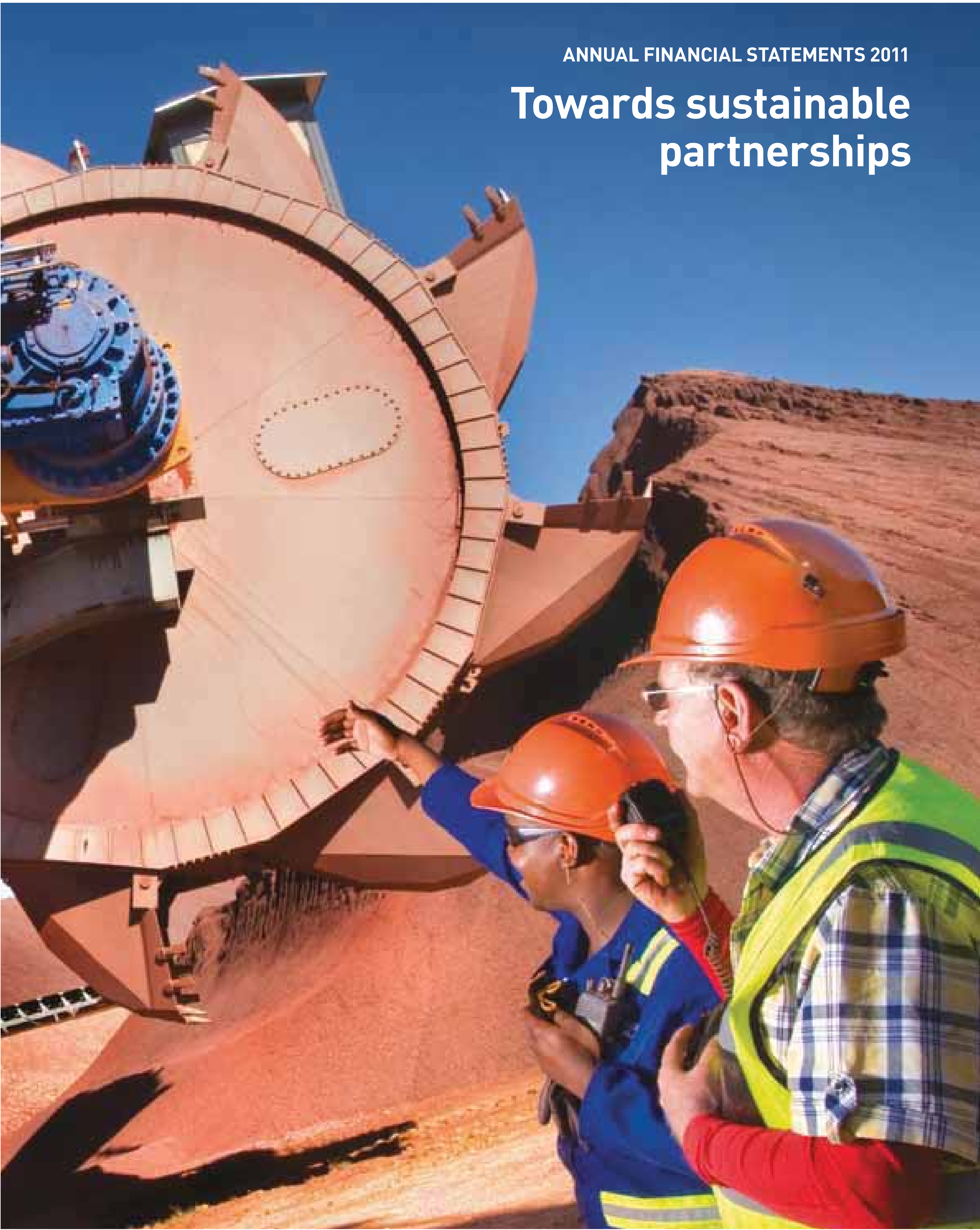
AngloAmerican

KUMBA IRON ORE

ANNUAL FINANCIAL STATEMENTS 2011

Towards sustainable partnerships



Towards sustainable partnerships

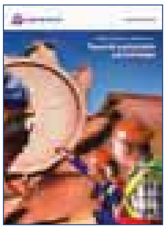
FRONT COVER: A GOOD EXAMPLE OF SUSTAINABLE PARTNERSHIPS

Sarel Le Roux, a master electrician, and Clayton Mora, an electrical engineer, are shown on the cover photograph, conducting their final inspections together on the newly commissioned reclaimer at Kolomela mine.

Kolomela mine was brought into commercial production in December 2011, within budget and ahead of schedule. Working partnerships like this one between Sarel and Clayton have been a critical feature of the success story so far at Kolomela mine, and indeed throughout the Kumba group. In this environment of partnership, the company has been able to achieve strong financial success for the year and a solid platform for growth in the year ahead.

It is with this in mind that we introduce our suite of reports for 2011 with the theme: 'Towards sustainable partnerships.'

Integrated Report 2011



Annual Financial Statements 2011

Sustainable Development Report 2011

Abridged Integrated Report 2011

Kumba Online Report 2011
http://www.angloamericankumba.com/reports/kumba_ar2011/index.php

Look out for important references

KPI Key performance indicator

IR See the corresponding page/s in our Integrated Report

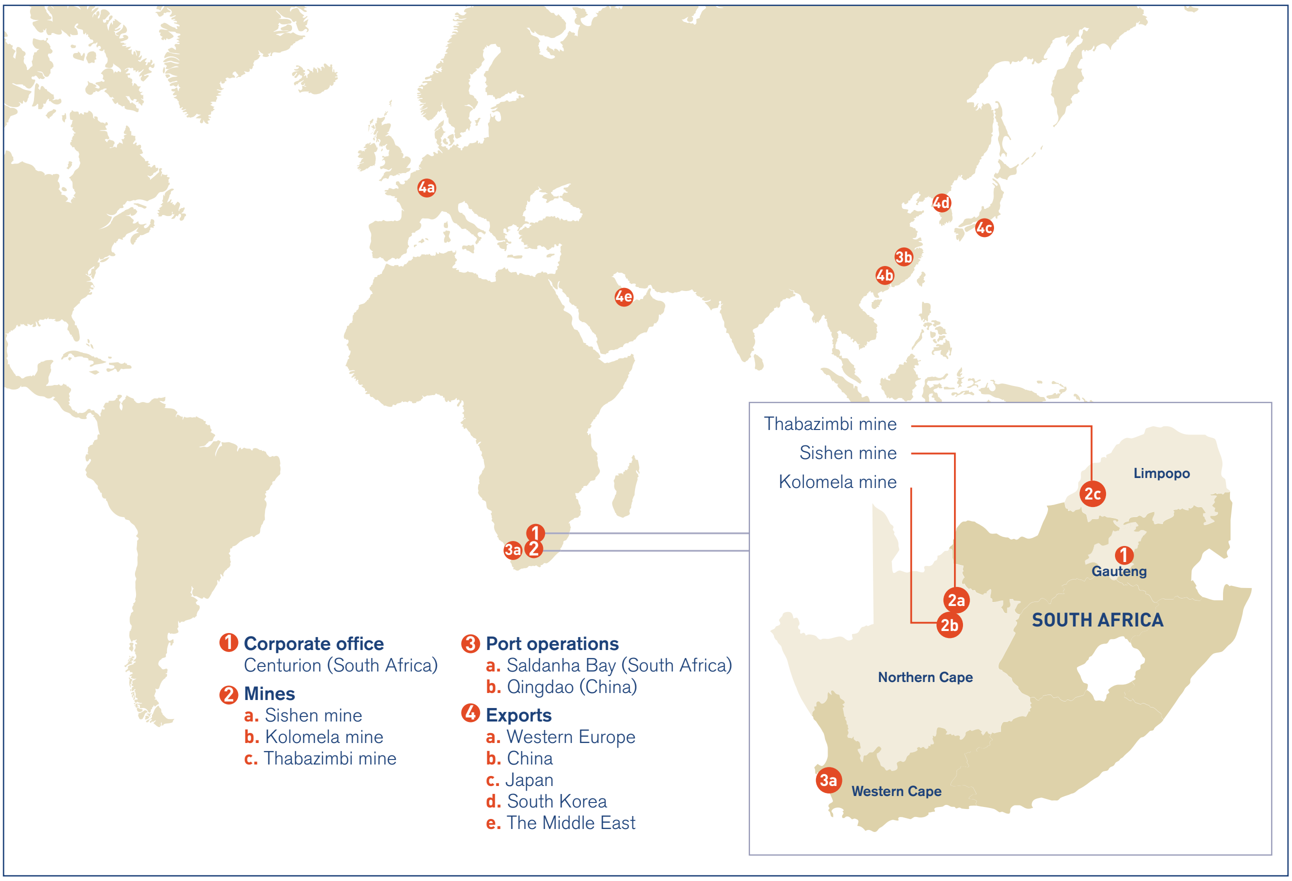
SD See the corresponding page/s in our Sustainable Development Report

www See the website http://www.angloamericankumba.com

CONTENTS

BROAD AND MEANINGFUL OWNERSHIP AT ALL LEVELS

OUR OPERATIONS



KUMBA IRON ORE LIMITED GROUP STRUCTURE

Industrial Development Corp
12.9%

Anglo American plc
65.2%

Minority interests
21.9%

Public Investment Corp
4.3%

KUMBA IRON ORE LIMITED
73.9%

BEE OWNERSHIP
26.1%

Exxaro Resources Limited: 19.98%

SIOC Community Development Trust: 3%

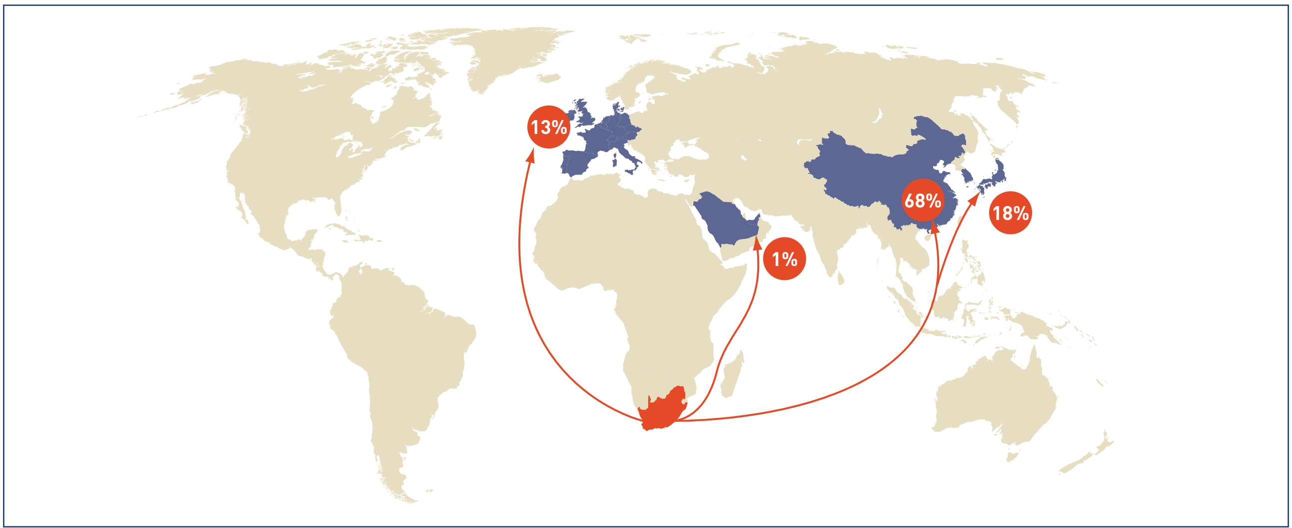
SIOC Employee Share Participation Scheme (Envision): 3.1%

SISHEN IRON ORE COMPANY

OPERATIONS

Sishen mine
Thabazimbi mine
Kolomela mine
Saldanha Bay port operations

EXPORT DESTINATIONS AND EXPORT VOLUMES



Kumba Iron Ore Limited (Kumba or the group), a member of the Anglo American plc Group, is a leading value-adding supplier of high-quality iron ore to the global steel industry. With its headquarters in Centurion, South Africa, the group holds a 73.9% interest in and manages Sishen Iron Ore Company (Pty) Limited (SIOC) which, in turn, has three mining operations:

- Sishen mine, located near the town of Kathu in Northern Cape Province;
- Thabazimbi mine, situated in the town of Thabazimbi in Limpopo Province; and
- Kolomela mine, a new development in the vicinity of Postmasburg in Northern Cape Province, which was brought into commercial production in December 2011 and is anticipated to produce between 4 million tonnes (Mt) and 5Mt while ramping up in 2012, before reaching design capacity of 9 million tonnes per annum (Mtpa) in 2013.

Both the Sishen and Kolomela mines are long-life operations with current life of mine (LOM) estimates, of 21 years and 27 years respectively. Thabazimbi mine is reaching the end of its life (planned for 2016), after some 80 years of continuous operation. The Phoenix project, which is adjacent to Thabazimbi mine, is currently at a feasibility stage. Subject to board approval, this project will replace production from Thabazimbi mine. At the end of 2011, the group reported total attributable Ore Reserves of 1,197.7Mt and attributable Mineral Resources of 1,340.4Mt (These are reported in accordance with the South African Code for Reporting of Exploration Results, Mineral Resources and Mineral Reserves (SAMREC)).

Kumba produced 41.3Mt of iron ore for domestic and export markets in 2011. The export ore is railed via a dedicated iron ore rail link operated by Transnet Freight Rail, the national transport utility for rail operations, to the port of Saldanha Bay.

In 2011 the company exported 37.1Mt of iron ore from the port of Saldanha Bay to customers in countries and regions around the world, including China (68%), Western Europe (13%), Japan and South Korea (18%) and the Middle East (1%).

The group continues to invest significantly in the development and expansion of its business. In 2011 Kumba spent R5.8 billion on capital – 53% on growth projects and 47% on stay in business capital.

IR Page 65

Kumba's South African project pipeline is extensive, with the potential to grow production to 70Mtpa by 2019; Kolomela mine is expected to produce an additional 9Mtpa by 2013 while a further 15Mtpa could come from other Northern Cape Province operations and 5Mtpa from Limpopo Province. As much of this growth potential resides in lower-grade ore, the group is intensely focused on turning this material to account. In the year under review, Kumba announced its intention of seeking growth in other parts of Africa, in a second footprint, most notably west and central Africa, with the aim of growing production by a further 10 to 20Mtpa by 2020.

At the end of December 2011, Kumba employed 11,898 people, comprising 6,303 full-time employees and 5,595 full-time contractors. A further 4,131 fixed-term project contractors were employed on capital expenditure projects during the year.

Kumba, which is listed on the JSE Limited (JSE) in South Africa, had a market capitalisation of R161 billion at 31 December 2011, the eighth largest company listed on the JSE by market capitalisation.

The company's largest shareholder is Anglo American plc, with a 65.2% interest. Also holding a significant stake is South Africa's Industrial Development Corporation, a national development finance institution set up to promote economic development and growth in the country, which holds 12.9%. The balance (free float) is held largely by institutional investors in South Africa (45%), the United Kingdom (19%), North America (26%) and Europe (5%).

Achieved in a landmark transaction in 2006, SIOC is fully empowered, with a black economic empowerment (BEE) ownership of 26.1%. Through this empowerment structure, Kumba has achieved a significant and broad-based BEE shareholding as set out below. The slight increase in the BEE ownership from 2010 is as a result of the unwind of the first phase as well as the implementation of the second five-year phase of the Envision scheme.

- Exxaro Resources Limited (Exxaro), a leading BEE company listed on the JSE, has a 19.98% stake.
- SIOC Community Development Trust (CDT) has a 3% unencumbered interest.
- The Envision employee share participation scheme has 3.1%.

THE INTEGRATED REPORTING JOURNEY

APPROACH

Kumba recognises that the group has a responsibility to engage with and report to a broad range of stakeholders, including shareholders, employees, customers, communities, suppliers and the public at large. In Kumba's Integrated Report 2011, the group presents a holistic 'picture' of the business, covering its operating context and markets, the opportunities and challenges it faces, its strategy, its operational, financial and non-financial performance for the year, and its objectives and outlook for the year ahead. Issues and concerns raised by stakeholders actively inform opportunities and challenges within the business.

In developing the Integrated Report 2011, Kumba has applied the recommendations of the King Code of Governance Principles for South Africa 2009 (King III), the Integrated Report Discussion Paper published by the Integrated Reporting Committee of South Africa, as well as the discussion paper, *Towards Integrated Reporting: Communicating Value in the 21st Century*, published by the International Integrated Reporting Committee.

This report, the Annual Financial Statements 2011, forms part of a suite of reports produced by the group. It comprises:

- the Integrated Report 2011;
- the Abridged Integrated Report 2011, including the notice of annual general meeting, which has been posted to all shareholders;
- this document, the Annual Financial Statements 2011;
- the Sustainable Development Report 2011, which focuses on the economic, social and environmental impacts of the group's business in greater detail;
- the Report to Employees 2011, an abbreviated and accessible report which focuses on the issues that are important to employees; and
- an online report, which presents all of the above reports (with downloadable pdfs) on an interactive web platform at http://www.angloamericankumba.com/reports/kumba_ar2011/index.php.

Printed copies of these reports are available on request.

Stakeholders are encouraged to provide feedback on Kumba's reports and its reporting. Your feedback and suggestions will be taken into consideration as the group continues its journey. A feedback form is available at http://www.angloamericankumba.com/reports/kumba_ar2011/sustainability/feedback_form.php.

ABOUT THIS REPORT: SCOPE AND BOUNDARY

This report presents the group's annual financial statement for the year ended 31 December 2011. It forms part of a suite of reports that gives an overall account of the group's operational, financial, economic, social and environmental performance, as well as governance, during the period under review. Historical information is supplied for context where appropriate. Also supplied is an outlook where these support an understanding of the strategy of the business.

The annual financial statements have been prepared in compliance with International Financial Reporting Standards and the International Financial Reporting Interpretation Committee's interpretations of those standards; the South African Companies Act No 71 of 2008 as amended (The Companies Act); the Listings Requirements of the JSE Limited; and the AC500 standards as issued by the Accounting Practices Board. The annual financial statements have been audited by Deloitte & Touche. An unmodified audit opinion was issued and is included on page 12 of the Annual Financial Statements.

SIGNIFICANT DISTRIBUTIONS TO SHAREHOLDERS

Vincent Uren, Chief financial officer

"The group has again posted outstanding financial results"

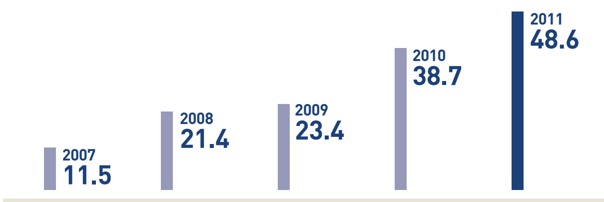
Kumba's headline earnings for the year ended 31 December 2011 were a record R17.0 billion, 19% more than the R14.3 billion achieved in 2010. This financial performance was achieved mainly as a result of a weighted average increase of 26% in export iron ore prices realised and a 3% increase in export sales volumes. Attributable and headline earnings for the year were R53.11 and R53.13 per share respectively, on which a final cash dividend of R22.50 per share was declared, bringing the total dividend for 2011 to R44.20 per share.

We continue to deliver increasing value to our listed shareholders and also to Sishen Iron Ore Company's Black Economic Empowerment shareholders by returning substantial cash dividends. The group announced the maturity of the first phase of Envision, its broad based employee share scheme with 6,209 permanent employee members, on 29 November 2011. Envision was valued at R2.7 billion at the conclusion of its first phase, resulting in employee members who have worked for Kumba over the five-year period since its inception in 2006, each receiving R576,045 (pre-tax). Envision is a broad based empowerment success story and sets a benchmark for empowerment goals and ideals in South Africa.

