanazi, TM (Chief Executive)	**58,442**	**0.02**
Mkhwanazi, TM	46,616	0.02
Mkhwanazi, TM	11,826	0.00
Mc Gavigan, GM	**21,080**	**0.01**
Mc Gavigan, GM	21,080	0.01
Mokgatle, DD	**428**	**0.00**
Mokgatle, LA	428	0.00
Fourie, PJP	**14,603**	**0.00**
Fourie, PJP	14,603	0.00
Tyobeka, SV	**30,024**	**0.01**
Tyobeka, SV	22,803	0.01
Tyobeka, SV	7,221	0.00
Mfolo, Y	**18,902**	**0.01**
Mfolo, Y	18,902	0.01
Martin, SA	**2,066**	**0.00**
Martin, SA	2,066	0.00
Ntsaluba, SS	**500**	**0.00**
Ntsaluba, SS	500	0.00
Totals	**153,299**	**0.05**
STRATEGIC HOLDINGS		
Anglo South Africa Proprietary Limited	224,535,915	69.71
Industrial Development Corporation of South Africa Limited	41,498,615	12.88
Totals	**266,034,530**	**82.59**
RELATED HOLDINGS		
Mercantile Shareholder Nominees – Exxaro	**1,183,196**	**0.37**
Mercantile Shareholder Nominees – Exxaro	1,183,196	0.37
Kumba Bonus Share Plan Trust	**57,657**	**0.02**
Kumba Bonus Share Plan Trust	57,657	0.02
SIOC Employee Benefit Trust – Allocated	**563,781**	**0.18**
SIOC Employee Benefit Trust – Allocated	563,781	0.18
SIOC Employee Benefit Trust – Unallocated	**7,286**	**0.00**
SIOC Employee Benefit Trust – Unallocated	7,286	0.00
Totals	**1,811,920**	**0.57**

BREAKDOWN OF BENEFICIAL SHAREHOLDERS HOLDING 2% OR MORE

	Number of shares	%
BENEFICIAL SHAREHOLDERS		
Anglo American	**224,535,915**	**69.71**
Anglo South Africa Proprietary Limited	224,535,915	69.71
Industrial Development Corporation of South Africa Limited	**41,498,615**	**12.88**
Industrial Development Corporation of South Africa Limited	41,498,615	12.88
Totals	**266,034,530**	**82.59**

ADMINISTRATION

COMPANY REGISTRATION NUMBER

2005/015852/06

JSE share code: KIO
ISIN code: ZAE000085346

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FORWARD-LOOKING STATEMENTS

Certain statements made in this report constitute forward-looking statements. Forward-looking statements are typically identified by the use of forward-looking terminology such as “believes”, “expects”, “may”, “will”, “could”, “should”, “intends”, “estimates”, “plans“, “assumes” or “anticipates” or the negative thereof, or other variations thereon, or comparable terminology, or by discussions of, for example, future plans, present or future events, or strategy that involves risks and uncertainties. Such forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Company’s control and all of which are based on the Company’s current beliefs and expectations about future events. Such statements are based on current expectations and, by their nature, are subject to a number of risks and uncertainties that could cause actual results and performance to differ materially from any expected future results or performance, expressed or implied, by the forward-looking statement. No assurance can be given that future results will be achieved; actual events or results may differ materially as a result of risks and uncertainties facing the Company and its subsidiaries. The forward-looking statements contained in this report speak only as of the date of this report and the Company undertakes no duty to update any of them and will not necessarily do so, in light of new information or future events, except to the extent required by applicable law or regulation.

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