OPERATIONAL PERFORMANCE

The key indicators of our operating results during the past year were:

REVENUE (R billion) CAGR:**43%**



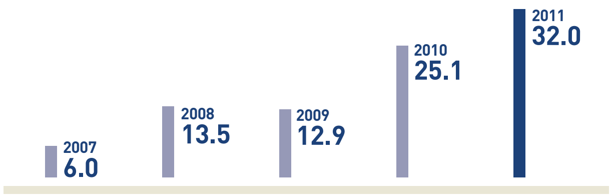
REVENUE
up 26% to
R**48.6**bn

HEADLINE EARNINGS
up 19% to
R**17.0**bn

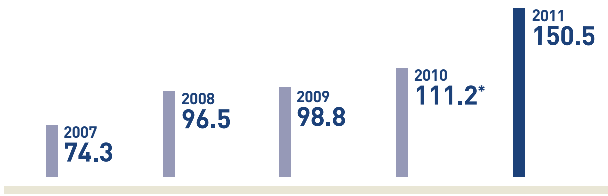
FINAL CASH DIVIDEND
R**22.50**
per share

ENVISION
Returns
R**2.7**bn
to employees

OPERATING PROFIT
(R billion) CAGR:**52%**

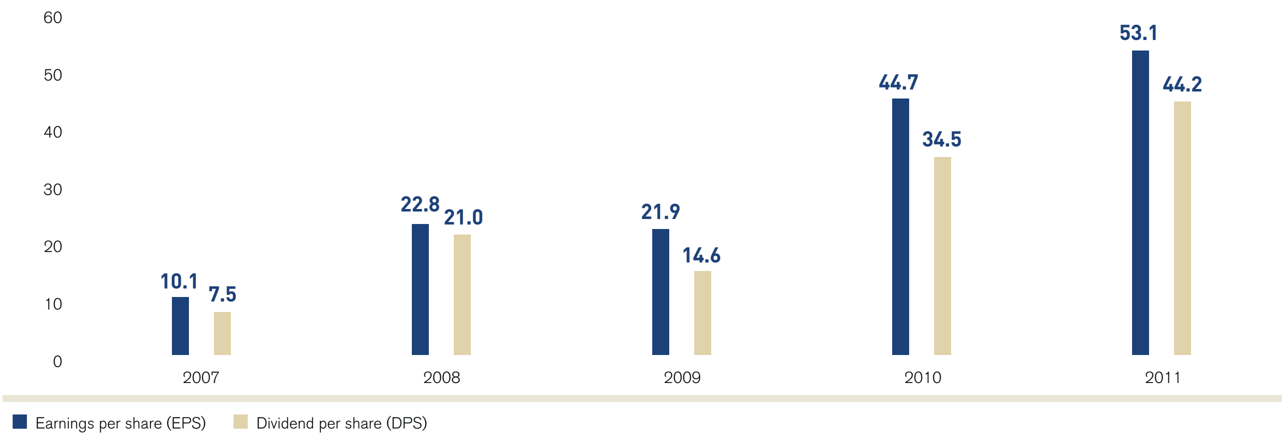


SISHEN MINE UNIT CASH COST
(R/tonne) CAGR:**19%**



* *The 2010 unit cash cost was restated to take into account non-cash share-based payment expenses*

ATTRIBUTABLE EARNINGS AND DIVIDEND PER SHARE (Rand)
CAGR EPS:**51%**; CAGR DPS:**56%**



OPERATIONAL PERFORMANCE

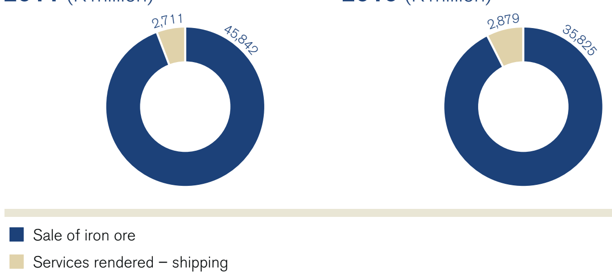
Rand million	2011	2010	% change	2009
Revenue	48,553	38,704	25%	23,408
Operating expenses	(16,587)	(13,573)	22%	(10,528)
Operating expenses (excl. mineral royalty)	(14,825)	(12,163)	22%	(10,528)
Mineral royalty	(1,762)	(1,410)	25%	–
Operating profit	31,966	25,131	27%	12,880
Operating margin (%)	66	65	–	55
Headline earnings	17,048	14,328	19%	6,972
Cash from operations	32,631	25,555	28%	12,745
Capital expenditure	5,849	4,723	24%	3,996

REVENUE

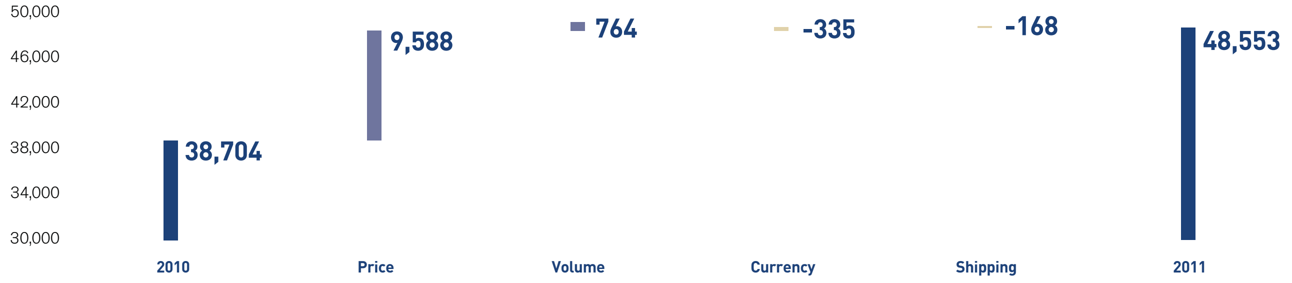
The group's total mining revenue (excluding shipping operations – R2.7 billion in 2011; R2.9 billion in 2010) of R45.8 billion for the year was 28% higher than the R35.8 billion of 2010.

The increase in mining revenue was driven by a weighted average increase of 26% in export iron ore prices compared to 2010, which added R9.6 billion. Spot iron ore prices traded at record highs during the first half of 2011 as the demand for iron ore exceeded supply. In 2011, global steel production was up by 6% to 1.5 billion tonnes, of which 683Mt was produced in China, an increase of 7%. To support this growth in steel production, China's seaborne iron ore imports rose by 8% to 654Mt with the balance of China's iron ore needs met by domestic iron ore production. However, the global economic uncertainty in the second half of the year, coupled with a credit liquidity squeeze in China, particularly affecting downstream steel stocking by end users and the construction sector, caused steel prices to fall. In turn, steel mills cut production, slowed purchasing of raw materials, focused on fine ore (rather than lump ore) and turned to sourcing lower grade ore to limit absolute costs. This halted

REVENUE
2011 (R million) **2010** (R million)

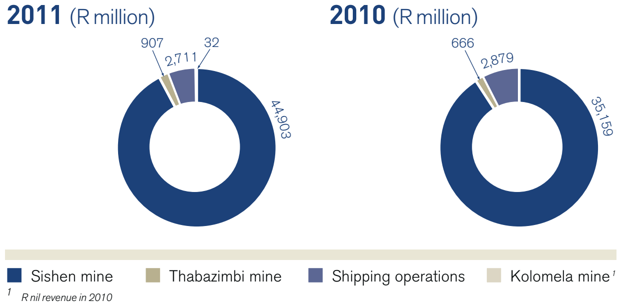


ANALYSIS OF THE INCREASE IN REVENUE (R million)



REVENUE – SEGMENT ANALYSIS

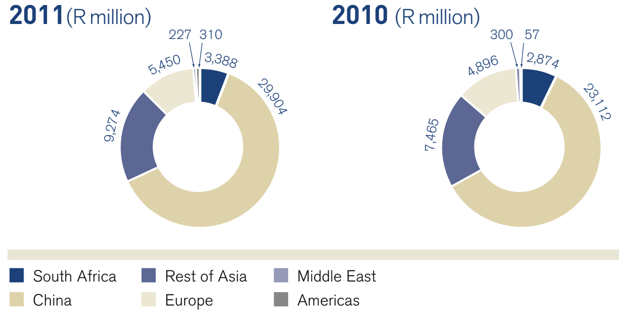
2011 (R million) **2010** (R million)



[1] R nil revenue in 2010

REVENUE – GEOGRAPHICAL ANALYSIS

2011 (R million) **2010** (R million)



increases in the spot price of iron ore. By the end of the third quarter, steel production had started to slow noticeably as steel prices continued to weaken and market sentiment remained uncertain. Spot iron ore prices fell to a low of US$116.75/tonne CFR at the end of October 2011, losing around 35% from the peak achieved in early September 2011. Similarly lump iron ore premiums came under severe pressure during the fourth quarter of 2011. Steel markets in China remain subdued but have stabilised with steel producers resuming the sourcing of iron ore during November 2011 as stocks had been run down and spot iron ore pricing found a support level provided by high cost Chinese domestic iron ore production. Spot prices have recovered and climbed to around US$140.00/tonne CFR to China.

In addition we increased our export sales volume by 3% or 1.0Mt on which these higher prices were realised – this increased revenue by R764 million.

The average Rand/US$ exchange rate of R7.25 to the dollar was marginally stronger than the R7.30 achieved during 2010 which resulted in a decline in revenue of R335 million.

Due to lower freight rates, the revenue from shipping operations of R2.7 billion was R168 million down on the R2.9 billion earned during 2010. This revenue was earned on 21.7Mt shipped on behalf of our customers. The margin achieved has been sustained delivering a profit of R337 million for the year.

Revenue generated from Sishen mine increased significantly by 28% due to increased export prices and sales volumes, Thabazimbi mine's revenue was up 36%, revenue of R32 million was generated on the sale of first ore by Kolomela mine and revenue from our shipping operations decreased by 6%, as compared to 2010.

62% of revenue was earned from sales to customers in China, 19% from customers based in the rest of Asia and 11% from European customers. A geographical analysis of revenue earned based on the country of origin is provided above.

OPERATING EXPENDITURE

Operating expenses increased by 22% year on year from R13.6 billion to R16.6 billion. Mining operating expenses increased by R2.8 billion or 30% from 2010 (calculated on operating expenses excluding shipping expenses and the mineral royalty). As with the rest of the industry, Kumba experienced mining inflation well in excess of CPI. A number of cost items increased well in excess of inflation, such as the price of diesel which increased by 24%. In addition, operating costs remained under pressure due to large planned increases in waste mining activities across all our sites.

Operating expenses was favourably affected by higher finance gains realised from the revaluation of US$ denominated monetary assets and derivative instruments, to the value of R587 million.

Selling and distribution costs rose by 22% year on year to R3.7 billion. This was primarily driven by rail and port tariff contractual increases, a 7% increase in volumes railed by Transnet to 39.1Mt and a 3% increase in volumes loaded at the port, to 37.6Mt.

Sishen mine unit cash cost

Sishen mine produced 38.9Mt, 6% lower year on year as operations were disrupted during the first half of 2011. The mine managed to mitigate some of the production shortfall by producing 9% more in the second half of 2011. This production shortfall had a significant impact on Sishen mine's unit cash cost which has a substantial fixed cost element. As a result unit cash costs increased by 35% to

OPERATING EXPENDITURE

Rand million	2011	2010	% change	2009
Production costs	9,497	7,317	30	5,960
Movement in inventories	(149)	(459)	(68)	(600)
Finished products	247	(171)	–	(440)
Work-in-progress	(396)	(288)	38	(160)
Finance gains	(587)	(286)	105	(329)
Other	–	(2)	–	(30)
Cost of goods sold	**8,761**	**6,570**	**33**	**5,001**
Selling and distribution costs	3,698	3,041	22	2,838
Sublease rent received	(8)	(8)	–	(8)
Mining operating expenses	**12,451**	**9,603**	**30**	**7,831**
Mineral royalty	1,762	1,410	25	–
Cost of services rendered – shipping	2,374	2,560	(7)	2,697
Operating expenses	**16,587**	**13,573**	**22**	**10,528**

R150/tonne from the R111/tonne achieved in 2010. However, at US$21/tonne the mine remains well positioned in the lower part of the cash cost curve.

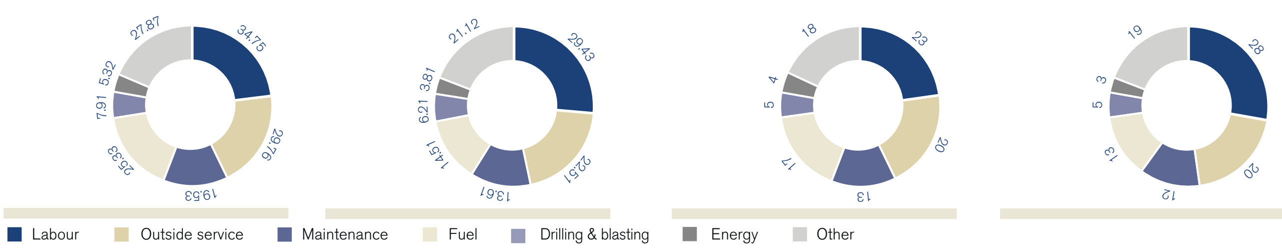
We saw a R39/tonne increase in unit cash cost which was driven by a few key factors:
– Inflationary pressures, principally on labour and contract mining, pushed up costs by almost R7/tonne;
– A number of cost items increasing well in excess of inflation, such as the price of diesel which increased from R7.50 per litre to R9.30 per litre. This accounted for R7/tonne of the nearly R13/tonne increases in excess of inflation and increased maintenance cost on the larger mining fleet contributed a further R3/tonne;
– The increased mining activity added almost R11/tonne or 10%; and
– The production shortfalls added R9/tonne.

Further increases in unit cash costs are anticipated as the mine increases the waste stripping according to plan. The increased waste stripping is expected to add 10% per annum to unit cash costs (before mining inflation) for the next 2 to 3 years.

The group's Asset Optimisation and Supply Chain programmes are now embedded in the business. Sishen mine's Asset Optimisation initiatives are focused on improving the efficiency of mining operations on a sustainable basis. Through these initiatives and procurement savings we seek to contain some of the cost increases. The Sishen Mine unit cash cost structure per major cost component – both on a Rand per tonne as well as a percentage basis – is illustrated below. Compared to 2010, with the significant increase in the cost and utilisation of diesel, the relative contribution of this cost item to the mine's cost structure saw an increase from 13% to 17%.

SISHEN MINE UNIT CASH COST STRUCTURE

2011 (R/tonne) **2010** (R/tonne) **2011** (%) **2010** (%)



SISHEN MINE UNIT CASH COST (R/tonne)

* *The 2010 unit cash cost was restated to take into account non-cash share-based payment expenses*

Operating profit (EBIT)

Operating profit increased by 27% from R25.1 billion to a record R32.0 billion. The group's operating profit margin increased marginally to 66%. Excluding the margin earned from providing a shipping service to customers, the group's mining operating margin remained stable at 69%. The operating profit achieved was impacted by the increase in operating expenses on the back of the growth in mining volumes across the group and above inflationary cost increases.

Operating profit improved principally as a result of:
- A weighted average increase of 26% in iron ore export prices, which added R8.9 billion to operating profit and a 3% growth in export sales volumes which contributed R954 million; and
- An R18 million rise in profit from shipping operations. Total tonnes shipped by Kumba on behalf of customers increased by 3.0Mt from 18.7Mt in 2010 to 21.7Mt for 2011.

This increase in operating profit was offset by:
- A R2.5 billion or 36% increase in operating expenses (excluding selling and distribution expenses, shipping expenses and the mineral royalty) driven by the substantial increase in waste mined at Sishen and Thabazimbi mines, and above inflationary pressures on costs;
- A R656 million increase in selling and distribution costs, mainly as a result of a 7% growth in total volumes railed at an increased tariff;
- The mineral royalty for 2011, at an effective rate of 4.4% of free-on-rail ('FOR') iron ore revenue, which added R352 million to operating expenditure; and
- The average Rand/US$ exchange rate of R7.25/USD1.00 was marginally stronger than the R7.30 achieved during 2010 and resulted in a decline in revenue of some R335 million.

The group's operating profit per business segment is analysed below. Other segments, which include the Corporate Office, Project and Technical Services of the group, contributed to a net operating loss of R1.1 billion and R684 million for 2011 and 2010 respectively. Net finance income incurred on a centralised basis was R92 million for 2011 (R29 million net finance costs for 2010).

CAPITAL EXPENDITURE

Rand million	2011	2010
Capital expenditure	5,849	4,723
Comprising:		
Expansion	3,104	3,099
Stay in business	2,745	1,624
Transfers from assets under construction to property, plant and equipment	8,951	1,519

Capital expenditure of R5.8 billion was incurred, of which R2.7 billion was to maintain operations, mainly for Sishen mine's fleet expansion programme. R3.1 billion was invested to expand operations, mainly on Kolomela mine, and R317 million on the Sishen Westerly Expansion Project (SWEP) in 2011 (2010: R62 million).

The development of Kolomela mine was largely completed during 2011, and the mine commenced with commercial production in December 2011. On 1 December 2011 the capitalisation of mining operating expenses ceased as substantially all the activities for bringing the mine in the location and condition necessary for it to be capable of operating in the manner intended by management had been completed. R7.7 billion was subsequently transferred to property, plant, infrastructure and equipment from assets under construction.

Stay in business capital expenditure of some R3 billion is anticipated for 2012 and 2013 mainly due to the Sishen mining fleet replacement and associated infrastructure.

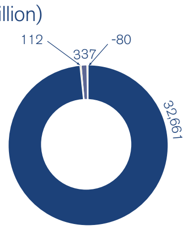
Cash flows

The group continued to generate substantial cash from its operations, with R34.3 billion (before the mineral royalty of R1.7 billion) generated during the year, 27% more than the R27.0 billion of 2010. These cash flows were used to pay aggregate dividends of R17.9 billion, taxation of R7.0 billion, the Envision payout of R2.7 billion and mineral royalties of R1.7 billion during 2011.

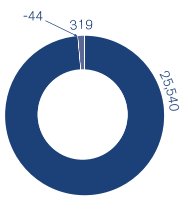
Cash generated during the year was utilised as follows:

EBIT – SEGMENT ANALYSIS

2011 (R million)



2010 (R million)

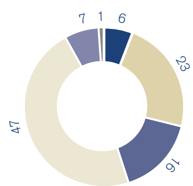


Sishen mine | Thabazimbi mine[1] | Shipping operations | Kolomela mine[2]

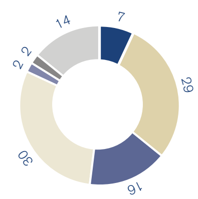
[1] Contributed an operating loss of R44 million for 2010
[2] Contributed an operating loss of R80 million for 2011; R nil EBIT in 2010

UTILISATION OF CASH GENERATED

2011 (%)



2010 (%)



Employee cost | Additions to PPE | Envision | Cash retained
Taxation[1] | Dividends paid | Other

[1] Taxation includes mineral royalties

Net debt

Kumba's net cash position at 31 December was as follows:

Rand million	2011	2010
Long-term interest-bearing borrowings	–	3,185
Short-term portion of long-term interest-bearing borrowings	3,191	–
Total	**3,191**	3,185
Cash and cash equivalents	(4,742)	(4,855)
Net cash	**(1,551)**	(1,670)
Total equity	**20,592**	18,376
Interest cover (times)	**206**	77

At 31 December 2011 R3.2 billion of the total R8.6 billion long-term debt facilities has been drawn down to finance Kumba's expansion. The R3.2 billion debt facility matures in 2012 and is due for repayment on 31 July 2012. We are well advanced with the process to put in place alternative funding options for the group.

Kumba was not in breach of any of its covenants during the year. The group had undrawn long-term borrowing and uncommitted short-term facilities at 31 December 2011 of R9 billion (2010: R9.3 billion). Kumba's debt profile has a longer term bias, which reflects both our capital investment programme as well as the excellent results generated by our operations over the past 5 years. This has reduced the group's dependency on short-term borrowing facilities.

SHAREHOLDER RETURNS

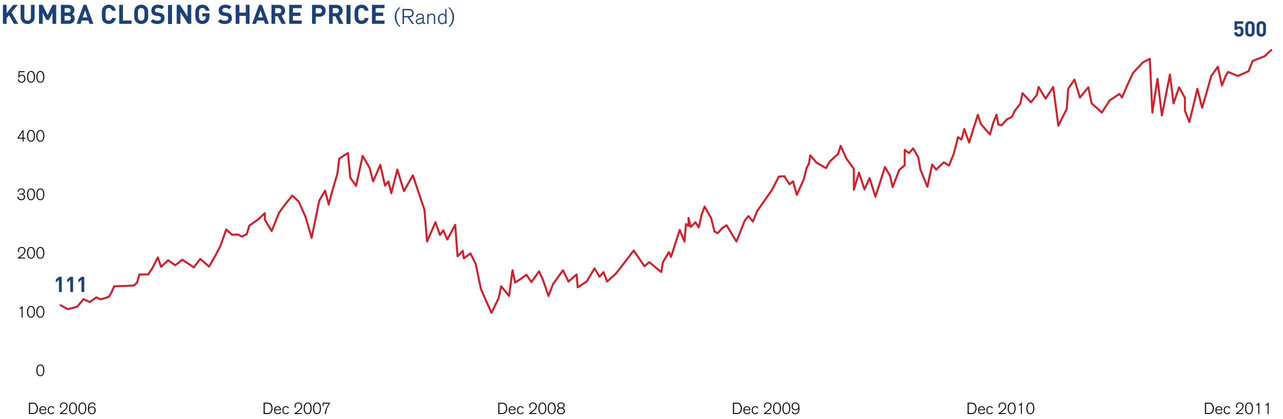
Share price

Kumba's share price has shown a marked increase during the year, growing 39% from the closing price of R425 at 31 December 2010 to R500 at 31 December 2011. The share price has grown at a compound annual growth rate of 35% from the listing share price of R111 at the end of 2006. Kumba continued to outperform the mining index of the JSE during the year by some 25%.

Dividends

Kumba continues to return cash to its shareholders after considering the need to preserve cash to fund the future growth of the group. Kumba's dividend policy of returning surplus cash to shareholders remains unchanged as does the desire to fund capital expenditure with debt instruments.

KUMBA CLOSING SHARE PRICE (Rand)



	Total dividend 2011	Final dividend 31 December 2011	Interim dividend 30 June 2011	Total dividend 2010	Total dividend 2009
Earnings per share (Rand per share)	53.11	24.88	28.23	44.66	21.94
Dividend per share (Rand per share)	44.20	22.50	21.70	34.50	14.60
Total dividend declared (Rm)	14,250	7,247	7,003	11,101	4 671
Dividend cover (times)	1.2	1.1	1.3	1.3	1.5

EMPOWERMENT

Rand million	2011	2010	2009	2008	2007
Dividend declared by SIOC	**19,266**	13,982	6,295	9,040	3,266
– Kumba	14,250	10,348	4,658	6,690	2,417
– Exxaro	3,851	2,796	1,259	1,808	653
– SIOC Community development trust	578	419	189	271	98
– Envision (Employee share ownership scheme)	587	419	189	271	98
Dividend cash flows to BEE shareholders[1]	**4,170**	1,876	1,811	1,076	392
– Exxaro	3,516	1,810	1,744	1,036	374
– SIOC Community development trust	527	4	8	8	7
– Envision (Employee share ownership scheme)	127	62	59	32	11

[1] *Dividend cash flows in 2011 consists of the final cash dividend for 2010 and the interim dividend for 2011*

FINANCIAL REVIEW
FOR THE YEAR ENDED 31 DECEMBER 2011

Attributable and headline earnings for the year were R53.11 and R53.13 per share respectively (2010: R44.66 and R44.67 per share). The board reviewed the cash flow generation, growth plans and the capital structure of Kumba and declared a final dividend of R22.50 per share (interim dividend R21.70 per share), bringing the total dividend for the year to R44.20 (2010: R34.50). With the declaration of the final dividend the cover has reduced to 1.2 times for 2011 from 1.3 times in 2010. The total dividend declared to shareholders since listing is R122.60 per share.

The board will continue to consider the dividend payable at each declaration date after taking into account the financial position and prospects of the group.

Empowerment

Kumba continues to make a meaningful contribution towards South Africa's broad based empowerment, through both capital appreciation and the payment of substantial cash dividends to the Black Economic Empowerment (BEE) shareholders of Sishen Iron Ore Company (Pty) Limited (SIOC):

- The group announced the maturity of the first phase of Envision, its broad based employee share scheme with 6,209 permanent employee members, on 29 November 2011. Envision was valued at R2.7 billion at the conclusion of its first phase, resulting in employee members who have worked for Kumba over the five-year period since its inception in 2006, each receiving R576,045 (pre tax). Members of the scheme have already received up to R55,000 in dividends through the course of the five year term. The second five year phase of the scheme commenced on 10 November 2011, through this second phase employees will receive their first dividend in March 2012 payable from the final SIOC 2011 dividend declared.
- The SIOC CDT, which owns an unencumbered 3% of SIOC, has received R1.3 billion in dividends since its inception five years ago, of which R527 million was received in cash during 2011 and R578 million will be paid in February 2012 from the final 2011 dividend declared by SIOC. These funds contribute towards sustainable community projects.
- Exxaro Resources Limited has received R8.5 billion in dividends since its listing five years ago.

KEY FACTORS AFFECTING FUTURE OPERATING RESULTS

Export iron ore sales prices and volumes

The short-term outlook for the global seaborne iron ore market is impacted by ongoing macro-economic uncertainty. Monetary tightening measures to control inflation in emerging economies such as China started to have the intended effect. In addition, a lack of co-ordinated policy response to tackle the European sovereign debt crisis also impacted demand. Despite the short-term macro-economic uncertainty, medium to long-term prospects for demand remains robust as China continues to industrialise and urbanise. Nevertheless, as China shifts from an investment intensive to consumption driven economy, the rate of growth for steel materials is expected to moderate to a more sustainable level.

While demand is a key driver for pricing, supply constraints also play a crucial role. In the short-term iron ore supply is anticipated to remain tight amid seasonal weather impacts in Brazil and Western Australia, and government's moves in India to control export. Ongoing challenges producers face in delivering new supply will lead to increasing capital intensity and underpinned long-term pricing outlook.

Kumba's ability to supply iron ore to the market will be enhanced by the ramping up of Kolomela mine during 2012 to produce between 4Mt and 5Mt in 2012. Export sales volumes in 2012 are anticipated to grow by ~3Mt from the volumes achieved in 2011 as volumes from Kolomela mine ramp up, offset by the fact that excess finished product stockpiles at Sishen mine have been depleted to operating levels.

Exchange rate

Relative to 2010, the US Dollar has weakened marginally against the South African Rand, remaining at pre-2008 levels, as can be seen from the graph on the next page. A significant proportion of our turnover and capital expenditure is affected by Rand/US Dollar exchange rate, and as such Kumba's operating profit remains highly sensitive to the Rand/US Dollar exchange rate.

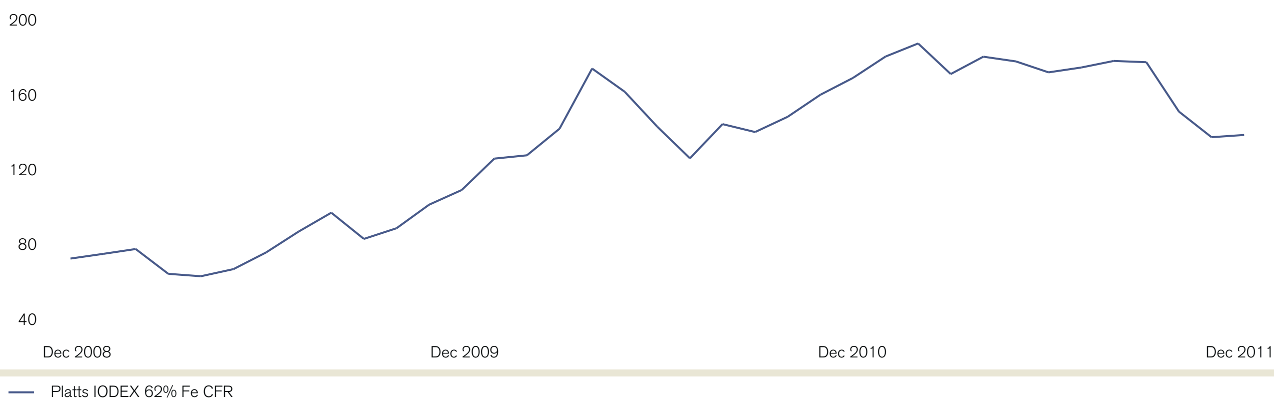
Operating expenses

Annual production volumes from Sishen mine are expected to increase back to design capacity which should aid in containing unit cost increases. Waste mining at Sishen mine is anticipated to increase in line with the planned ramp up that commenced in 2009, which will put upward pressure on unit cash costs of production.

Operating efficiencies and revenue enhancement

Kumba continues to focus on operational excellence, productivity improvements and efficiencies. Achieving this optimisation is currently a critical factor at Sishen mine, where management is facing a challenging period of increasing waste stripping set to continue for the next two to three years. The western-dipping ore body requires increased waste stripping and tight pit conditions constrain face lengths which, in turn, limits flexibility. Sishen mine's

PLATTS IODEX 62% Fe CFR (US Dollar)



productivity improvement project, 'Bokamoso' continues to deliver efficiency and productivity improvements required to partially offset cost pressures associated with increased mining activity.

SIGNIFICANT ACCOUNTING MATTERS

Change in accounting estimates

Management has revised the remaining estimated useful lives of certain items of property, plant and equipment at Sishen mine, as well as the estimated rehabilitation and decommissioning provisions at both Sishen and Kolomela mines. The change in estimate at Kolomela mine was mainly as a result of a decrease in the useful life resulting from the exclusion of inferred mineral resources from the LOM plan for accounting purposes. The LOM plan on which accounting estimates are based only includes proved and probable ore resources as disclosed in Kumba's annual Ore Reserves and Mineral Resources statement. The effect of these changes is detailed below:

Rand million	31 December 2011
Increase in environmental rehabilitation provision	67
Increase in decommissioning provision	20
Increase in accumulated depreciation	55

The change in estimate in the environmental rehabilitation provision and accumulated depreciation was applied prospectively from 1 January 2011 and resulted in a decrease in attributable profit before taxation and headline earnings per share for the year ended 31 December 2011 of R122 million and 21 cents, respectively. The change in estimate in the decommissioning provision has been capitalised to the related property, plant and equipment.

IR Page 70

Unwinding of phase one of Envision

Envision, SIOC's broad-based equity participation scheme for employees below managerial level, was set up to provide a framework for the incentivisation and retention of certain employees, as well as effective participation in the equity transition of the group as contemplated in the Mining Charter.

Envision was structured as a ten year scheme, divided into two capital appreciation periods. The first capital appreciation period vested on 17 November 2011. The second capital appreciation period commenced on 10 November 2011 with the issue of 3.09% in the share capital of SIOC to the Envision trust. This resulted in a net increase in the non-controlling interest in SIOC of R4 million.

The unwind of phase one resulted in a net cash outflow for the group through the implementation of the specific share repurchase by Kumba undertaken to monetise the value for employee participants. The actual monetary impact was R2.7 billion, based on a Kumba 5 day average share price of R 508.82 per share on 17 November 2011.

Accounting policies

The following amendments to published standards and interpretations which became effective for the year commencing on 1 January 2011 were adopted by the group:

IAS 24 - RELATED PARTY DISCLOSURES (AMENDMENT)

This amendment simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition and provides a partial exemption from the disclosure requirements for government-related entities. This amendment did not have a significant impact on the reported results for the year ended 31 December 2011.

ANNUAL IMPROVEMENTS PROJECT 2010

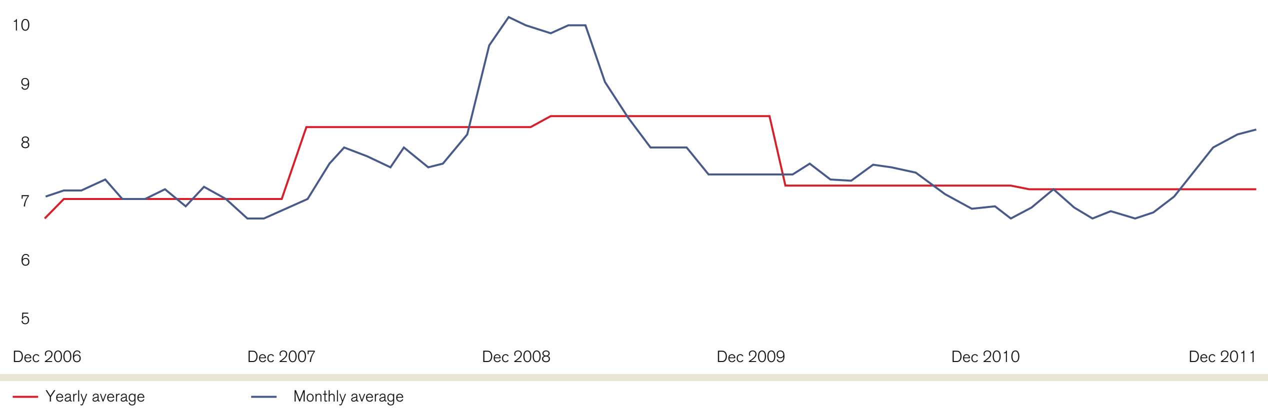
The group adopted the amendments to various issued accounting standards issued by the International Accounting Standards Board (IASB) as part of its Annual Improvements Project 2010 that are effective for reporting periods that commenced on 1 January 2011. These amendments have not had an effect on the reported results or the group accounting policies.

CONCLUSION

The year under review has been very successful for the group. This has enabled us to consistently deliver on and exceed our financial targets and consequently return significant cash to our shareholders. Our strong balance sheet, together with our sustained financial performance, provides a solid foundation for sustainable growth.

Vincent Uren
Chief financial officer

EXCHANGE RATE (Rand/US Dollar)



Financial review

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

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 and the requirements of The Companies Act and the Listings Requirements of the JSE Limited, which include amounts based on judgments and estimates made by management.

  The annual financial statements, set out on pages 13 to 81, are based on appropriate accounting policies which have been been consistently applied and which are supported by reasonable and prudent judgments and estimates, comprise the balance sheets at 31 December 2011; the income statements, the statements of comprehensive income, the statements of changes in equity and cash flow statements for the year then ended; the notes to the financial statements, which include a summary of principal accounting policies and other explanatory notes; and the directors' report.

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; and
- Preparing the supplementary annexures included in these financial statements.

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

The independent auditors are responsible for reporting on whether the group annual financial statements and the company annual financial statements are fairly presented in accordance with the applicable financial reporting framework. Their report to the members of the group and Kumba is set out on page 12 of this report.

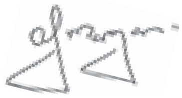
The external and internal auditors have unrestricted access to all records, property and personnel as well as to the Audit Committee.

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 ANNUAL FINANCIAL STATEMENTS

The group annual financial statements on pages 13 to 68, and 78 to 81; and the annual financial statements of Kumba Iron Ore Limited on pages 69 to 77, as identified in the first paragraph, were approved by the Kumba board of directors on 7 February 2012 and are subject to approval by the shareholders at the annual general meeting on 4 May 2012. The group and company annual financial statements are signed on the directors' behalf by:



AJ Morgan
Interim chairman

CI Griffith
Chief executive

7 February 2012

CERTIFICATE OF THE COMPANY SECRETARY

I, VF Malie, in my capacity as company secretary, confirm that, for the year ended 31 December 2011, 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, and that all such returns and notices are true, correct and up to date.

VF Malie
Company secretary

7 February 2012

Approvals

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF KUMBA IRON ORE LIMITED

We have audited the group annual financial statements and annual financial statements of Kumba Iron Ore Limited, which comprise the consolidated and separate balance sheets as at 31 December 2011, and the consolidated and separate income statements, the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity, the consolidated and separate cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 13 to 81.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The company's directors are responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements, 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Kumba Iron Ore Limited as at 31 December 2011, and its consolidated and separate financial performance and 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.

Deloitte & Touche
Registered auditor

Per G Krog
Partner

7 February 2012

National executive: GG Gelink chief executive; AE Swiegers chief operating officer; GM Pinnock audit; DL Kennedy risk advisory and legal services; NB Kader tax; L Geeringh consulting; L Bam corporate finance; JK Mazzocco human resources; CR Beukman finance; TJ Brown chairman of the board; MJ Comber deputy chairman of the board

A full list of partners and directors is available on request

BBBEE rating: Level 2 contributor in terms of the Chartered Accountancy Profession Sector Code

Member of Deloitte Touche Tohmatsu Limited

DIRECTORS' REPORT

COMPANY REGISTRATION NUMBER 2005/015852/06

The directors have pleasure in presenting the annual financial statements of Kumba and the group for the year ended 31 December 2011.

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 as the only pure play iron ore company on the JSE.

Kumba is a mining group of companies focusing on the exploration, extraction, beneficiation, marketing, shipping and sale of iron ore. Kumba produces iron ore in South Africa at Sishen and Kolomela mines in the Northern Cape Province and at Thabazimbi mine in the Limpopo Province. The Kolomela mine commenced commercial production on 1 December 2011, almost five months ahead of schedule.

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 the King III report on corporate governance. The board has satisfied itself that Kumba has complied in all material aspects with the code as well as the JSE Listings Requirements throughout the year under review. The corporate governance report is set out on pages 82 to 93 of the Integrated Report 2011.

IR Page 82

FINANCIAL RESULTS

The financial statements on pages 13 to 81 set out fully the financial position, results of operations and cash flows of the group for the financial year ended 31 December 2011. The financial statements have been prepared under the supervision of Martin Poggiolini, CA(SA), acting chief financial officer.

Operating results for the year

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

Rand million	2011	2010	% Increase/ (decrease)
Revenue	48,553	38,704	25
Operating profit	31,966	25,131	27
Cash generated from operations (excluding mineral royalties paid)	34,331	26,965	27

The group's total mining revenue (excluding shipping operations – R2.7 billion in 2011; R2.9 billion in 2010) of R45.8 billion for the year was 28% higher than the R35.8 billion of 2010 due to a weighted average increase of 26% in export prices.

Operating profit increased by 27% from R25.1 billion to R32.0 billion. The group's operating profit margin increased marginally to 66%. Excluding the margin earned from providing shipping services to customers, the group's mining operating margin remained stable at 69%. The operating profit achieved was impacted by an increase in operating expenses on the back of the growth in mining volumes across the group and above-inflation cost increases.

The group continued to generate substantial cash from its operations, with R34.3 billion (before the mineral royalty of R1.7 billion) generated during the year, 27% more than the R27.0 billion of 2010. These cash flows were used to pay aggregate dividends of R17.9 billion, taxation of R7.0 billion, Envision phase one of R2.7 billion and mineral royalties of R1.7 billion during 2011.

Attributable and headline earnings for the year were R53.11 and R53.13 per share respectively. Refer to note 20, 'Per share information', of the group annual financial statements for an analysis of movements in the group's basic and headline earnings per share.

FINANCIAL POSITION

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

Rand million	2011	2010	% Increase/ (decrease)
Property, plant and equipment	20,878	15,866	32
Net working capital (excluding cash and cash equivalents)	2,845	2,924	(3)
Net cash	1,551	1,670	(7)
Net asset value per share (R)	49.16	44.54	10

Property, plant and equipment

Capital expenditure of R5.8 billion was incurred. R2.7 billion was invested to maintain operations, mainly on Sishen mine's fleet expansion programme to mitigate mining and production risks. A further R3.1 billion was incurred to expand operations, mainly on the development of Kolomela mine.

Excellent progress was made at Kolomela mine, which was brought into production ahead of schedule. The plant was successfully commissioned during 2011, delivering production of 1.2Mt during the fourth quarter, bringing total production for 2011 to 1.5Mt. Kolomela mine is on track to produce between 4Mt and 5Mt in 2012 during ramp up, before producing at full design capacity of 9Mtpa in 2013.

Working capital

Net working capital decreased by R79 million from 31 December 2010 to R2.8 billion. This decrease is due to an increase in payables as a result of the employees' tax on the Envision payout, offset by the growth in the accounts receivable balance on the back of the higher export iron ore prices and an increase in sales volumes in December 2011 relative to December 2010.

Net cash

At 31 December 2011 the group was in a net cash position of R1.6 billion (R1.7 billion net cash at the end of 2010), with R3.2 billion of the total R8.6 billion long-term debt facilities drawn down to finance Kumba's expansion. The R3.2 billion debt facility is due for repayment in 2012. Kumba was not in breach of any of its covenants during the year. The group had undrawn long-term borrowing and uncommitted short-term facilities at 31 December 2011 of R9.1 billion (2010: R9.3 billion).

ACCOUNTING POLICIES

The group adopted the following amendments to existing standards with effect from 1 January 2011.

IAS 24, Related party disclosures (amendment)

This amendment simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition and provides a partial exemption from the disclosure requirements for government-related entities. This amendment did not have a significant impact on the reported results for the year ended 31 December 2011.

Annual Improvements Project 2010

The group adopted the amendments to various issued accounting standards issued by the International Accounting Standards Board (IASB) as part of its Annual Improvements Project 2010 that are effective for reporting periods that commenced on 1 January 2011. These amendments have not had an effect on the reported results or the group accounting policies.

SHARE CAPITAL

Authorised capital

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

Share movements

Rand million	2011	2010
Balance at beginning of year	153	208
Total shares issued for cash consideration	16	74
Net movement in treasury shares under employee share incentive schemes	(139)	(129)
Purchase and treasury shares*	(278)	(191)
Shares issued to employees	139	62
Share capital and share premium	**30**	**153**

During 2011, as part of the unwind and monetisation of Envision phase one, the company issued 5,377,770 Kumba shares for R2.68 billion and subsequently repurchased 5,230,867 of these Kumba shares for R2.67 billion.

* The group acquired 550,781 (2010: 515,241) of its own shares through purchases on the JSE during the year. The total amount paid to acquire the shares was R278 million (2010: R191 million). The shares are held as treasury shares and the purchase consideration has been deducted from equity.

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

An interim dividend of R21.70 per share was paid on 22 August 2011. A final dividend of R22.50 per share was declared on 7 February 2012 from profits accrued during the financial year ended 31 December 2011. The total dividend for the year amounted to R44.20 per share.

The estimated total cash flow of the final dividend of R22.50 per share, payable on 19 March 2012, is R7.2 billion for Kumba Iron Ore Limited.

The board of directors is satisfied that, after payment of the final dividend, the group is sufficiently liquid and solvent to support the current operations and to facilitate future development of the business.

SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

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

EQUITY COMPENSATION PLANS

Refer to the detailed remuneration report on pages 19 to 26, note 22, 'Equity-settled share-based payment reserve', and Annexure 3 of the group annual financial statements 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 36, 'Segment reporting', for a detailed segmental analysis of the group's operating results for the year ended and financial position as at 31 December 2011.

HOLDING COMPANY AND RELATED PARTIES

Anglo American plc is the group's ultimate holding company. The interest in the group is held through a 65.22% holding by Anglo South Africa Capital (Pty) Limited (2010: 65.25%).

The analysis of ordinary shareholders is given on pages 84 and 85.

MANAGEMENT BY THIRD PARTIES

None of the businesses of the company or its subsidiaries had, during the financial year, been managed by a third party or a company in which a director had an interest.

CONTINGENT ASSETS AND LIABILITIES

Falémé Project

Kumba initiated arbitration proceedings against La Société des Mines De Fer Du Sénégal Oriental (Miferso) and the Republic of Senegal under the rules of the Arbitration of the International Chamber of Commerce in 2007, in relation to the Falémé Project.

Following the arbitration award rendered in July 2010, a mutually agreed settlement was concluded between the parties. The parties agreed that the precise terms of the settlement agreement will remain confidential. The first settlement was paid by the Republic of Senegal in April 2011. The remaining settlement amount will be recovered in equal instalments from the Republic of Senegal over the remaining four-year period, on which contingent legal costs will be payable. A portion of the amount recovered was committed to social and community development projects to benefit the population of Senegal.

Environmental obligations

During the year Sishen Iron Ore Company (Pty) Limited (SIOC) issued financial guarantees to the Department of Mineral Resources (DMR) to the value of R286 million in respect of the environmental rehabilitation and decommissioning obligations of the group.

There have been no other significant changes in the contingent assets and liabilities disclosed at 31 December 2010.

LEGAL PROCEEDINGS

Sishen Supply Agreement arbitration – ArcelorMittal

SIOC notified ArcelorMittal on 5 February 2010 that it was no longer entitled to receive 6.25Mtpa of iron ore contract mined by SIOC at cost plus 3% from Sishen mine, as a result of the fact that ArcelorMittal had failed to convert its old order mining rights. This contract mining agreement, concluded in 2001, was premised on ArcelorMittal owning an undivided 21.4% interest in the mineral rights of Sishen mine. As a result of ArcelorMittal's failure to convert its old order mining right, the contract mining agreement automatically lapsed and became inoperative in its entirety as of 1 May 2009.

As a result, a dispute arose between SIOC and ArcelorMittal, which SIOC has referred to arbitration. During 2011, three arbitrators were appointed and May 2012 was set as the date for the arbitration to begin. On 9 December 2011, SIOC and AMSA agreed to postpone the arbitration until the final resolution of the mining right dispute.

SIOC and ArcelorMittal reached an interim pricing arrangement in respect of the supply of iron ore to ArcelorMittal from the Sishen mine. This interim arrangement endured until 31 July 2011. SIOC and ArcelorMittal agreed to an addendum to the interim supply agreement which extended the terms and conditions of the current interim pricing agreement. The new interim pricing agreement, which is on the same terms and conditions as the first interim pricing agreement, commenced on 1 August 2011 and will endure to 31 July 2012.

21.4% undivided share of the Sishen mine mineral rights

After ArcelorMittal failed to convert its old order rights, SIOC applied for the residual 21.4% mining right previously held by ArcelorMittal and its application was accepted by the DMR on 4 May 2009. A competing application for a prospecting right over the same area was also accepted by the DMR. SIOC objected to this acceptance. Notwithstanding this objection, a prospecting right over the 21.4% interest was granted by the DMR to Imperial Crown Trading 289 (Pty) Limited (ICT). SIOC initiated a review application in the North Gauteng High Court on 21 May 2010 in relation to the decision of the DMR to grant a prospecting right to ICT.

The High Court Review, in which SIOC challenged the award of the 21.4% prospecting right over Sishen mine by the DMR to ICT, was presided over by Judge Raymond Zondo in the North Gauteng High Court in Pretoria, South Africa, from 15 – 18 August 2011.

On 21 December 2011, judgment was delivered in the High Court regarding the status of the mining rights at the Sishen mine. The High Court held that, upon the conversion of SIOC's old order mining right relating to the Sishen mine properties in 2008, SIOC became the exclusive holder of a converted mining right for iron ore and quartzite in respect of the Sishen mine properties. The High Court held further that as a consequence, any decision taken by the DMR after such conversion in 2008 to accept or grant any further rights to iron ore at the Sishen mine properties was void. Finally, the High Court reviewed and set aside the decision of the Minister of Mineral Resources or her delegate to grant a prospecting right to ICT relating to the iron ore as a 21.4% share in respect of the Sishen mine properties. On 3 February 2012, both the DMR and ICT submitted applications for leave to appeal against the High Court judgment. SIOC has noted an application for leave to present a conditional cross appeal, in order to protect its rights. SIOC is awaiting a date for the hearing of the application for leave to appeal.

The High Court order does not affect the interim supply agreement between AMSA and SIOC, which will endure until 31 July 2012.

SIOC will continue to take the necessary steps to protect its shareholders' interests in this regard.

Lithos Corporation (Pty) Limited

Lithos Corporation (Pty) Limited is claiming USD421 million from Kumba for damages in relation to the Falémé Project in Senegal. Kumba continues to defend the merits of the claim and is of the view, and has been so advised, that the basis of the claim and the quantification thereof is fundamentally flawed. The trial date has been postponed indefinitely. There have been no further developments in this matter.

COMPANY SECRETARY

The company secretary of Kumba is Mr VF Malie. His business and postal addresses appear on the inside back cover of these financial statements.

DIRECTORS

The names of the directors in office during the year and at the date of this report are set out on page 86 of the Integrated Report 2011. The remuneration and fees of directors as well as the directors' beneficial interest in Kumba are set out in the detailed remuneration report on pages 19 to 26.

The board of directors of Kumba announced the following changes in Kumba's directorate during the year:

- The appointment of Mr Litha M Nyhonyha as an independent non-executive director of Kumba on 14 June 2011.
- Mr Vincent P Uren stepped down from his position as chief financial officer from the end of December 2011. He will continue to be employed by Kumba in 2012 and will work exclusively on the legal issues until 30 June 2012. Mr Martin Poggiolini, the company's head of finance, was appointed to act in the position of chief financial officer with effect from 31 December 2011.
- Mr Peter B Matlare resigned as an independent non-executive director on 31 March 2012.

IR Page 86

PRESCRIBED OFFICERS

The names of the prescribed officers during the year and at the date of this report are set out on page 24. The remuneration and fees of the prescribed officers are also set out in the detailed remuneration report on page 24.

AUDITORS

Deloitte & Touche continued in office as auditors of Kumba and its subsidiaries. At the annual general meeting on 4 May 2012, shareholders will be requested to reappoint Deloitte & Touche as auditors of Kumba for the 2012 financial year.

SPECIAL RESOLUTION

On 6 May 2011, the shareholders of Kumba resolved that the company and any of its subsidiaries may from time to time be authorised to acquire of the company's own shares subject to the articles of association of the company, the provisions of the South African Companies Act No 71 of 2008 and the Listings Requirements of the JSE.

GOING CONCERN STATEMENT

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

REPORT OF THE AUDIT COMMITTEE

INTRODUCTION

The committee is pleased to present its report for the financial year ended 31 December 2011 as recommended by the King Report's principles of good corporate governance and in line with the South African Companies Act No 71 of 2008. The Audit Committee is constituted as a statutory committee of the group as well as a board committee approved by the board.

The committee has terms of reference in place, which include both its statutory duties and those assigned to it by the board, and its mandate includes:

- monitoring the integrity of the group's integrated reporting and regarding all factors and risks that may impact on the reporting;
- nominating of external auditors annually for appointment by the shareholders;
- monitoring and reviewing the effectiveness of the group's internal audit function;
- annually reviewing the expertise, appropriateness and experience of the finance function;
- ensuring that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities;
- reviewing developments in governance and best practice;
- ensuring that there is an ethics policy in place that is aligned to the strategy of the company; and
- evaluating the effectiveness of the committee.

COMPOSITION

The Audit Committee, appointed by the board and approved by the shareholders in respect of the financial year ended 31 December 2011, comprised the following independent non-executive directors, who have the requisite financial skills and experience to fulfill the committee's duties:

- ZBM Bassa (chairman)
- DD Mokgatle
- AJ Morgan
- LM Nyhonyha (appointed 14 June 2011)

FREQUENCY AND ATTENDANCE OF AUDIT COMMITTEE MEETINGS

In addition to the committee members, the chief executive, chief financial officer, the risk manager and head of internal audit and external audit attend meetings of the committee by invitation.

The committee meets separately with management, internal audit and external audit at every meeting. During the year under review, the committee met five times. Attendance of meetings held during the year under review is presented in the following table:

Member	07-Feb-11	15-Mar-11	11-May-11	15-Jul-11	09-Nov-11
ZBM Bassa (chairman)	✓	✓	✓	✓	✓
DD Mokgatle	✓	✓	✓	✓	✓
AJ Morgan	✓	*	✓	✓	✓
LM Nyhonyha	n/a	n/a	n/a	✓	✓

✓ *indicates attendance*

* *indicates absence with apology*

OVERSIGHT FOR RISK MANAGEMENT

Although the board has a risk committee to assist with the discharge of its duties with regard to the integrated risk management process, the Audit Committee has an interest in risk management as a result of its responsibility for internal controls. The chairman of the committee also chairs the Risk Committee and the committee is kept informed on the performance of risk management.

INTERNAL AUDIT

The group's internal audit function is fulfilled by Anglo Business Assurance Services (ABAS) and provides the board with assurance on the key areas of the group's internal financial controls.

The internal audit charter was reviewed and approved by the committee. Internal audit provides assurance that the company operates in a responsibly governed manner by performing the following functions:

- evaluating ethics management;
- objectively assuring effectiveness of risk management and the internal control framework;
- analysing and assessing business processes and associated controls; and
- reporting audit findings and recommendations to management and the audit committee.

REPORT OF THE AUDIT COMMITTEE

FOR THE YEAR ENDED 31 DECEMBER 2011

ABAS participated in a Quality Assessment Review of Risk Management and Business Assurance conducted by Deloitte LLP. The independent review was aimed at assessing whether ABAS was aligned with industry and broader good practice using the FTSE 500 as a peer group. The overall finding was satisfactory.

The Committee is of the opinion, having considered the positive assurance statement provided by ABAS, that the group's system of internal financial controls is effective and provides reasonable assurance that the financial records may be relied upon for the preparation of the annual financial statements.

DUTIES CARRIED OUT IN 2011

During the financial year ended 31 December 2011 the committee carried out its duties as required by section 94(2) of the South African Companies Act No 71 of 2008, the King Report, the committee's terms of reference and in accordance with its annual plan.

Statutory duties:

- evaluated the independence and effectiveness of the external auditors and approved their terms of engagement after consideration of the timing and scope of the audit;
- considered and approved the audit fee payable to the external auditors for the year ended 31 December 2011;
- ensured and satisfied itself that the appointment of the external auditor is in compliance with the South African Companies Act No 71 of 2008, The Auditing Professional Act, 2005 and the Listings Requirements of the JSE Limited; and
- considered and pre-approved non-audit services and fees provided by the external auditors in terms of an established policy to ensure that the independence of the external auditors is not compromised.

The committee performed the following duties:

- reviewed the group financial statements and declaration of compliance with statutory requirements;
- reviewed interim reports, results announcements and release of price sensitive information;
- reviewed the quality, independence and effectiveness of the internal audit process as well as the positive assurance opinion of the internal auditor on internal financial controls;
- reviewed the external auditor's management letters and management responses;
- reviewed significant judgments and unadjusted differences resulting from the audit, as well as any reporting decisions made;
- monitored compliance with accounting standards and legal requirements;
- reviewed and was satisfied that the external auditors and engagement partner were independent;
- recommended the reappointment of the external auditors and engagement partner to shareholders;
- ensured that the appointments of the external auditors complied with all relevant legislation;
- determined the fees to be paid to the external auditors and ensured that they were fair and equitable;
- maintained a non-audit services policy;
- reviewed and was satisfied with the process of risk management and monitoring of legal governance compliance within the company and ensured that the combined assurance model addressed the significant risks within the company including:
  - financial risks;
  - internal financial controls;
  - fraud risks;
  - strategic risks;
  - operational risks; and
  - IT governance risks.
- reviewed and was satisfied with the expertise and the appropriateness of the finance function; and
- reviewed and were satisfied with the expertise of the chief financial officer.

FINANCE FUNCTION AND CHIEF FINANCIAL OFFICER

The committee conducted an assessment of the appropriateness, skills, expertise and resourcing of the finance function and was satisfied with the overall adequacy and appropriateness of the function. The committee further reviewed the expertise and experience of the chief financial officer and was satisfied with the appropriateness of the expertise and experience of the chief financial officer, as well as the acting chief financial officer.

ANNUAL FINANCIAL STATEMENTS

The Audit Committee has evaluated the consolidated annual financial statements for the year ended 31 December 2011 and concluded that it complies, in all material aspects, with the requirements of the South African Companies Act No 71 of 2008 and International Financial Reporting Standards. The committee has therefore recommended the approval of the annual financial statements to the board.

CONCLUSION

The committee is satisfied that it has considered and discharged its responsibilities in accordance with its mandate and terms of reference during the year under review.

ZBM Bassa
Chairman, Audit Committee

7 February 2012

REMUNERATION REPORT

KUMBA'S REMUNERATION PHILOSOPHY

Kumba's remuneration practices are based on the following tenets:
- motivating and reinforcing the positive performance of individuals;
- attracting and retaining talent;
- aiming to be a preferred employer in the market place, as a key element in support of Kumba's strategy; and
- applying its remuneration policies equitably, fairly and consistently in relation to job responsibility, the employment market and personal performance.

Kumba's overall remuneration philosophy has remained unchanged since the listing of the company in 2006. However, some components of the remuneration elements were reviewed and amended during 2011.

The Human Resources, Remuneration and Nomination Committee of the board of directors (Remco) has the task of applying principles of accountability and transparency to remuneration matters, so that the remuneration of directors and executive management is linked to performance and supports the group's strategy, with the ultimate aim of creating value for shareholders.

This report deals with the group's Remuneration Policy, as well as the remuneration of directors and executive management for the 2011 financial year. It includes:
- an overview of the group's remuneration policy and practice for directors and executive management and its support of group strategy;
- a description of the Remco, its members, its role and activities during 2011;
- a description of the key elements of the remuneration package for directors and executive management;
- details of the remuneration paid to members of the Executive Committee, including executive directors;
- details of the executive directors' contracts of employment;
- details of the remuneration paid to non-executive directors; and
- a summary of the payments made to directors in 2011, including detailed descriptions of the various long-terms incentive awards and other information relating to 2011 payments.

HIGHLIGHTS

During the year the Remco focused specifically on:
- the appropriateness of reward programmes, which involved assessing pay for performance according to the targets set in terms of achieving Kumba's goals;
- aligning Kumba's remuneration philosophy and policies with the principles and recommended practices of the King Code of Governance Principles for South Africa 2009 (King III);
- successfully executing the unwinding of the first phase of Envision, the SIOC Employee Share Participation Scheme which was implemented five years ago, and matured on 17 November 2011;
- the implementation of the second phase of Envision, which will mature in 2016; and
- approving and appointing the prescribed officers.

THE REMCO

The Remco has functioned as a sub-committee of the board since Kumba's listing in 2006. When considering remuneration matters, it focuses on the company's remuneration philosophy, on the determination of levels of remuneration and on annual and long-term incentive plans. The underlying philosophy is to offer remuneration that will attract, retain, motivate and reward directors, executive management and those employees who manifest the competencies required for the company to achieve its strategy, and to offer remuneration that is based on individual and company performance in accordance with competitive market practices.

The role of the Remco in relation to the remuneration of directors and executive management is to:
- provide guidance on the evaluation of performance for executive directors;
- review and approve targets and objectives for all performance-related pay and incentive schemes for directors and executive management;
- review and recommend to the Board the remuneration of executive directors and executive management, including short-term incentive payments and long-term incentive share awards; and
- approve the basis on which all grants in terms of Kumba's long-term incentive schemes are made.

The role of the Remco in relation to the remuneration of employees generally is to:
- review and approve proposals for general salary and wage adjustments;
- approve principles on which short-term incentives for employees are based;
- approve the basis on which all grants in terms of Kumba's long-term incentive schemes to staff are made;
- approve the overall cost of remuneration increases awarded to employees; and
- approve the overall cost of short-term incentives awarded to employees.

During the year the members of the Remco comprised the following members:
Mr AJ Morgan (chairman) and Mr PB Matlare. Both Mr Morgan and Mr Matlare are independent non-executive directors.

Details of the directorate are available on page 86 of the Integrated Report 2011 as well as on the company's website at: www.angloamericankumba.com/au_directorate.php.

IR Page 86

The Remco meets at least three times a year and is empowered to obtain such external or other independent professional advice as it considers necessary to carry out its duties.

When deliberating on the remuneration of directors and executive management, the Remco considers both external market surveys on remuneration matters and the interests of shareholders.

In applying agreed remuneration principles, the Remco is committed to the principles of accountability, transparency and good governance, and seeks to ensure that the reward arrangements are linked to individual and group performance and that they are in support of the strategy.

Three meetings of the Remco were held during 2011. Attendance at meetings was as follows:

Member	03-Feb-11	10-May-11	03-Nov-11	No. of meetings:
AJ Morgan	✓	✓	✓	3
PB Matlare	✓	✓	✓	3

✓ Indicates attendance.

In 2011 the remuneration elements supported the strategy, contributing to the creation of short- and long-term value and high performance for shareholders by focusing on specific earnings before interest and tax (EBIT) and return on capital employed (ROCE) targets. Base pay is kept lean and targeted at the 50th percentile of the market while short-term incentives are capped at a maximum of 60% of basic employment cost (BEC). The long-term incentives are derived directly from the short-term incentives which fully support the pay for performance principle.

The remuneration elements are structured to:
- create long-term sustainable value and a high-performing business aligned with shareholder needs;
- provide fair remuneration to employees for work performed and to incentivise them to achieve exceptional performance with the assurance that they will be appropriately rewarded and given opportunities to advance their careers; and
- provide effective oversight of remuneration in order to reinforce a strong performance culture with no encouragement of excessive risk-taking, to assess the appropriateness of deferral mechanisms to bring about long-term sustainability and to ensure that performance is rewarded.

It should be noted that the Remco approved changes to the 2012 short- and long-term performance incentive schemes, which include:
- employees in middle, senior and executive management will participate in the schemes based on the new aligned Anglo American Performance Management Standard; and
- the Kolomela mine Short-term Incentive Scheme will incorporate the mine's Rapid Ramp-up Bonus Scheme, which is designed to incentivise the ramp up in production ahead of the original project plan for the year ending 31 December 2012.

Overview of the group's remuneration structure for executive directors and executive management:

Element	Fixed/ variable	Objective	Delivery
Salary	Fixed	Reflects scope and nature of role, performance and experience	Cash
Non-monetary benefits (medical health care, vehicle allowance etc.)	Fixed	Provision of non-monetary items	Benefits in kind
Pension	Fixed	Provision of retirement benefits	Contribution to pension and provident funds
Short-term incentives	Variable	Rewards and motivates achievement of agreed group and individual performance objectives	Cash of up to maximum of 60% of basic employment cost* for achievement of maximum targets
Long-term incentives	Variable	Alignment with shareholder interests and creation of long-term value	Shares

** Basic employment cost: cost to company less employer retirement fund contributions.*

DIRECTORS' FEES AND REMUNERATION

The directors are appointed by the Kumba board based on their competence, ability and appropriate experience to contribute to achieving the company's objectives as a leading value-adding iron ore supplier to the global steel industry. The policy is to ensure that executive directors receive remuneration that is appropriate to their scope of responsibility and contribution to operating and financial performance, taking into account industry norms and external market and country benchmarks.

In applying the remuneration principles, the Remco aims to encourage long-term performance and the continual alignment of such performance with the strategic direction and specific value drivers of the business.

Executive directors

The remuneration of executive directors of Kumba consists of two components: a fixed and a variable component of an annual executive performance incentive and long-term incentives in terms of Kumba's Bonus Share Plan and a Long-term Incentive Plan.

Both fixed and variable components are designed to ensure that a substantial portion of the remuneration package is linked to the achievement of the company's strategic objectives, thereby aligning incentives awarded to improving shareholder value.

A portion of the approved cash salary and the annual performance incentive elements of the chief executive, Mr CI Griffith, and chief financial officer, Mr VP Uren, were determined and paid in terms of separate employment agreements concluded between Kumba International Trading SA (KITSA) and the respective executive director for services rendered outside South Africa.
The remuneration paid by KITSA is calculated according to the time spent by the director on services performed offshore.

Fixed remuneration

Following established practice, the fixed salaries of executive directors are reviewed every year in January. Adjustments to the fixed packages are determined with reference to the scope and nature of an individual's role and their performance and experience. The fixed packages are also compared with the median pay levels of other companies of comparable size and complexity, to ensure market competitiveness and performance excellence. The review also takes into account any change in the scope of the role performed by the individual, changes required to meet the principles of the remuneration policy and market competitiveness. Reward benchmarking is conducted bi-annually when reward elements are compared with those of peer mining companies.

In addition to a basic cash salary, executive directors receive benefits that include a contribution towards membership of one of the group's approved medical health care schemes, vehicle benefits, vehicle insurance and security services. There are no other material benefits paid.

Retirement and risk benefits, including life cover and death-in-service benefits are provided to executive directors subject to the rules of the Kumba Selector Pension and Provident Funds. During the year, contributions calculated as a percentage of the pensionable income are paid to contributory retirement schemes established and/or approved by the group and subject to the rules of the pension and provident funds. The employer's retirement contribution is 9.5% of cost to company. The rate of contribution for each executive director is calculated on the basis of the assumption that executive directors will retire at the age of 60 years.

The basic salaries payable to the executive directors for the 2010 and 2011 financial year and proposed 2012 basic salaries are set out in the table below:

	2012 Basic salary[1]	2011 Basic salary[2]	2010 Basic salary
CI Griffith	4,616	4,269	3,953
VP Uren	–	3,504	3,197

1 *Included in the 2012 salary above is EUR51,212 to CI Griffith by KITSA in respect of services to be rendered in 2012.*

2 *Included in the 2011 salary above is EUR49,007 to CI Griffith and USD46,688 to VP Uren by KITSA in respect of services rendered as directors in 2011.*

Annual performance incentives

In addition to fixed remuneration, each executive director participates in an executive performance incentive scheme, the Bonus Share Plan (the BSP). This incentive scheme is designed to reward and motivate the achievement of agreed group financial, strategic and performance objectives linked to the key performance areas of their respective portfolios.

Cash awards under the BSP are determined annually, based on performance in the previous financial year. Performance of the group is assessed on various financial, business and strategic performance criteria and metrics, targeting EBIT and ROCE. For executive directors' cash awards, 50% will reflect the extent to which the company achieved its financial targets in 2011. The balance of the cash awards is determined by the extent to which certain personal strategic and other performance objectives were achieved by each executive director in 2011. Maximum earnings potential is set at 60% of annual BEC.

The group's EBIT target is set at budgeted levels, with an entry threshold at 95% and maximum payout at 110%. The group's ROCE target is set at budgeted levels, with an entry threshold at 30% and maximum payout at 100%.

The performance targets for executive directors within Kumba's business operations will vary depending on business-specific strategic value drivers and key objectives as approved by the board.

Focused value drivers derived from group business objectives include targets agreed for growth, safety and employment equity to ensure continued focus on these important business objectives.

In 2011 the CEO's performance targets were as follows: Kumba financial targets – 50%; Safety targets – 10%; Production and sales – 20%; Anglo American plc earnings per share (EPS) – 10%; strategic initiatives and projects – 10%.

In 2011 the CFO's performance targets were as follows: Kumba financial targets – 50%; safety targets – 10%; strategy execution, asset optimisation and strategic projects – 40%.

In February 2011, the Remco considered an overall assessment of the financial performance of the group for the 2010 financial year and considered the personal performances of the participants in this executive performance incentive scheme, against the agreed group financial targets and the levels of achievement against their strategic and other key performance objectives within their respective areas of accountability. Following this, the Remco reported the outcome to the board which then approved the annual incentives for 2010.

Long-term incentive plans

Executive directors and executive management participate in one or more of the long-term incentive schemes described below as proposed by the Remco and approved by the board:
- the Bonus Share Plan;
- the Long-term Incentive Plan;
- the Share Appreciation Rights Scheme (no new grants made since 2008);
- the Deferred Bonus Plan (no new grants will be made); and
- old scheme – transferred to Kumba post unbundling: Kumba Management Share Incentive Scheme (no grants awarded since unbundling).

Bonus share plan

The BSP was approved by shareholders at the annual general meeting (AGM) on 20 March 2009 and was implemented in 2009. It is offered to directors and senior managers who have the opportunity and the responsibility to contribute towards the group's overall strategic objectives. The rationale for implementing the BSP was to:

- provide a mechanism for wealth creation for participants that is linked to wealth creation for the group's shareholders;
- strengthen the performance culture and provide a direct link between annual performance objectives and share-based incentives;
- encourage participants to build up a shareholding in the company and thus increase the alignment of employees' interests with shareholders; and
- increase the effectiveness of the overall remuneration and to enable the company to attract, motivate and retain key management talent.

The BSP has two components:

- a payment of an annual cash bonus, more fully described above; and
- a forfeitable award of shares linked to the participant's annual cash bonus award – these shares are known as bonus shares. The split between the cash and bonus share elements is determined with reference to the employees' grade.

The number of bonus shares awarded is determined with reference to the value of the annual cash bonus awarded to each participant. The bonus shares are held by an escrow agent and released to the participant three years after the award date (conditional upon the participant still being in the employment of the Anglo American Group). During the three-year period, the participant is entitled to all rights attaching to the bonus shares, including dividend entitlements and voting rights. There are no performance conditions linked to the bonus shares although the individuals' performance determines the actual bonus amount on which these shares are based.

The long-term incentive plan

Executive directors (and, before 2009, senior management) may, each year, receive on a discretionary basis, a conditional award of Kumba shares. Conditional shares are awarded at 100% of annual BEC at the face value of the underlying Kumba share.

Any vesting of each of the annual The Long-term Incentive Plan (LTIP) awards made since the inception of the plan in 2007 is subject to the achievement of stretching performance targets relating to total shareholder return (TSR) (50% of the award) and to a financial measure (ROCE) (50% of the award), over a fixed three-year period. No retesting of the performance conditions is allowed.

The part of the share award that is subject to the TSR performance condition is determined to the extent that the company's TSR performance reaches certain hurdles relative to the TSR of an agreed peer group over the same three-year performance period. During 2010, the Remuneration Committee assessed the appropriateness of the peer group and changed the peer group to be more representative of the mining sector of companies.

The entire award will vest should TSR/ROCE performance be in the upper quartile as measured against peer group, while 30% will vest should TSR/ROCE performance be at the median of peer group performances. There will be linear vesting for a TSR/ROCE performance between the median and the upper quartile of the peer group performances. No vesting will occur if TSR/ROCE performance is below the median.

Upon vesting the participant will be entitled to shares in Kumba to the value of the vested portion of the conditional award. Such portion of the conditional awards which does not vest at the end of the three-year period will lapse.

Executive directors' remuneration

Executive directors' remuneration for the year was as follows:

Rand '000	Basic salary	Short-term incentive[1]	Retirement funding and medical aid	Other benefits[2]	Total 2011	Total 2010
CI Griffith[3]	4,269	2,044	543	864	7,720	6,495
VP Uren[3]	3,504	1,618	446	661	6,229	5,255
Total	**7,773**	**3,662**	**989**	**1,525**	**13,949**	**11,750**

1 *Short-term incentives awarded, based on the group results for the 2011 financial year and including offshore bonuses accrued to Mr CI Griffith of ZAR121,122 (EUR12,214) (six months) and Mr VP Uren of ZAR159,444 (USD21,641) by KITSA.*

2 *Includes the encashment of leave accrued by Mr CI Griffith of R139,758, and fringe benefit for use of a company car by Mr CI Griffith of R684,188 (2010 and 2011) and Mr VP Uren of R651,381 (2010 and 2011) and reimbursed expense of R6,821 paid to Mr VP Uren.*

3 *Included in basic salary above is salary paid to Mr CI Griffith and Mr VP Uren by KITSA in respect of services rendered to that company in 2011.*

Executive directors' short-term incentives

The table below sets out the short-term incentives paid during 2011. The short-term incentives awarded are based on performance in the 2010 financial year and calculated as a percentage of basic employment cost approved for the pay cycle.

Rand '000	2010 Total fixed remuneration	2010 BEC used for calculating incentive	2011 Annual incentive paid	Annual incentive as a percentage of 2010 total fixed remuneration
CI Griffith	4,195	3,953	2,044	49% (52% of BEC)
VP Uren	3,527	3,197	1,618	46% (51% of BEC)

Executive directors' service contracts

Executive directors are not employed on fixed-term contracts and have standard employment service agreements with notice periods of up to 12 months. No restraint of trade provisions apply and no restraint payments have been made during the year. There are no changes to control provisions or any provisions relating to payment on termination of employment.

Mr VP Uren stepped down from his role as chief financial officer on 31 December 2011. He continues to be employed by Kumba in 2012 and will work exclusively on the legal issues until 30 June 2012.

Mr F Kotzee has been appointed as chief financial officer, effective 1 June 2012. The recruitment process was conducted by an extended nominations group and the appointment was made by the Kumba board.

	Employment date*	Date first appointed to the board
CI Griffith	1 July 2009	1 July 2009
VP Uren	7 April 2006	7 April 2006

* *In terms of the board charter, the termination of an employment contract of an executive director will result ipso facto in the termination of his membership of the board, unless the board determines otherwise.*

Non-executive directors' fees

The Remco recommends fees payable to the non-executive directors for approval by the shareholders. Additional remuneration was paid retrospectively on a once-off basis in respect of additional board meetings held in 2010 in which various legal issues were discussed. The annual fees payable to non-executive directors for the period commencing 1 January 2011 were approved by the shareholders at the AGM in May 2011. Fees are approved for an annual period commencing on 1 January each year. The proposed fees for non-executive directors for 2012, as noted in the following table, will be submitted to the shareholders for approval at the next AGM in May 2012.

The proposed fees were determined following a benchmarking exercise using market data, including a survey of the top 40 companies listed on the JSE, which indicated a need for an adjustment to bring the fees in line with the market. The board also considered the increased scope of responsibilities for its committees, taking into account specifically, the fact that both the Remco and Safety, Sustainable Development, Social and Ethics Committees have additional roles as nominations, and social and ethics committees, thereby increasing the workload on the members of the respective committees. The board is of the view that the fee increase proposal is in line with the market and is appropriate.

Board meeting fees are set annually and are informed by a market benchmark study conducted by an independent external service provider. These fees are not dependent upon attendance of meetings. No other supplementary fees are payable. Non-executive directors do not participate in any of the company's incentive schemes.

Non-executive directors' fees approved for 2011 were as follows:

Rand	2011	2012
Chairman	1,100,000	1,116,000
Director	177,375	188,000
Audit Committee chairman	197,800	251,000
Audit Committee member	117,175	124,800
Risk Committee chairman	158,025	167,000
Risk Committee member	78,475	83,500
Safety, Sustainable Development, Social and Ethics Committee* chairman	158,025	251,000
Safety, Sustainable Development, Social and Ethics Committee* member	78,475	124,800
Human Resources, Remuneration and Nomination Committee chairman	158,025	251,000
Human Resources, Remuneration and Nomination Committee member	78,475	124,800

* *Previously the Safety and Sustainable Development Committee*

Non-executive directors are subject to retirement by rotation and re-election by shareholders in accordance with the terms of the articles of association of the company.

Executive Committee members' remuneration

The fixed remuneration of members of the Executive Committee, other than executive directors, was reviewed by the Remco at its meeting held in November 2011. The fixed salaries were compared with the median pay levels of other South African mining companies, based on the scope and nature of each individual's role and his or her performance and experience.

The Remco at its meeting held in November 2011 approved the appointment of each Executive Committee member as a prescribed officer. The remuneration of each prescribing officer (excluding executive directors) is disclosed in the following table.

As is the case with the executive directors, the members of the group Executive Committee participate in the BSP.

2011 emoluments

The table below provides an analysis of the emoluments paid to executive and non-executive directors, as well as prescribed officers. The table also provides an analysis of the emoluments paid to executive and non-executive directors, as well as the top-earning managers of the company in 2011. The 2010 total emoluments have not been restated to include the fair value of long-term incentives awarded during that year.

Names (ZAR 000)	Base Benefits (retirement and medical aid)	Benefits (retirement and medical aid)	Incentives based on 2010 performance paid in 2011	Directors' fees	Additional Directors' fees[8]	Committee fees	Fair value of long-term incentive awards[7]	Total emoluments 2011	Total emoluments 2010
Executive directors								**25,394**	11,750
CI Griffith	4,269	543	2,044				7,073	13,929	6,495
VP Uren	3,504	446	1,618				5,897	11,465	5,255
Non-executive directors								**3,918**	3,416
ZBM Bassa[1,2]				177	75	356		608	496
GS Gouws[1,2]				177	90	79		346	165
GG Gomwe[2,5]				177	60	79		316	124
DD Mokgatle[1,2,4]				177	105	353		635	491
DM Weston[6]				177	75	–		252	165
AJ Morgan[1,2,3,4]				1,100	105	–		1,205	564
PB Matlare[1,3,4]				177	75	157		409	311
LM Nyhonyha[1,2] (appointed 14 June 2011)				89	–	58		147	
PL Zim				–	–	–	–	–	1,100
Prescribed officers (including top three earners)								**44,246**	27,680
M Schottler[11]	2,161	250	1,006				1,988	5,405	
RJ Botha[11]	2,129	243	920				1,852	5,144	
C Van Loggerenberg[10]	2,037	237	873				2,343	5,490	
FM Louw[10]	2,007	234	879				2,337	5,457	
AC Loots[10]	1,994	233	888				1,774	4,889	
SV Tyobeka[10]	1,751	207	742				1,502	4,202	
A Van Den Brink[10]	1,724	204	748				1,505	4,181	
LLA Mgadzah[9,10]	1,520	183	–				–	1,703	
CC Holtzhausen[10]	1,487	160	682				1,360	3,689	
VF Malie[10]	1,425	167	567				1,167	3,326	
Y Mfolo[10] (appointed 1 August 2011)	678	82	–				–	760	
Total	**26,686**	**3,189**	**10,967**	**2,251**	**585**	**1,082**	**28,798**	**73,558**	**42,846**

Base salary includes cash and travel allowance
Benefits include Kumba Retirement Fund and medical contributions

1 *Audit Committee member*
2 *Risk Committee member*
3 *Human Resources, Remuneration and Nomination Committee member*
4 *Safety, Sustainable Development, Social and Ethics Committee member*
5 *Directors' fees ceded to Anglo Operations Limited (AOL), a wholly owned subsidiary of Anglo American plc.*
6 *Directors' fees ceded to Anglo American Services (UK) Limited, a wholly owned subsidiary of Anglo American plc.*
7 *This relates to the fair value of grants made during the year in terms of the BSP and the LTIP share schemes. The LTIP is subject to stringent performance conditions. The LTIP awards to the extent of achievement of the performance conditions will vest in 2014. Bonus shares are included at 100% of face value and the LTIP awards (only for CEO and CFO) at 83.6% of face value, at a volume-weighted average share price of R502.36 as at 31 December 2011.*
8 *Additional Directors' board meeting fees paid in 2011 in respect of once-off additional board meetings held in 2010.*
9 *Mr LLA Mgadzah was appointed 1 January 2011.*
10 *Executive Committee member*
11 *Mr M Schottler is employed in the position Legal Counsel Litigation and Mr RJ Botha is the Head of Legal.*

Long-term incentive schemes: interests of executive directors and the Executive Committee

The interests of the executive directors and of the Executive Committee in shares of the company granted in terms of the various long-term incentive schemes are shown in the tables below.

No variations have been made to the terms and conditions of the schemes during the year, including to the performance conditions to which the granting and vesting of the options, rights and conditional awards are subject.

BONUS SHARE PLAN

	Balance at beginning of year	Conditional awards granted	Shares vested	Balance at end of year	Vesting date	Weighted average exercise price	Share-based payment expense	
	Number of shares					Rand	2011 Rand '000	2010 Rand '000
Executive directors								
CI Griffith	15,007	6,025	–	21,032		–	2,028	1,084
	7,328			7,328	31 May 2012			
	7,679			7,679	1 March 2013			
	–			6,025	2 March 2014			
VP Uren	15,731	4,778	–	20,509	–	–	1,843	1,080
	9,528			9,528	31 May 2012			
	6,203			6,203	1 March 2013			
	–			4,778	2 March 2014			
Total	**30,738**	**10,803**	**–**	**41,541**		**–**	**3,871**	**2,164**
Executive Committee members	**73,105***	**38,114**	**(11,610)[1]**	**99,609**		**–**	**11,931**	**6,248**

[1] *A total of 11,610 share awards vested during the year 1 January 2011 to 31 December 2011 on which a gain of R1,013,032 was realised.*

LONG-TERM INCENTIVE PLAN

	Balance at beginning of year	Conditional awards granted	Shares vested	Balance at end of year	Vesting date	Weighted average exercise price	Share-based payment expense	
	Number of shares					Rand	2011 Rand '000	2010 Rand '000
Executive directors								
CI Griffith	37,508	9,634	(7,548)	39,594		–	2,556	2,185
	7,548			18,586	1 April 2012			
	18,586			11,374	2 March 2013			
	11,374			9,634	1 March 2014			
VP Uren	31,286	8,326	(5,240)	34,372	–	–	2,164	1,788
	5,240			16,858	1 April 2012			
	16,858			9,188	2 March 2013			
	9,188			8,326	1 March 2014			
Total	**68,794**	**17,960**	**(12,788)**	**73,966**		**–**	**4,720**	**3,973**
Executive Committee members	**2,546***	**–**	**(2,546)[1]**	**–**		**–**	**–**	**1,592**

[1] *A total of 15,334 conditional share awards vested during the year 1 January 2011 to 31 December 2011 on which a gain of R12,383,139 was realised.*

Audited annual financial statements

SHARE APPRECIATION RIGHTS SCHEME

	Balance at beginning of year	Rights exercised	Balance at end of year	Weighted average exercise price	Share-based payment expense	
	Number of rights			Rand	2011 Rand '000	2010 Rand '000
Executive directors						
CI Griffith	7,540	–	7,540	259.87	38	243
VP Uren	11,154	(11,154)[1]	–	235.99	26	169
	4,990		–			
	540		–			
	5,624		–			
Total	**18,694**	**(11,154)**	**7,540**	**233.14**	**64**	**412**
Executive Committee members	**14,676***	**(12,496)[1]**	**2,180**	**328.74**	**–**	**890**

[1] *A total of 23,650 share appreciation rights with a weighted average exercise price of R284.15 were exercised during the year 1 January 2011 to 31 December 2011 on which a gain of R4,763,053 was realised (equal to 12,496 Kumba shares on date of vesting).*

* *The differences in the balances at the beginning and at the end of the year to what was previously disclosed for Bonus Share Plan, Long-term Incentive Plan and Share Appreciation Rights Scheme are due to changes in the composition of the Executive Committee.*

Anglo American plc: Group long-term incentive schemes

CI Griffith retained awards granted while he was a participant in certain Anglo American plc Group long-term incentive schemes. CI Griffith no longer receives awards under these schemes.

As at 31 December 2011 the following awards in terms of the Anglo Platinum long-term incentives schemes were held by CI Griffith:

	Balance at beginning and end of year Number	Weighted average exercise price Rand
Anglo Platinum Executive Share Appreciation Scheme	8	211.05
Anglo Platinum Executive Share Option Scheme	2,987	634.53

DIRECTORS' BENEFICIAL INTEREST IN KUMBA

The aggregate beneficial interest in Kumba at 31 December 2011 of the directors of the company and their immediate families (none of which has a holding greater than 1%) in the issued shares of the company are detailed below. There have been no material changes in these shareholdings since 31 December 2011 and the date of approval of the annual financial statements.

	2011			2010		
	Number of shares[1]	Long-term incentive scheme shares[1]	Total beneficial interest	Number of shares[1]	Long-term incentive scheme shares[1]	Total beneficial interest
Executive directors						
CI Griffith	330	68,166	68,496	330	60,055	60,385
VP Uren	1,000	54,881	55,881	11,200	58,819	70,019
Total	**1,330**	**123,047**	**124,377**	11,530	118,874	130,404

[1] *Granted under the Bonus Share Plan, Long-term Incentive Plan and Share Appreciation Rights Scheme as disclosed in the tables above.*

PRINCIPAL ACCOUNTING POLICIES

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 and at Thabazimbi mine in the Limpopo Province.

Kumba is a public company which is 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 consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretation Committee (IFRIC) interpretations of those Standards, the South African Companies Act No 71 of 2008, as amended, the Listings Requirements of the JSE Limited, and the AC 500 standards as issued by the Accounting Practices Board (APB).

The financial statements have been prepared in accordance with the historical cost convention except for certain financial instruments, biological assets and share-based payments which are measured at fair value. The consolidated financial statements are prepared on the basis that the group will continue to be a going concern. These accounting policies are consistently applied throughout the group.

The following principal accounting policies and methods of computation were applied by the company and the group in the preparation of the consolidated and stand-alone financial statements for the financial year ended 31 December 2011. Except as disclosed below, these accounting policies are consistent in all material respects with those applied for the year ended 31 December 2010.

2.2 Statement of compliance

2.2.1 ADOPTION OF AMENDMENTS TO EXISTING ACCOUNTING STANDARDS

The following amendments and revisions to issued accounting standards which are relevant to the group were adopted and are effective from 1 January 2011:

IAS 24, Related party disclosures (amendment)
This amendment simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition and provides a partial exemption from the disclosure requirements for government-related entities. This amendment did not have a significant impact on the reported results for the year ended 31 December 2011.

Annual Improvements Project 2010
The group adopted the amendments to various issued accounting standards issued by the International Accounting Standards Board (IASB) as part of its Annual Improvements Project 2010 that are effective for reporting periods that commenced on 1 January 2011. These amendments did not have an effect on the reported results or the group accounting policies.

Other
A number of other amendments to accounting interpretations issued by the IASB were applicable for annual periods beginning on or after 1 January 2011 and have consequently been adopted. They have not had a material impact on the accounting policies, methods of computation or presentation applied by the group.

2.2.2 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

At balance sheet date, the following new standards, revisions and amendments to issued accounting standards and interpretations, which are relevant to the group but not yet effective, have not been adopted by the group:

IFRS 9, Financial Instruments: Classification and Measurement
IFRS 9 is the first step in the process to replace IAS 39, 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets, financial liabilities, derecognition and hedge accounting. The standard is not applicable until 1 January 2013 but is available for early adoption.

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 to be subsequently measured at amortised cost or fair value. With regards to financial liabilities, the accounting for changes in the fair value of a financial liability that is designated as at fair value through profit or loss and are attributable to changes in the credit risk of that liability are recognised in comprehensive income, unless it creates or enlarges an accounting mismatch in profit or loss.

It is anticipated that IFRS 9 will be adopted in the group's consolidated financial statements for the annual period beginning 1 January 2013. It is not anticipated that the application of the new standard will have a significant impact on amounts reported in respect of the group's financial assets and financial liabilities as the majority of financial assets and financial liabilities are carried at amortised cost as disclosed in note 29. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRS 10, Consolidated financial statements
This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. The standard is effective for annual periods beginning on or after 1 January 2013.

The group is currently in the process of evaluating the detailed requirements of this new standard in order to assess whether this new standard potentially impacts on the entities that the group consolidates as its subsidiaries.

IFRS 11, Joint arrangements

This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Proportional consolidation of joint ventures will no longer be allowed. The standard is effective for annual periods beginning on or after 1 January 2013.

The group is currently in the process of evaluating the detailed requirements of this new standard in order to assess the possible impact on the group's financial statements.

IFRS 12, Disclosures of interests in other entities

This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The standard is effective for annual periods beginning on or after 1 January 2013.

The group is currently in the process of evaluating the detailed requirements of this new standard in order to assess the possible impact on the group's financial statements.

IFRS 13, Fair value measurement

This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The standard is effective for annual periods beginning on or after 1 January 2013.

The group is currently in the process of evaluating the detailed requirements of this new standard in order to assess the possible impact on the group's financial statements.

IFRIC 20, Stripping costs in the production phase of a surface mine

In surface mining operations, entities may find it necessary to remove mine waste materials (overburden) to gain access to mineral ore deposits. This waste removal activity is known as stripping. The interpretation clarifies there can be benefits accruing to an entity from stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods. The interpretation considers when and how to account separately for these benefits arising from the stripping activity, as well as how to measure these benefits both initially and subsequently. The standard is effective for annual periods beginning on or after 1 January 2013.

The group is currently in the process of evaluating the detailed requirements of this new interpretation in order to assess the possible impact on the group's financial statements. It is anticipated that the application of the interpretation will not have a significant impact on the group's operations as the interpretation is in line with the group's current accounting policy on waste stripping cost.

Amendment to IFRS 7, 'Financial Instruments: Disclosures'

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. The amendment is effective for periods beginning on or after 1 July 2011.

It is not anticipated that this amendment will have a significant effect on the group's disclosures.

Amendment to IAS 12, 'Income Taxes' on Deferred Tax

The amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income Taxes – Recovery of Revalued Non-depreciable Assets', would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is accordingly withdrawn. The amendment is effective for periods beginning on or after 1 January 2012.

It is not expected that this amendment will have any impact on the group's financial statements as the group does not have any investment properties at present.

Other

A number of other amendments to accounting standards and interpretations issued by the IASB are effective for annual periods beginning on or after 1 January 2012. They are not expected to have an impact on the accounting policies, methods of computation or presentation applied by the group.

2.3 Foreign currencies

Items included in the financial results 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 consolidated financial results are presented in rand, which is Kumba's functional and the group's presentation currency.

FOREIGN CURRENCY TRANSACTIONS

Transactions are translated into the functional currency of an entity at the rate of exchange ruling 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 balance sheet date.

Foreign exchange gains and losses arising on translation are recognised in the income statement, except where they relate to cash flow hedging activities in which case they are recognised in the statement of changes in equity.

FOREIGN OPERATIONS

The financial results of all entities that have a functional currency different from the presentation currency of their parent entity are translated into the presentation currency.

All assets and liabilities, including fair value adjustments arising on acquisitions, are translated at the rate of exchange ruling at the balance sheet 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 equity. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and/or liabilities of the foreign entity and translated at the closing rate.

On disposal of part or all of the investment, the proportionate share of the related cumulative gains and losses previously recognised in the foreign currency translation reserve in the statement of changes in equity are recognised in the income statement on disposal of that investment.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, 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 service provided, with the segment representing a strategic business unit. The reportable operating segments derive their revenue primarily from mining, extraction, production and selling of iron ore and shipping operations charged to external clients.

2.5 Post-balance sheet events

Recognised amounts in the financial statements are adjusted to reflect events arising after the balance sheet date that provide evidence of conditions that existed at the balance sheet date. Events after the balance sheet that are indicative of conditions that arose after the balance sheet date are dealt with by way of a note.

2.6 Comparative figures

Comparative figures are restated in the event of a change in accounting policy.

3. COMPANY FINANCIAL STATEMENTS

Subsidiaries, associates and joint ventures

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

4. CONSOLIDATED FINANCIAL STATEMENTS

4.1 Basis of consolidation

The consolidated financial statements present the financial position and changes therein, operating results and cash flow information of the group. The group comprises Kumba, its subsidiaries and interests in joint ventures and associates.

Where necessary, adjustments are made to the results of subsidiaries, joint ventures 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 ventures 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 the power to exercise control. Control is achieved where the group has the ability, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

NON-CONTROLLING INTERESTS

The effects of transactions with non-controlling interests 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 equity.

When the group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in comprehensive income are reclassified to profit or loss.

ASSOCIATES

Associates are investments over which the group is in a position to exercise significant influence, but not control or joint 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.

Under this method the group's share of post-acquisition profits or losses of associates is recognised in the income statement as equity accounted earnings and its share of movements in post-acquisition equity reserves is recognised in the statement of changes in equity. All cumulative post-acquisition movements in the equity of associates are adjusted against the carrying value of the investment. When the group's share of losses in associates equals or exceeds its interest in those associates, the group does not recognise further losses, unless the group has incurred a legal or constructive obligation or made payments on behalf of those associates.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in comprehensive income are reclassified to profit or loss where appropriate.

Goodwill identified on acquisition relating to associates is included in the carrying value of those associates.

The total carrying value of associates, including goodwill, is evaluated annually for impairment or when conditions indicate that a decline in fair value below the carrying amount is other than temporary. If impaired, the carrying value of the group's share of the underlying net assets of associates is written down to its estimated recoverable amount in accordance with the accounting policy on impairment and recognised in the income statement as part of equity accounted earnings of those associates.

Results of associates are equity accounted from their most recent audited annual financial statements or unaudited interim financial statements.

JOINT VENTURES

A joint venture is an economic entity in which the group holds a long-term interest and shares joint control over strategic, financial and operating decisions with one or more other venturers established under a contractual arrangement. It may involve a corporation, partnership or other entity in which the group has an interest.

The group's share of the assets, liabilities, income, expenditure and cash flows of joint ventures are accounted for using the proportionate consolidation method. The proportionate share of the financial results of joint ventures is consolidated into the consolidated financial statements from date on which joint control commences until such time as joint control ceases. Proportionate consolidation combines the group's share of the financial results of the joint venture on a line-by-line basis with similar items in the consolidated financial statements.

BALANCE SHEET

4.2 Property, plant and equipment

Land and assets that are in the process of being constructed, which include capitalised development and mineral exploration and evaluation costs, are measured at cost less accumulated impairment and are not depreciated.

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

The cost of an item of property, plant and equipment shall be recognised as an asset 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;
- gains or losses on qualifying cash flow hedges attributable to that asset;
- capitalised borrowing costs; and
- capitalised preproduction expenditure and 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 income statement.

Subsequent expenditure on property, plant and equipment is capitalised only when the expenditure enhances the value or output of the asset beyond original expectations and it can be measured reliably.

Costs incurred on repairing and maintaining assets are recognised in the income statement in the period in which they are incurred.

Gains and losses on the disposal of property, plant and equipment, which are represented by the proceeds on disposal of such assets less their carrying values at that date, are recognised in the income statement.

DEPRECIATION

Depreciation is charged on a systematic basis over the estimated useful lives of the assets after taking into account the estimated residual value of the assets. Depreciation commences on self-constructed assets when they are ready for their intended use by the group. The useful life of an asset is the period of time over which the asset is expected to be used (straight-line method of depreciation). The estimated useful lives of assets and their residual values are reassessed annually, 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 are:

Mineral properties	10 – 23 years
Residential buildings	5 – 23 years
Buildings and infrastructure	5 – 23 years
Mobile equipment, built-in process computers and reconditionable spares	2 – 23 years
Fixed plant and equipment	4 – 23 years
Loose tools and computer equipment	5 years
Mineral exploration, site preparation and development	5 – 23 years

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:
- evaluate as being technically or commercially feasible;
- has sufficient resources to complete development; and
- can demonstrate will generate 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. Capitalisation of pre-production expenditure ceases when the mining property is capable of commercial production.

During the development of a mine, before production commences, stripping expenses are capitalised as part of the investment in construction of the mine.

Capitalised pre-production expenditure prior to commercial production is assessed for impairment in accordance with the group accounting policy stated below.

WASTE STRIPPING EXPENSES

The removal of overburden or waste is required to obtain access to the ore body. To the extent that the actual stripping ratio is higher than the average LOM stripping ratio in the early years of a mine's production phase, the mining costs associated with this process are deferred and charged to operating costs using the expected average stripping ratio over the average life of the area being mined. The effect of this will therefore be that the cost of stripping in profit or loss will be reflective of the average stripping rates for the ore body as a whole. This reflects the fact that waste removal is necessary to gain access to the ore body and therefore realise future economic benefit.

The average LOM stripping ratio is calculated as the number of tonnes of waste material expected to be removed during the LOM, per tonne of ore mined. The average LOM cost per tonne is calculated as the total expected mining costs to be incurred to mine the ore body divided by the number of tonnes expected to be mined. Where the pit profile is such that the actual stripping ratio is below the average LOM stripping ratio in the early years 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.

4.3 Business combinations and goodwill

BUSINESS COMBINATIONS

The purchase method of accounting is used when a business is acquired.

On acquisition date, fair values are attributed to the identifiable assets, liabilities and contingent liabilities. The non-controlling interest at acquisition date is determined as the non-controlling shareholders' proportionate share of the fair value of the net assets of subsidiaries acquired.

The cost of acquisition is measured as the fair value of the group's contribution to the business combination in the form of assets transferred, shares issued or liabilities assumed at the acquisition date plus all costs directly attributable to the acquisition.

Fair values of the identifiable assets and liabilities are determined by reference to market values of those or similar items at the acquisition date, irrespective of the extent of any non-controlling interests, where these values are available. Alternatively, these values are determined by discounting expected future cash flows to present values.

GOODWILL

Goodwill is measured at cost less accumulated impairment, if any. Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the identifiable net assets of the acquired entity at the date of acquisition.

Goodwill is assessed for impairment on an annual basis. Once any impairment has occurred on a specific goodwill item, the impairment losses will not be reversed in future periods.

Negative goodwill arises when the cost of acquisition is less that the fair value of the net identifiable assets and contingent liabilities of the entity acquired. Negative goodwill is recognised directly in the income statement.

The gain or loss on disposal of an entity includes the balance of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination from which the goodwill arose identified according to operating segment.

4.4 Impairment of non-financial assets

The group's non-financial assets, other than inventories and deferred tax, are reviewed to determine whether there is any indication that those assets are impaired 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.

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 are separately identifiable cash flows (cash-generating units). The recoverable amount is determined for the cash-generating unit to which the asset belongs.

The impairment loss recognised in the income statement is the excess of the carrying value over the recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate. The discount rate reflects the current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount and an impairment loss is recognised in the income statement.

A previously recognised impairment will be 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 cash-generating unit'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 income statement.

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 cash-generating units of producing properties that are located in the same region.

4.5 Biological assets

Biological assets are measured on initial recognition and at each balance sheet date at their fair value less estimated costs to sell, with these fair value adjustments recognised as income and expenditure in the income statement in the period in which they occur.

Biological assets comprise livestock and game. The fair value of livestock is determined based on market prices taking into account the age and size of the animals, on the basis that the animal is sold commercially. The fair value of game is the market price for the game, determined using auction selling prices achieved for live game.

Both livestock and game held for sale are classified as consumable biological assets.

4.6 Financial instruments

Purchases and sales of financial instruments are recognised on the trade-date, being the date on which the group becomes party to the contractual provisions of the relevant instrument. The financial instruments are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, with the exception of at fair value through profit or loss assets which are initially recognised at fair value, and transaction costs are expensed in the income statement. The fair values are based on quoted bid prices or amounts derived using discounted cash flow models. Subsequent to initial recognition, the instruments are measured as set out on the next page.

Financial assets (other than derivative financial instruments)

The group classifies all of its financial assets into the 'at fair value through profit or loss' (FVTPL) and 'loans and receivables' categories. This classification is dependent on the purpose for which the financial asset is acquired. Management determines the classification of its financial assets at the time of the initial recognition and re-evaluates such designation annually.

FVTPL financial assets are financial assets that are designated by the group as at FVTPL on initial recognition. A financial asset is designated in this category if it is managed and its performance is evaluated on a fair value basis, in accordance with documented risk management policies. Assets in this category are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Financial assets at FVTPL are subsequently carried at fair value. Gains or losses arising from changes in the fair value of this category are presented in the income statement within 'finance gains/(losses)' in the period in which they arise.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

TRADE RECEIVABLES

Trade receivables are amounts due from customers for iron ore sold or shipping services rendered in the ordinary course of business.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, deposits held on call, and investments in money market instruments that are readily convertible to a known amount of cash, all of which are available for use by the group unless otherwise stated.

IMPAIRMENT

Loans and receivables are assessed at each balance sheet date to determine whether objective evidence exists that a financial asset is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment 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.

To the extent that the carrying value of an individual or group of assets exceeds the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate of those assets, an impairment loss is recognised by way of an allowance account in the income statement.

An impairment is reversed when evidence exists that an impairment has decreased. The reversal does not result in the carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the income statement.

DERECOGNITION: FINANCIAL ASSETS

Financial assets are derecognised when the rights to receive cash flows from the assets have 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.

Financial liabilities (other than derivative financial instruments)

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. They are included in current liabilities, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current liabilities.

Financial liabilities comprise short-term and long-term interest-bearing borrowings and trade and other payables (excluding income received in advance).

Financial liabilities are subsequently carried at amortised cost using the effective interest method. Interest calculated using the effective interest rate method is recognised in profit or loss.

BORROWINGS

Borrowings comprise short-term and long-term interest-bearing borrowings. Premiums or discounts arising from the difference between the fair value of borrowings raised and the amount repayable at maturity date are recognised in the income statement as borrowing costs based on the effective interest rate method.

TRADE PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

DERECOGNITION: FINANCIAL LIABILITIES

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

EQUITY INSTRUMENTS

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities, and includes ordinary share capital.

Equity instruments issued by the group are recorded at the proceeds received, net of direct issue costs.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative instruments are categorised as at FVTPL financial instruments held for trading 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 balance sheet date. Resulting gains or losses on derivative instruments, excluding designated and effective hedging instruments, are recognised in the income statement.

The group's criteria for a derivative instrument to be designated as a hedging instrument require that:

- the hedge transaction is expected and assessed to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk;
- the effectiveness of the hedge can be reliably measured throughout the duration of the hedge;
- the hedging relationship is adequately documented at the inception of the hedge; and
- for cash flow hedges, the forecasted transaction that is the subject of the hedge is highly probable.

A derivative instrument is classified as a cash flow hedge when it is designated and qualifies as hedge of a particular risk associated with a recognised asset or liability or highly probable forecasted transaction.

The effective portion of any fair value gain or loss arising on such a derivative instrument is classified in comprehensive income as a cash flow hedge accounting reserve until the underlying transaction occurs. The ineffective part of any gain or loss is recognised immediately in the income statement within 'finance gains/(losses)'.

If the forecasted transaction results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is transferred from the cash flow hedge accounting reserve and included in the initial measurement of the cost of the underlying asset or liability on the transaction date. For hedges that do not result in the recognition of a non-financial asset or liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects profits or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, revoked, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedge transaction is no longer expected to occur, the net cumulative gain or loss previously recognised in equity is included in the income statement within 'finance gains/(losses)' for the period.

OFFSET

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 balance sheet.

4.7 Inventories

Inventories, which comprise finished products, work-in-progress, plant spares and stores, raw material and merchandise, 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 raw materials, 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 balance sheet and expensed to the income statement as they are utilised.

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

4.8 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 there from, net of tax. Incremental costs directly attributable to the issue of new shares for the acquisition of a business are included in the cost of acquisition as part of the purchase consideration.

4.9 Treasury shares

When the group acquires its own share capital, the amount of the consideration paid, including directly attributable costs, net of any related tax benefit, is recognised as a change in equity. Shares repurchased by the issuing entity are cancelled.

Shares repurchased by group entities are classified as treasury shares and are held at cost. These shares are treated as a deduction from the issued and weighted average number of shares, and the cost price of the shares is presented as a deduction from total equity. The par value of the shares is presented as a deduction from ordinary share capital and the remainder of the cost is presented as a deduction from ordinary share premium. Dividends received on treasury shares are eliminated on consolidation.

4.10 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 in the statement of changes in equity. Secondary Taxation on Companies (STC) in respect of such dividends is recognised as a liability when the dividends are recognised as a liability and are included in the taxation charge in profit or loss.

Dividends proposed or declared subsequent to the balance sheet date are not recognised, but are disclosed in the notes to the consolidated financial statements.

4.11 Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

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 income statement.

Contributions to rehabilitation trust

Annual contributions are made to a dedicated environmental rehabilitation trust to fund the estimated cost of rehabilitation during and at the end of the life of the group's mines. The group exercises full control over this trust and therefore the trust is consolidated. The trust's assets are recognised separately on the balance sheet as non-current assets at fair value. Interest earned on funds invested in the environmental rehabilitation trust is accrued on a time-proportion basis and recognised as interest income.

Ongoing rehabilitation expenditure

Ongoing rehabilitation expenditure is recognised in the income statement as incurred.

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 balance sheet, 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 income statement. 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.

EMPLOYEE BENEFITS CASH-SETTLED SHARE-BASED PAYMENTS

Refer to the 'Employee benefits – equity compensation benefits' accounting policy note below.

4.12 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;
- 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; and
- investments in subsidiaries to the extent they will probably not reverse in the foreseeable future.

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 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.

When dividends received during the current year can be offset against future dividend payments to reduce the secondary tax (STC) liability, a deferred tax asset is recognised to the extent of the future reduction in STC.

The carrying amount of deferred tax assets is reviewed at each balance sheet 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 that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is recognised in the income statement, 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.

4.13 Employee benefits

LONG-TERM BENEFITS

The vesting portion of long-term benefits is recognised and provided at balance sheet date, based on the current total cost to the group.

POST-EMPLOYMENT BENEFITS

The group operates defined contribution plans for the benefit of its employees, the assets of which are held in separate funds. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. 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 income statement 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 is also a participating employer in two closed defined benefit plans for its pensioner members who retired before 2001. The group does not, however, provide defined employee benefits to its current employees. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

Statutory actuarial valuations on the defined benefit plans are performed every three years, using the projected unit credit method. Valuations are performed on a date which coincides with the balance sheet date. Consideration is given to any event that could impact the funds up to balance sheet date.

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 balance sheet date, they are discounted to present value.

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 non-transferability, 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 balance sheet date.

INCOME STATEMENT

4.14 Revenue

Revenue is derived principally from the sale of iron ore and shipping services rendered. Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and service in the ordinary course of the group's activities. Revenue excludes value-added tax (VAT), discounts, volume rebates and sales between group companies, and represents the gross value of goods invoiced.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the group's activities as described below.

SALES OF GOODS – IRON ORE

Revenue from the sale of iron ore is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer. Export revenues are recorded when the risks and rewards of ownership are transferred as indicated by the relevant sales terms stipulated in the sales contract.

SHIPPING SERVICES

Revenue arising from shipping services rendered is recognised based on the percentage of completion method based on the services performed to date as a percentage of the total services to be performed, and is only recognised when the stage of completion can be measured reliably.

4.15 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.

4.16 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

Dividends received are recognised when the right to receive payment is established.

4.17 Borrowing costs

Interest on borrowings directly relating to the financing of qualifying capital projects under construction is added to the capitalised cost of those projects during the construction phase, until such time as the assets are substantially ready for their intended use or sale which, in the case of mining properties, is when they are capable of commercial production. Where funds have been borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the group during the period.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4.18 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 income statement during the period in which the employee renders the related service.

4.19 Operating leases

The group leases property and equipment. Under the leasing agreements all the risks and benefits of ownership are effectively retained by the lessor and are classified as operating leases. Payments made under operating leases are expensed in the income statement on a straight-line basis over the period of the lease.

4.20 Taxation

The income tax charge for the period is determined based on profit before tax for the year and comprises current, deferred tax and STC.

Tax is recognised in the income statement, except to the extent that it relates to items recognised in comprehensive income or directly in equity. In this case the tax is also recognised in 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 balance sheet date and any adjustments to tax payable in respect of prior years. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible.

STC

STC is recognised as part of the current tax charge in the income statement when the related dividend is declared. When dividends received during the current year can be offset against future dividend payments to reduce the STC liability, a deferred tax asset is recognised to the extent of the future reduction in STC.

Also refer to the 'Deferred tax' accounting policy note above.

4.21 Earnings per share

The group presents basic and diluted earnings per share (EPS) 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.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprises share options granted to employees.

4.22 Convenience translation from Rand to US dollars

The presentation currency of the group is 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 balance sheet 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 balance sheet date.

The resulting translation differences are included in shareholders' equity.

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 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.

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

5.1 Property, plant and equipment

The depreciable amount of property, plant and equipment is allocated on a systematic basis over its useful life. 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 an asset is expected to be abandoned the residual value is estimated at zero.

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.

Also refer to the unaudited Ore Reserves and Mineral Resources statement included in the Integrated Report 2011 for a more detailed discussion on iron ore reserve estimation.

IR Page 70

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.

5.2 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 costs is calculated using management's best estimates of the:
- expected stripping ratio;
- the average LOM stripping ratio; and
- the total expected mining costs to be incurred to mine the ore body.

The average LOM stripping ratio and the average LOM mining cost are recalculated annually in light of additional knowledge and changes in estimates. Any change in management's estimates would impact the stripping costs capitalised charged to operating costs.

5.3 Impairment of non-financial assets

The group reviews and tests the carrying value of assets when events or changes in circumstances indicate that the carrying amount may not be recoverable by comparing expected future cash flows to these carrying values. Such events or circumstances include movements in exchange rates, iron ore prices and the economic environment in which its businesses operate. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows of each group of assets.

Expected future cash flows used to determine the value in use of non-financial assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including iron ore reserves and production estimates, together with economic factors such as future iron ore prices, discount rates, foreign currency exchange rates, estimates of production and logistics costs, future capital expenditure and discount rates used.

5.4 Provision for environmental rehabilitation and decommissioning

The provisions for environmental rehabilitation and decommissioning 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, LOM 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.

5.5 Deferred tax assets

The group recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future, or the 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 level. 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 the balance sheet date could be impacted.

5.6 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).

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

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 mining royalty payable will be 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.

5.8 Discount rates

The discount rates used are the appropriate pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the assets and liabilities being measured for which the future cash flow estimates have not been adjusted.

5.9 Segment reporting

In applying IFRS 8, 'Operating segments', management makes judgements with regard to the identification of reportable operating segments of the group.

5.10 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.

BALANCE SHEET

Rand million	Notes	2011	2010
Assets			
Property, plant and equipment	1	20,878	15,866
Biological assets	2	6	6
Investments in associates and joint ventures	3	33	29
Investments held by environmental trust	4	568	372
Long-term prepayments and other receivables	5	95	53
Deferred tax assets	11	658	472
Non-current assets		**22,238**	**16,798**
Inventories	6	3,864	3,102
Trade and other receivables	7	3,537	3,096
Current tax assets	26	32	24
Cash and cash equivalents	8	4,742	4,855
Current assets		**12,175**	**11,077**
Total assets		**34,413**	**27,875**
Equity and liabilities			
Shareholders' equity		15,833	14,338
Non-controlling interest	23	4,759	4,038
Total equity		**20,592**	**18,376**
Liabilities			
Interest-bearing borrowings	9	–	3,185
Provisions	10	901	672
Deferred tax liabilities	11	4,942	2,272
Non-current liabilities		**5,843**	**6,129**
Short-term portion of interest-bearing borrowings	9	3,191	–
Short-term portion of provisions	10	11	11
Trade and other payables	12	4,556	3,274
Current tax liabilities	26	220	85
Current liabilities		**7,978**	**3,370**
Total liabilities		**13,821**	**9,499**
Total equity and liabilities		**34,413**	**27,875**

INCOME STATEMENT

Rand million	Notes	2011	2010
Revenue	14	48,553	38,704
Operating expenses	15	(16,587)	(13,573)
Operating profit	16	31,966	25,131
Finance income	18	241	149
Finance costs	18	(149)	(178)
Profit before taxation		32,058	25,102
Taxation	19	(9,760)	(6,813)
Profit for the year		**22,298**	**18,289**
Attributable to:			
Owners of Kumba		17,042	14,323
Non-controlling interest		5,256	3,966
		22,298	**18,289**
Earnings per share for profit attributable to the owners of Kumba (Rand per share)	20		
Basic		53.11	44.66
Diluted		52.97	44.52

STATEMENT OF COMPREHENSIVE INCOME

Rand million	Notes	2011	2010
Profit for the year		**22,298**	**18,289**
Other comprehensive income/(losses) for the year, net of tax	13	**404**	**(217)**
Exchange differences on translation of foreign operations		363	(215)
Net effect of cash flow hedges		41	(2)
Total comprehensive income for the year		**22,702**	**18,072**
Attributable to:			
Owners of Kumba		17,340	14,143
Non-controlling interest		5,362	3,929
		22,702	**18,072**

STATEMENT OF CHANGES IN EQUITY

Rand million	Share capital and share premium (note 21)	Treasury shares (note 21)	Equity-settled share-based payments reserve (note 22)	Foreign currency translation reserve	Cash flow hedge accounting reserve	Retained earnings	Share-holders' equity	Non-controlling interest	Total equity
Balance at 31 December 2009	270	(62)	466	318	(8)	6,322	**7,306**	1,650	**8,956**
Shares issued during the year	80	(6)	–	–	–	–	**74**	–	**74**
Net movement in treasury shares under employee share incentive schemes	–	(129)	–	–	–	–	**(129)**	–	**(129)**
Equity-settled share-based payments expense	–	–	203	–	–	–	**203**	(8)	**195**
Vesting of shares under employee share incentive schemes	–	–	(13)	–	–	(50)	**(63)**	–	**(63)**
Total comprehensive income for the year			–	(165)	(15)	14,323	**14,143**	3,929	**18,072**
Change in effective ownership of SIOC	–	–	(16)	(11)	(1)	(273)	**(301)**	301	**–**
Share-based payment vesting upon deconsolidation of the SIOC Community Development SPV	–		(153)	–	–	14	**(139)**	–	**(139)**
Dividends paid	–	–	–	–	–	(6,756)	**(6,756)**	(1,834)	**(8,590)**
Balance at 31 December 2010	350	(197)	487	142	(24)	13,580	**14,338**	4,038	**18,376**
Shares issued during the year	16	–	–	–	–	–	**16**	–	**16**
Net movement in treasury shares under employee share incentive schemes	–	(139)	–	–	–	–	**(139)**	–	**(139)**
Equity-settled share-based payments expense	–	–	265	–	–	–	**265**	87	**352**
Vesting of shares under employee share incentive schemes	–	–	(445)	–	–	(1,712)	**(2,157)**	(646)	**(2,803)**
Total comprehensive income for the year	–	–	–	280	18	17,042	**17,340**	5,362	**22,702**
Change in effective ownership of SIOC	–	–	–	–	–	4	**4**	(4)	**–**
Dividends paid	–	–	–	–	–	(13,834)	**(13,834)**	(4,078)	**(17,912)**
Balance at 31 December 2011	**366**	**(336)**	**307**	**422**	**(6)**	**15,080**	**15,833**	**4,759**	**20,592**

Rand	2011	2010
Dividend per share (note 20)		
Interim	21.70	13.50
Final*	22.50	21.00
Total	**44.20**	**34.50**

* *The final dividend 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 payment 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.

Cash flow hedge accounting reserve

The cash flow hedge accounting reserve comprises the effective portion of the cumulative net change in the fair value of derivative financial instruments designated as cash flow hedges where the forecasted transaction has not yet occurred.

CASH FLOW STATEMENT

Rand million	Notes	2011	2010
Cash flows from operating activities			
Cash receipts from customers		48,788	37,325
Cash paid to suppliers and employees		(16,157)	(11,770)
Cash generated from operations	24	32,631	25,555
Net finance costs paid	25	(96)	(283)
Taxation paid	26	(7,035)	(7,031)
		25,500	**18,241**
Cash flows from investing activities			
Additions to property, plant and equipment	28	(5,849)	(4,723)
Investment in associates and joint ventures	3	(4)	(9)
Proceeds from disposal of non-current assets		2	1
Net cash outflow on disposal of subsidiaries		–	(2)
		(5,851)	**(4,733)**
Cash flows from financing activities			
Shares issued	21	16	74
Purchase of treasury shares	21	(278)	(191)
Vesting of Envision share scheme	22	(1,694)	–
Dividends paid to owners of Kumba	27	(13,742)	(6,714)
Dividends paid to non-controlling shareholders	27	(4,170)	(1,876)
Change in effective ownership of SIOC		–	(147)
Interest-bearing borrowings raised	9	–	4,771
Interest-bearing borrowings repaid	9	–	(5,500)
		(19,868)	**(9,583)**
Net (decrease)/increase in cash and cash equivalents		(219)	3,925
Cash and cash equivalents at beginning of year		4,855	891
Exchange differences on translation of cash and cash equivalents		106	39
Cash and cash equivalents at end of year	8	**4,742**	**4,855**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1. PROPERTY, PLANT AND EQUIPMENT

Rand million	Land	Mineral properties	Residential buildings	Buildings and infra-structure	Machinery, plant and equipment	Mineral exploration, site preparation and de-velopment	Assets under construc-tion	Total
2011								
Cost								
Balance at beginning of year	105	621	139	382	11,013	59	6,980	19,299
Additions (refer to note 28)	22	–	6	1	132	18	5,804	5,983
Changes in decommissioning provision (refer to note 10)	–	–	–	18	13	–	7	38
Disposals and scrapping	–	–	–	–	(58)	–	–	(58)
Transfers between asset classes	101	–	316	2,482	6,053	–	(8,952)	–
Exchange differences on translation	–	–	–	1	–	–	–	1
Balance at 31 December 2011	**228**	**621**	**461**	**2,884**	**17,153**	**77**	**3,839**	**25,263**
Accumulated depreciation								
Balance at beginning of year	–	212	44	120	3,006	51	–	3,433
Depreciation	–	20	7	35	934	2	–	998
Disposals and scrapping	–	–	–	–	(46)	–	–	(46)
Transfers between asset classes	–	–	–	–	–	–	–	–
Balance at 31 December 2011	–	232	51	155	3,894	53	–	4,385
Carrying amount at 31 December 2011	**228**	**389**	**410**	**2,729**	**13,259**	**24**	**3,839**	**20,878**
2010								
Cost								
Balance at beginning of year	64	658	88	271	9,435	81	3,741	14,338
Additions (refer to note 28)	41	–	1	17	209	–	4,751	5,019
Changes in decommissioning provision (refer to note 10)	–	–	3	24	16	–	7	50
Disposals and scrapping	–	(33)	–	(1)	(48)	(22)	–	(104)
Transfers between asset classes	–	–	47	71	1,401	–	(1,519)	–
Exchange differences on translation	–	(4)	–	–	–	–	–	(4)
Balance at 31 December 2010	**105**	**621**	**139**	**382**	**11,013**	**59**	**6,980**	**19,299**
Accumulated depreciation								
Balance at beginning of year	–	195	40	94	2,335	69	–	2,733
Depreciation	–	17	4	18	722	4	–	765
Disposals and scrapping	–	–	–	(1)	(42)	(22)	–	(65)
Transfers between asset classes	–	–	–	9	(9)	–	–	–
Balance at 31 December 2010	–	212	44	120	3,006	51	–	3,433
Impairment of assets								
Balance at beginning of year	–	37	–	–	–	–	–	37
Disposals and scrapping	–	(33)	–	–	–	–		(33)
Exchange differences on translation	–	(4)	–	–	–	–	–	(4)
Balance at 31 December 2010	–	–	–	–	–	–	–	–
Carrying amount at 31 December 2010	**105**	**409**	**95**	**262**	**8,007**	**8**	**6,980**	**15,866**

1. PROPERTY, PLANT AND EQUIPMENT continued

Additional disclosures

Included in the above items of property, plant and equipment are fully depreciated assets still in use with an original cost price of R337 million (2010: R143 million).

During the year the group scrapped fully depreciated assets with an original cost price of R9.1 million (2010: R49 million).

The group generated proceeds from the disposal of items of property, plant and equipment of R1.8 million (2010: R0.7 million).

The estimated replacement value of assets for insurance purposes and assets under construction at cost amounts to R29.9 billion (2010: R26.1 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.

Rand million	2011	2010
Capital commitments		
Capital commitments include all items of capital expenditure for which specific board approval has been obtained up to balance sheet date. Capital expenditure still under investigation for which specific board approvals have not yet been obtained are excluded.		
Capital expenditure contracted for plant and equipment	1,988	1,727
Capital expenditure authorised for plant and equipment but not contracted	2,168	4,965
Capital expenditure will be financed principally from borrowing facilities and cash generated from operations		
Capital commitments for Thabazimbi mine (a captive mine) will be financed by ArcelorMittal		
Capital expenditure contracted for plant and equipment	29	38
Capital expenditure authorised for plant and equipment but not contracted	7	48

2. BIOLOGICAL ASSETS

Rand million	Livestock	Game	Total
Balance at beginning of year	2	4	6
Gains attributable to physical changes and price changes	–	1	1
Disposals	–	(1)	(1)
Balance at 31 December 2011	**2**	**4**	**6**
Balance at beginning of year	4	3	7
Acquisitions	2	–	2
Gains attributable to physical changes and price changes	–	1	1
Disposals	(4)	–	(4)
Balance at 31 December 2010	**2**	**4**	**6**

Biological assets comprise mature livestock and game and are measured at fair value.

Livestock consists of cattle, sheep and goats and game consists of giraffe, ostrich and a variety of antelope.

3. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Rand '000	2011	2010
Associates		
Unlisted	50	50
Joint ventures		
Unlisted	33,251	28,952
Total	**33,301**	**29,002**

Refer to annexure 2 for details of associated companies and joint ventures and directors' valuations.

Rand '000	Investments	Loans	Total
Associates			
Balance at beginning of year	50	–	50
Balance at 31 December 2011	**50**	**–**	**50**
Balance at beginning of year	50	–	50
Balance at 31 December 2010	**50**	**–**	**50**

No income was earned or expense was incurred by the associate during the year as the entity is dormant.

3. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES continued

Rand '000	2011	2010
Balance sheet information of associates		
Non-current assets	2,893	2,893
Total assets	**2,893**	**2,893**
Shareholders' equity	2,847	2,847
Non-current liabilities	46	46
Total equity and liabilities	**2,893**	**2,893**

The financial information presented represents the group's effective interest.

Rand '000	Investments	Loans	Total
Joint ventures			
Balance at beginning of year	–	28,952	28,952
Increase in loans to joint ventures	–	4,299	4,299
Balance at 31 December 2011	**–**	**33,251**	**33,251**
Balance at beginning of year	–	19,840	19,840
Increase in loans to joint ventures	–	9,112	9,112
Balance at 31 December 2010	**–**	**28,952**	**28,952**

Rand '000	2011	2010
Income statement information of joint ventures		
Revenue	–	173,772
Operating expenses	(24,167)	(26,923)
Operating (loss)/profit	(24,167)	146,849
Net financing income	4	278
Profit before taxation	(24,163)	147,127
Taxation	6,771	3,819
(Loss)/profit for the year	**(17,392)**	**150,946**
Balance sheet information of joint ventures		
Non-current assets	23,527	16,762
Current assets	82	3,129
Total assets	**23,609**	**19,891**
Shareholders' deficit	(44,634)	(25,862)
Non-current liabilities	33,251	28,951
Current liabilities	34,992	16,802
Total equity and liabilities	**23,609**	**19,891**
Cash flow information of joint ventures		
Cash flows utilised in operating activities	(7,488)	(22,475)
Cash flows from investing activities	4,299	7,402
Cash flows from financing activities	(105)	–
Foreign currency translations	257	(9,718)
Net decrease in cash and cash equivalents	**(3,037)**	**(24,791)**

The financial information presented represents the group's effective interest.

4. INVESTMENTS HELD BY ENVIRONMENTAL TRUST

Rand million	2011	2010
Balance at beginning of year	372	279
Contributions	183	68
Growth in environmental trusts	13	25
Balance at end of year	**568**	**372**
Cash investments	285	301
Equity investments	283	71
	568	**372**

4. INVESTMENTS HELD BY ENVIRONMENTAL TRUST continued

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 10 for the environmental rehabilitation and decommissioning provisions.

Rand million	2011	2010
Maturity profile of the investments held by environmental trust		
5 years	222	–
More than 5 years	346	372
Currency analysis of investments held by environmental trust		
Rand	568	372

Fair value of investments held by environmental trust

The fair value of investments held by the environmental trust is determined using quoted market values at 31 December 2011.

Rand million	Carrying value	Fair value
Investments held by environmental trust – 2011	568	568
Investments held by environmental trust – 2010	372	372

Credit risk

Investments held by the environmental trust are managed by a financial institution with long-term investment grade credit rating and with the capacity for payment of financial commitments considered strong. The trustees of the environmental trust continuously review the investment strategy of the trust with its investment advisors to ensure that the strategy remains appropriate in light of changing market conditions.

Equity securities price risk

The equity instruments values are determined with reference to quoted market values (level 1).

5. LONG-TERM PREPAYMENTS AND OTHER RECEIVABLES

Rand million	2011	2010
Long-term receivables	1	1
Prepayments	94	52
	95	**53**
Maturity profile of long-term prepayments and other receivables		
1 to 2 years	10	7
2 to 5 years	28	17
More than 5 years	57	29
	95	**53**

6. INVENTORIES

Rand million	2011	2010
Finished products	1,472	1,310
Work-in-progress	1,864	1,375
Plant spares and stores	528	417
	3,864	**3,102**

No inventories are carried at net realisable value or were encumbered during the year.

7. TRADE AND OTHER RECEIVABLES

Rand million	2011	2010
Trade receivables	2,249	2,058
Other receivables	1,198	960
Derivative financial instruments (refer to note 29)	90	78
	3,537	**3,096**

7. TRADE AND OTHER RECEIVABLES continued

Credit risk

Trade receivables are exposed to the credit risk of end-user customers within the steel manufacturing industry.

Significant concentrations of credit risk exist in respect of trade receivables, where R1,862 million (2010: R1,609 million) or 83% (2010: 78%) of the total outstanding trade receivables balance of R2,249 million (2010: R2,058 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 2011.

The group has an established credit policy under which customers are analysed for creditworthiness before the group's payment and delivery terms and conditions are offered. Customer balances are monitored on an ongoing basis to ensure that they remain within the negotiated terms and conditions offered.

Rand million	2011	2010
Trade receivables credit risk exposure by geographical area		
Asia	1,316	1,436
South Africa	486	291
Europe	447	331
	2,249	**2,058**
Credit quality of trade receivables		
Not past due	2,249	2,054
Past due 0 to 30 days	–	4
	2,249	**2,058**
Currency analysis of trade receivables		
US dollar	1,763	1,768
Rand	486	283
Other	–	7
	2,249	**2,058**
Other receivables consists of the following		
Prepayments	55	36
Value-added tax receivable	895	660
Interest receivable	21	29
Provision for doubtful other receivables	–	(5)
Opening balance	(5)	–
Income statement reversal/(charge) for the year	5	(5)
Other	227	240
	1,198	**960**

8. CASH AND CASH EQUIVALENTS

Rand million	2011	2010
Bank balance and cash	**4,742**	**4,855**

Rand million	2011	2010
Currency analysis of cash and cash equivalents		
Rand	4,041	3,346
US dollar	692	1,501
Euro	6	8
Other	3	–
	4,742	**4,855**

Credit risk

Cash and cash equivalents are held in various financial institutions with long-term investment grade credit rating and with the capacity for payment of financial commitments considered strong. Kumba has a R3,885 million short-term deposit facility as at 31 December 2011 that was placed with Anglo American SA Finance Limited (2010: R1,391 million), a subsidiary of the group's ultimate holding company (refer to note 35).

9. INTEREST-BEARING BORROWINGS

Rand million	2011	2010
Non-current interest-bearing borrowings		
Long-term interest-bearing borrowings	3,191	3,185
Current portion included in current interest-bearing borrowings	(3,191)	–
	–	**3,185**
Current interest-bearing borrowings		
Current portion of interest-bearing borrowings	3,191	–
	3,191	**–**
Total interest-bearing borrowings	**3,191**	**3,185**
Reconciliation		
Balance at beginning of year	3,185	3,914
Interest-bearing borrowings raised	–	4,771
Interest-bearing borrowings repaid	–	(5,527)
Deferred transaction cost recognised	6	27
Balance at end of year	**3,191**	**3,185**
Maturity profile of interest-bearing borrowings		
Within 1 year	3,191	–
2 to 3 years	–	3,185
Balance at end of year	**3,191**	**3,185**

Rand million	Maturity date	Interest rate at 31 Dec 2011 (%)	Facility	Outstanding balance 2011	Outstanding balance 2010
Unsecured loans					
Revolving facility "C" at a floating interest rate of 3-month Jibar + 240 basis points, reset quarterly but payable semi-annually (2010: 7.98%) Maturity date 28 November 2013	2013	*	5,400	–	–
Term facility at a floating interest rate of 3-month Jibar + 285 basis points, reset quarterly but payable semi-annually (2010: 8.43%) Maturity date 31 July 2012	2012	8.43	3,195	3,195	3,195
Call loan facility	2012	–	3,690	–	–
Fair value at end of year			12,285	3,195	3,195
Deferred transaction costs				(4)	(10)
Carrying value at end of year			**12,285**	**3,191**	**3,185**

* *There were no funds drawn down against the facility during the year ended 31 December 2011.*

The Jibar rate at 31 December 2011 was 5.584% (2010: 5.549%).

Financial covenants

The group is in compliance with its debt covenants (total debt/earnings before interest, tax, depreciation and amortisation (EBITDA); EBITDA/Net interest expense). This was also the case in 2010.

Currency analysis of interest-bearing borrowings

All interest-bearing borrowings of the group are denominated in Rand.

10. PROVISIONS

Rand million	Employee benefits cash-settled share-based payments	Contract for affreightment	Environ-mental rehabilitation	Decommis--sioning	Total
Non-current provisions	1	–	710	190	901
Current portion of provisions	11	–	–	–	11
Total provisions	**12**	**–**	**710**	**190**	**912**
2011					
Balance at beginning of the year	11	–	532	140	683
Notional interest	–	–	46	13	59
Charged to income statement	–	–	132	–	132
Capitalised to property, plant and equipment	–	–	–	37	37
Utilised during the year	(17)	–	–	–	(17)
Cash-settled share-based payments	18	–	–	–	18
Balance at 31 December 2011	**12**	**–**	**710**	**190**	**912**
Expected timing of future cash flows					
Within 1 year	11	–	–	–	11
5 years	–	–	192	13	205
More than 5 years	1	–	518	177	696
	12	**–**	**710**	**190**	**912**
Estimated undiscounted obligation	**12**	**–**	**1,222**	**369**	**1,603**
2010					
Non-current provisions	–	–	532	140	672
Current portion of provisions	11	–	–	–	11
Total provisions	**11**	**–**	**532**	**140**	**683**
Balance at beginning of the year	10	2	377	83	472
Notional interest	–	–	35	7	42
(Reversed)/charged to income statement	–	(2)	120	–	118
Capitalised to property, plant and equipment	–	–	–	50	50
Utilised during the year	(10)	–	–	–	(10)
Cash-settled share-based payments	11	–	–	–	11
Balance at 31 December 2010	**11**	**–**	**532**	**140**	**683**
Expected timing of future cash flows					
Within 1 year	11	–	–	–	11
More than 5 years	–	–	532	140	672
	11	**–**	**532**	**140**	**683**
Estimated undiscounted obligation	**11**	**–**	**1,082**	**334**	**1,427**

Cash-settled share-based payments (refer to note 22)

At 31 December 2011 the current provision represents amounts payable to deceased beneficiaries on the Envision share scheme. The non-current provision represents amounts payable to beneficiaries of certain conditional share awards under the Bonus share scheme which vests in 2014.

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)

Contributions towards the cost of mine closure are also made to the Kumba Iron Ore Rehabilitation Trust and the balance of the trust amounted to R568 million at 31 December 2011 (2010: R372 million).

Significant accounting estimates

The estimation of the environmental rehabilitation and decommissioning provisions are a key area where management's judgement is required.

A change of 1% in the discount rate used in estimating the environmental rehabilitation and decommissioning provisions would result in an increase of R147.4 million (2010: R43.4 million) or a decrease of R122.3 million (2010: R35.6 million) in the carrying value of the provision.

A change of one year in the expected timing of the commencement of environmental rehabilitation and decommissioning would result in an increase of R34.7 million (2010: R26.9 million) or a decrease of R33.4 million (2010: R25.8 million) in the carrying value of the provision.

10. PROVISIONS continued

Change in accounting estimate

At 31 December 2010 management revised the estimate of the amount and timing of the closure cost of Sishen, Thabazimbi, and Kolomela mines. The effect of these changes are detailed below:

Rand million	Environmental rehabilitation	Decommissioning	Total
Amount of the closure cost	64	18	82
Expected timing of future cash flows	67	20	87
	131	**38**	**169**

The change in estimate in the environmental rehabilitation provision resulted in a decrease in attributable profit for 2011 of R72 million (effect on earnings per share R0.22 per share) after taking into account taxation of R37 million and minority interest of R22 million.
The change in estimate in the decommissioning provision has been capitalised to the related property, plant and equipment (refer to note 1).

11. DEFERRED TAX

Rand million	2011	2010
Deferred tax assets		
Reconciliation		
Balance at beginning of year	472	129
Foreign exchange translation differences	130	(37)
Current year charge per the income statement	56	380
Balance at end of year	**658**	**472**
Expected timing		
Deferred tax assets to be recovered after 12 months	504	327
Deferred tax assets to be recovered within 12 months	154	145
Balance at end of year	**658**	**472**
Deferred tax assets attributable to the following temporary differences		
Estimated tax losses	639	459
Other	19	13
Total deferred tax assets	**658**	**472**

There was no unused tax losses for which a deferred tax asset was recognised at 31 December 2011 (2010: R681 million).

Rand million	2011	2010
Deferred tax liabilities		
Reconciliation		
Balance at beginning of year	2,272	2,282
Prior year adjustment	–	9
Current year charge/(credit) per the income statement	2,670	(19)
Balance at end of year	**4,942**	**2,272**
Expected timing		
Deferred tax liabilities to be recovered after 12 months	4,495	2,064
Deferred tax liabilities to be recovered within 12 months	447	208
	4,942	**2,272**
Deferred tax liabilities attributable to the following temporary differences		
Property, plant and equipment	5,061	2,460
Environmental rehabilitation provision	(199)	(149)
Decommissioning provision	(20)	(16)
Environmental rehabilitation trust asset	159	104
Leave pay accrual	(46)	(40)
Other	(13)	(87)
Total deferred tax liabilities	**4,942**	**2,272**

12. TRADE AND OTHER PAYABLES

Rand million	2011	2010
Trade payables	1,672	1,595
Other payables	2,704	1,510
Leave pay accrual	166	139
Derivative financial instruments (refer to note 29)	14	30
	4,556	**3,274**
Currency analysis of trade and other payables		
Rand	4,197	3,094
US dollar	340	143
Euro	19	37
	4,556	**3,274**

Other payables consist mainly of accruals for goods and services received, as well as a R968 million accrual for PAYE on the Envision distribution paid in January 2012.

13. OTHER COMPREHENSIVE INCOME/(LOSSES)

Rand million	Before tax	Tax	Net of tax
2011			
Foreign currency translation differences			
Net gains arising during the year	363	–	363
Net effect of cash flow hedges			
Net gains arising during the year	41	–	41
Other comprehensive income for the year	**404**	**–**	**404**
2010			
Foreign currency translation differences			
Net losses arising during the year	(215)	–	(215)
Net effect of cash flow hedges			
Net losses arising during the year	(2)	–	(2)
Other comprehensive losses for the year	**(217)**	**–**	**(217)**

14. REVENUE

Rand million	2011	2010
Sale of iron ore	45,842	35,825
Services rendered – shipping	2,711	2,879
	48,553	**38,704**
Sale of iron ore		
Domestic – South Africa	3,388	2,874
Export	42,454	32,951
China	27,193	20,233
Rest of Asia	9,274	7,465
Europe	5,450	4,896
Middle East	227	300
Americas/other	310	57
Services rendered – shipping (China)	2,711	2,879
	48,553	**38,704**

15. OPERATING EXPENSES

Rand million	2011	2010
Operating expenditure by function		
Production costs	9,477	7,317
Movement in work-in-progress inventories	(396)	(288)
Cost of goods produced	9,081	7,029
Movement in finished product inventories	247	(171)
Finance gains (refer to note 17)	(587)	(286)
Other	20	(2)
Cost of goods sold	8,761	6,570
Mineral royalty	1,762	1,410
Selling and distribution costs	3,698	3,041
Distribution costs	3,393	2,760
Selling costs	305	281
Cost of services rendered – shipping	2,374	2,560
Sublease rentals received	(8)	(8)
Operating expenses	**16,587**	**13,573**
Cost of goods sold comprises:		
Staff costs	2,777	2,284
Salaries and wages	2,159	1,883
Equity-settled share-based payments	352	195
Cash-settled share-based payments	17	11
Pension and medical costs	249	195
Raw materials and consumables	2,233	1,509
Depreciation of property, plant and equipment	998	765
Mineral properties	20	17
Residential buildings	7	4
Buildings and infrastructure	35	18
Machinery, plant and equipment	934	722
Site preparation and development	2	4
Repairs and maintenance	968	701
Legal	103	79
Professional fees	330	194
Outside services	1,887	1,288
Technical services and project studies	326	99
General expenses	599	788
Finance gains (refer to note 17)	(587)	(286)
Energy costs	247	189
Own work capitalised	(971)	(581)
Movement in inventories	(149)	(459)
Cost of goods sold	**8,761**	**6,570**

16. OPERATING PROFIT

Rand million	2011	2010
Operating profit includes the following amounts, some of which are also included in the analysis of operating expenses disclosed in note 15:		
Staff costs		
Employee expenses	2,408	2,078
Share-based payments expenses	369	206
Directors' emoluments (refer to remuneration report on page 24)	18	15
Executive directors		
– Emoluments received as directors of the company (excluding fair value of incentive awards)	10	8
– Bonuses and cash incentives	4	4
Non-executive directors – emoluments received as directors of the company	4	3
Prescribed officers remuneration (excluding executive directors – refer to remuneration report on page 24)	28	28
Depreciation of property, plant and equipment (refer to note 1)	998	765
Operating lease rental expenses		
Property	67	45
Equipment	56	34
Borrowings facility fee	6	12
Auditors' remuneration		
Audit fees	8	6
Other services	1	1
Provision for doubtful other receivables	–	5
Impairment of trade receivables	–	1
Research and development cost	1	3
Reconditioned spares usage	4	2
Net loss on disposal of investment	–	2
Net loss on disposal or scrapping of property, plant and equipment	10	5
Operating sublease rentals received		
Property	(8)	(6)
Other	–	(2)

17. FINANCE GAINS/(LOSSES)

Rand million	2011	2010
Finance (losses)/gains recognised in operating profit		
Net (losses)/gains on derivative financial instruments		
Realised	(473)	626
Unrealised	(14)	10
Net foreign currency gains/(losses)		
Realised	1,000	(279)
Unrealised	74	(71)
	587	**286**

18. FINANCE INCOME/(COSTS)

Rand million	2011	2010
Interest expense	(337)	(432)
Notional interest on non-current provisions (refer to note 10)	(59)	(42)
Capitalisation of borrowing costs (refer to note 28)	247	296
Finance costs	(149)	(178)
Interest received	241	149
Net finance income/(costs)	**92**	**(29)**

19. TAXATION

Rand million	2011	2010
Taxation expense		
Current taxation	5,344	6,318
Deferred taxation	2,614	(390)
STC	1,802	885
	9,760	**6,813**
Charge to the income statement		
South African normal taxation		
Current year	5,389	6,292
Prior year	(120)	–
Foreign taxation		
Current year	74	44
Prior year	1	(18)
STC	1,802	885
Income taxation	7,146	7,203
Deferred taxation		
Current year	2,614	(399)
Prior years	–	9
	9,760	**6,813**

%	2011	2010
Reconciliation of taxation rates		
Taxation as a percentage of profit before taxation	30.4	27.1
Taxation effect of:		
Disallowable expenditure	(0.1)	(0.1)
Exempt income	2.2	2.6
Deferred tax asset raised in the current year on unrecognised taxation losses brought forward	0.7	1.8
Rate difference on tax rate	0.2	0.2
STC	(5.6)	(3.5)
Prior year underprovision	0.4	–
Equity-settled share-based payments	(0.2)	(0.3)
Foreign exchange translation differences	–	0.2
Standard taxation rate	**28.0**	**28.0**

20. PER SHARE INFORMATION

Attributable earnings per share is calculated by dividing profit 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	2011	2010
Profit attributable to equity holders of Kumba	17,042	14,323
Number of shares		
Weighted average number of ordinary shares in issue	320,895,696	320,727,067
Potential dilutive effect of outstanding share options	836,000	964,068
Diluted weighted average number of ordinary shares in issue	**321,731,696**	**321,691,135**

20. PER SHARE INFORMATION continued

Rand million	2011 Gross adjustment	2011 Net attributable	2010 Gross adjustment	2010 Net attributable
Profit attributable to equity holders of Kumba	17,042	17,042	14,323	14,323
Net loss on disposal or scrapping of property, plant and equipment	10	6	5	3
Net loss on disposal of investment	–	–	2	2
	17,052	17,048	14,330	14,328
Taxation effect of adjustments	(3)		(1)	
Minority interest in adjustments	(1)		(1)	
Headline earnings	**17,048**	**17,048**	**14,328**	**14,328**

Rand million	2011	2010
Attributable earnings per share		
Basic	**53.11**	44.66
Diluted	**52.97**	44.52
Headline earnings per share		
Basic	**53.13**	44.67
Diluted	**52.99**	44.54
Dividend per share	**44.20**	34.50
Interim	21.70	13.50
Final	22.50	21.00

21. SHARE CAPITAL AND SHARE PREMIUM (including treasury shares)

Number of shares	2011	2010
Authorised		
Ordinary shares of R0.01 each	500,000,000	500,000,000
Issued		
Ordinary shares of R0.01 each	322,058,624	321,911,721
Reconciliation of issued shares		
Number of shares at beginning of year	321,911,721	320,415,081
Number of ordinary shares issued	5,377,770	1,496,640
Number of ordinary shares repurchased and cancelled	(5,230,867)	–
Number of shares at end of year	**322,058,624**	**321,911,721**
Shares held in reserve reconciliation		
Authorised shares at the beginning of year not issued	178,088,279	179,584,919
Shares issued	(140,000)	(1,342,852)
Shares held by the Kumba Iron Ore Management Share Trust	(6,903)	(153,788)
Unissued shares	**177,941,376**	**178,088,279**

The unissued shares are under the control of the directors of Kumba until the next AGM.

Rand million	2011	2010
Reconciliation of share capital and premium		
Balance at beginning of year	153	208
Total shares issued for cash consideration	16	74
Shares issued – share premium	16	80
Net movement in shares held by Kumba Iron Ore Management Share Trust	–	(6)
Net movement in treasury shares under employee share incentive schemes	(139)	(129)
Purchase of treasury shares employee share incentive schemes	(278)	(191)
Shares issued to employees under employee share incentive schemes	139	62
Share capital and premium at end of year	**30**	**153**
Consists of:		
Share capital	3	3
Share premium	27	150

22. EQUITY-SETTLED SHARE-BASED PAYMENTS RESERVE

Rand million	Unrecognised share-based payment expense at 31 December		Recognised share-based payment expense	
	2011	2010	2011	2010
Balance at beginning of year			487	466
Equity-settled share-based payments expense				
Employee share incentive schemes	2,327	200	352	195
– Envision Phase 1	–	119	168	123
– Envision Phase 2	2,227	–	104	–
– Bonus Share Plan (BSP)	94	69	71	39
– Long-term Incentive Plan (LTIP)	6	11	8	24
– Share Appreciation Rights Scheme (SARS)	–	1	1	7
– Deferred Bonus Plan (2011 and 2010: < R1 million)	–	–	–	–
– Management Share Option Scheme	–	–	–	2
Vesting of shares under employee share incentive schemes			(445)	(166)
Change in effective ownership of SIOC (refer to note 23)			–	(16)
Non-controlling interest			(87)	8
Balance at end of year			**307**	**487**

Employee share incentive schemes

Employees of the group participate in the following share incentive schemes. Refer to annexure 3: share-based payments for details of each share scheme.

Bonus Share Plan

The BSP for executive directors and senior employees was implemented during 2009. The adoption and implementation of the scheme was approved by shareholders at the AGM on 20 March 2009. The BSP is offered to senior managers and key executives who have the opportunity and the responsibility to contribute towards the Kumba's overall strategic objectives. The BSP has two components:

- a payment of an annual cash bonus; and
- a forfeitable award of 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.

Long-term Incentive Plan

Senior employees receive annual grants of conditional awards of Kumba shares.

The conditional award will vest after the performance period of three years, and to the extent that specific performance conditions have been satisfied. No retesting of the performance conditions is 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 will 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 do not vest at the end of the three-year period will lapse.

Upon retrenchment, ill-health, disability, retirement or death a proportion of unvested conditional awards shall vest on the date of cessation of employment. The proportion of awards that vest 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 shares in Kumba to employees.

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

Share Appreciation Rights Scheme

During 2007 and 2008 senior employees received annual grants of share appreciation rights, which are rights to receive Kumba shares equal to the value of the difference between the market value of a Kumba share on the day immediately preceding the date of exercise (exercise price) of the right and market value of the Kumba share on the day immediately preceding the date of grant of the right (grant price). No new grants have been made as the SARS was replaced with the BSP.

22. EQUITY-SETTLED SHARE-BASED PAYMENTS RESERVE continued

The vesting of the rights is subject to specific performance conditions. The duration and specific nature of the conditions as determined by the Remuneration Committee of Kumba are stated in the letter of grant for each annual grant. The measurement of the performance conditions will be tested after three years. Retesting of the performance condition is permitted on the first and second anniversary of the end of the performance period. After vesting, the rights will become exercisable.

Kumba will settle the value of the difference between the exercise price and the grant price, by delivering shares to the employee. Rights not exercised within seven years will lapse.

Upon retrenchment, ill-health, disability, retirement or death a proportion of unvested rights shall vest on the date of cessation of employment. The proportion of awards that vest under the SARS 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) rights will lapse on the date of cessation of employment.

Envision

The implementation objective of Envision was to provide an incentive and retention initiative to employees who do not participate in the other share schemes of the group that are permanently employed by SIOC in South Africa.

The acquisition of the interest in SIOC by Envision was funded by SIOC company in terms of a contribution agreement. The scheme's first phase matured on 17 November 2011. A second phase was implemented on 10 November 2011, on the same terms and conditions as the first phase.

Employee beneficiaries of Envision are entitled to receive 50% of any dividend received by Envision in respect of its underlying shareholding in SIOC and a distribution at the end of the first term (five years) of the SIOC shares remaining in Envision after the repurchase of certain SIOC shares in terms of the subscription agreement. Each employee will be entitled to receive Kumba shares which were swapped for the SIOC shares using the specific price earnings ratio of Kumba and the most recent earnings of SIOC at the end of the first term.

Envision was structured as a ten-year scheme, divided into two capital appreciation periods. The first capital appreciation period vested on 17 November 2011. The second capital appreciation period commenced on 10 November 2011 with the issue of 3.09% in the share capital of SIOC to the Envision trust. This resulted in a net increase in the non-controlling interest in SIOC of R4 million.

The unwind of phase one resulted in a net cash outflow for the group through the implementation of the specific share repurchase by Kumba undertaken to monetise the value for employee participants. The actual monetary impact was R2.7 billion, based on a Kumba five-day average share price of R508.82 per share on 17 November 2011. Included in the R2.7 billion is employees' tax of R968 million paid to SARS during January 2012.

Management Share Option Scheme

Prior to the unbundling of Kumba Resources, senior employees and directors of Sishen Iron Ore Company participated in the Kumba Resources Management Share Option Scheme. At the time of unbundling in order to place, as far as possible, all participants in the Kumba Resources Management Share Option Scheme in the position they would have been in if they remained shareholders of the then Kumba Resources Limited, the schemes continued in Kumba and in Exxaro Resources Limited (Exxaro). The Management Share Option Scheme was adopted by the group post unbundling subject to certain amendments that were made to the Kumba Resources Management Share Option Scheme. As a result the senior employees and directors that participated in the Kumba Resources Management Share Option Scheme subsequently became participants of the new Kumba Iron Ore Management Share Option Scheme.

Under the Kumba Resources Management Share Option Scheme, share options in Kumba Resources were granted to eligible employees at the market price of the underlying Kumba Resources shares at the date of the grant.

The options granted under the scheme vest over a period of five years commencing on the first anniversary of the offer date except for some share options granted in 2005 that vest in multiples of 33.3% per year over a three-year period commencing on the first anniversary of the offer date. The vesting periods of these share options are as follows:

- 10% after first anniversary of offer date;
- additional 20% after second anniversary of offer date;
- additional 20% after third anniversary of offer date;
- additional 25% after fourth anniversary of offer date; and
- additional 25% after fifth anniversary of offer date.

Share options not exercised lapse by the seventh anniversary of the offer date.

Participants of the Kumba Iron Ore Management Share Option Scheme and the Exxaro Resources Management Share Option Scheme exchanged each of their Kumba Resources share options for a share option in Kumba and Exxaro. The strike price of each Kumba Resources option was apportioned between Kumba and Exxaro share options with reference to the volume weighted average price (VWAP) at which Kumba (67.19%) and Exxaro Resources (32.81%) traded for the first 22 days post the implementation of the unbundling transaction.

23. NON-CONTROLLING INTEREST

Rand million	2011	2010
Balance at beginning of year	4,038	1,650
Profit for the year	5,256	3,966
Exxaro	4,461	3,671
SIOC Community Development SPV	669	234
Envision	126	61
Dividends paid	(4,078)	(1,834)
Exxaro	(3,516)	(1,811)
SIOC Community Development SPV	(528)	(4)
Envision	(126)	(61)
Recoupment of Envision dividend	92	42
Interest in movement in equity reserves	(457)	256
Change in effective ownership of SIOC (refer to note 22 – Envision)	(4)	301
Equity-settled share-based payments reserve	87	(8)
Vesting of shares under share incentive schemes (excluding Envision)	(146)	–
Vesting of shares under Envision	(500)	–
Foreign currency translation reserve	83	(49)
Cash flow hedge accounting reserve	23	12
Balance at end of year	**4,759**	**4,038**

The recoupment of the Envision dividend of R92 million (2010: R42 million) arises from SIOC's participation as income beneficiary in Envision.

24. CASH GENERATED FROM OPERATIONS

Rand million	2011	2010
Operating profit	31,966	25,131
Adjusted for		
Foreign exchange differences on translation of foreign operations	(733)	155
Depreciation of property, plant and equipment	998	765
Movement in provisions	113	108
Unrealised foreign currency revaluations and fair value adjustments	(62)	61
Reconditionable spares used	4	2
Loss on disposal or scrapping of property, plant and equipment	10	5
Movement in non-current financial assets and prepayments	(235)	(118)
Equity-settled share-based payment expenses	352	195
Cash-settled share-based payment provision	18	11
Cash flows from operations	**32,431**	**26,315**
Working capital movements		
Increase in inventories	(429)	(607)
Decrease/(increase) in trade and other receivables	235	(1,379)
Increase in trade and other payables	394	1,226
	32,631	**25,555**

25. NET FINANCE COSTS PAID

Rand million	2011	2010
Net financing costs as per income statement	92	(29)
Adjusted for:		
Notional interest on non-current provisions (refer to note 10)	59	42
Capitalisation of borrowing costs (refer to note 18)	(247)	(296)
	(96)	**(283)**

26. TAXATION PAID

Rand million	2011	2010
Net taxation (liability)/receivable at beginning of year	(61)	109
Income taxation per the income statement (refer to note 19)	(7,146)	(7,203)
Translation of taxation for foreign operations	(16)	2
	(7,223)	(7,092)
Net current taxation liability per balance sheet	188	61
Taxation paid per the cash flow statement	**(7,035)**	**(7,031)**
Comprising normal taxation:		
South Africa	(7,033)	(7,029)
Foreign	(2)	(2)
	(7,035)	**(7,031)**

27. DIVIDENDS PAID

Rand million	2011	2010
Dividends per the statement of changes in equity	(13,834)	(6,756)
Recoupment of Envision dividend (refer to note 23)	92	42
	(13,742)	**(6,714)**
Dividends paid to non-controlling shareholders		
Dividends per the statement of changes in equity	(4,078)	(1,834)
Recoupment of Envision dividend (refer to note 23)	(92)	(42)
	(4,170)	**(1,876)**

28. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

Rand million	2011	2010
Replacement of property, plant and equipment	(2,745)	(1,560)
Reconditionable spares	–	(64)
Investments to maintain operations	(2,745)	(1,624)
Investment to expand operations	(3,104)	(3,099)
Additions per the cash flow statement	(5,849)	(4,723)
Borrowing costs capitalised (refer to note 18)	(247)	(296)
Movement in capital creditor	112	–
Additions per note 1	**(5,984)**	**(5,019)**

29. FINANCIAL INSTRUMENTS

The group is exposed to credit risk, liquidity risk and market risk (currency risk and interest rate 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 Risk Committee, a committee of the board, is responsible for the development and monitoring of the group's risk management process.

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 causal 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 and the board, via the Risk Committee, with a consistent, enterprise-wide perspective of the key risks. The reports which are submitted monthly to the Executive Committee and quarterly to the Risk Committee include an assessment of the likelihood and impact of risks materialising, as well as risk mitigation initiatives and their effectiveness.

In conducting its review of the effectiveness of risk management, the board considers the key findings from the ongoing monitoring and reporting processes, management assertions and independent assurance reports. 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 Anglo American SA Finance Limited (a subsidiary of the ultimate holding company) provide a treasury function to the group, co-ordinates access to domestic and international financial markets, and manages the financial risks relating to the group's operations.

MEASUREMENT BASIS OF FINANCIAL INSTRUMENTS

Rand million	Notes	Amortised cost	Fair value through profit or loss	Total
2011				
Financial assets				
Investments held by the environmental trust	4	285	283	568
Trade receivables	7	2,249	–	2,249
Other receivables (excluding VAT and prepayments)	7	248	–	248
Derivative financial instruments	7	–	90	90
Cash and cash equivalents	8	4,742	–	4,742
Financial liabilities				
Interest-bearing borrowings	9	(3,191)	–	(3,191)
Trade payables	12	(1,672)	–	(1,672)
Other payables	12	(2,870)	–	(2,870)
Derivative financial instruments	12	–	(14)	(14)
		(209)	**359**	**150**
2010				
Financial assets				
Investments held by the environmental trust	4	301	71	372
Trade receivables	7	2,058	–	2,058
Other receivables (excluding VAT and prepayments)	7	265	–	265
Derivative financial instruments	7	–	78	78
Cash and cash equivalents	8	4,855	–	4,855
Financial liabilities				
Interest-bearing borrowings	9	(3,185)	–	(3,185)
Trade payables	12	(1,595)	–	(1,595)
Other payables	12	(1,510)	–	(1,510)
Derivative financial instruments	12	–	(30)	(30)
		1,189	**119**	**1,308**

29. FINANCIAL INSTRUMENTS continued

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 limits its counterparty exposure arising from money market and derivative instruments by dealing only with well-established financial institutions of high credit standing.

The group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the board annually.

The group has established policies and guidelines that are followed for specific exposure limits when transacting in derivative financial instruments.

The carrying amount of the financial assets as set out above, represents the group's maximum exposure to credit risk.

An analysis of the credit risk of these financial assets is provided under the individual notes specified above. The group does not hold any collateral in respect of its financial assets subject to credit risk.

Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its financial obligations as they become due. The group manages liquidity risk by ensuring sufficient cash is available to meet expected operational expenses as well as sufficient cash resources and credit facilities to meet its liabilities when due. The group's credit facilities are detailed under note 9.

MATURITY PROFILE OF THE GROUP'S FINANCIAL INSTRUMENTS:

Rand million	Notes	Within 1 year	1 to 2 years	3 or more years	Total
2011					
Financial assets					
Investments held by the environmental trust	4	–	–	568	568
Trade receivables	7	2,249	–	–	2,249
Other receivables (excluding VAT and prepayments)	7	247	–	1	248
Cash and cash equivalents	8	4,742	–	–	4,742
Derivative financial instruments	7	90	–	–	90
Financial liabilities					
Interest-bearing borrowings	9	(3,191)	–	–	(3,191)
Trade payables	12	(1,672)	–	–	(1,672)
Other payables	12	(2,870)	–	–	(2,870)
Derivative financial instruments	12	(14)	–	–	(14)
		(419)	**–**	**569**	**150**
2010					
Financial assets					
Investments held by the environmental trust	4	–	–	372	372
Trade receivables	7	2,058	–	–	2,058
Other receivables (excluding VAT and prepayments)	7	264	–	1	265
Cash and cash equivalents	8	4,855	–	–	4,855
Derivative financial instruments	7	78	–	–	78
Financial liabilities					
Interest-bearing borrowings	9	–	(3195)		(3,195)
Trade payables	12	(1,595)	–	–	(1,595)
Other payables	12	(1,510)	–	–	(1,510)
Derivative financial instruments	12	(30)	–	–	(30)
		4,120	**(3,195)**	**373**	**1,298**

Market risk

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

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate in rands due to changes in foreign exchange rates. The group undertakes transactions denominated in currencies other than the respective functional currencies of the entities within the group. Through these transactions the group is exposed to currency risk.

Kumba's iron ore export prices are determined in US dollars and the company 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. The group undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise which may expose it to economic or accounting losses. Treasury continues to sell US dollar export proceeds on a short term rolling forward basis with the view of reducing any short term cash borrowings and matching the cash requirements of the company on a day to day basis. US dollar export proceeds acts as a natural hedge for operating activities while major capital expenditure is hedged.

29. FINANCIAL INSTRUMENTS continued

The average US dollar/rand exchange rate for 2011 of USD1: R7.25 (2010: USD1: R7.30) has been used to translate income and cash flow statements, whilst the balance sheet has been translated at the closing rate at the last day of the reporting year using an exchange rate of USD1: R8.18 (2010: USD1: R6.63). The group's financial instrument exposure to currency risk is analysed under the individual note for each financial instrument at balance sheet date.

NET CURRENCY EXPOSURE OF THE GROUP'S FINANCIAL INSTRUMENTS, EXCLUDING DERIVATIVES

Rand million	Financial assets	Financial liabilities	Net exposure
2011			
Rand	5,343	(7,374)	(2,031)
US dollar	2,455	(340)	2,115
Euro	6	(19)	(13)
Other	3	–	3
	7,807	**(7,733)**	**74**
2010			
Rand	4,265	(6,110)	(1,845)
US dollar	3,270	(143)	3,127
Euro	8	(37)	(29)
Other	7	–	7
	7,550	**(6,290)**	**1,260**

The group uses derivative financial instruments to reduce the uncertainty over future cash flows arising from movements in currencies in which it transacts. Currency risk is managed within board-approved policies and guidelines, which restrict the use of derivative financial instruments to the hedging of specific underlying currencies. Exchange rate exposures are managed within approved policy parameters utilising forward exchange contracts (FECs).

The group maintains a fully covered exchange rate position in respect of imported capital equipment resulting in these exposures being fully converted to rand. Trade-related import exposures are managed through the use of natural hedges arising from export revenue as well as through short-term FECs.

OUTSTANDING EXPOSURE AT 31 DECEMBER IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS

Rand million	Foreign amount (million)	Market related value	Contract value	Recognised fair value in equity
Derivative instruments – cash flow hedges				
FECs related to commitments for the import of capital equipment				
2011				
US dollar	40	328	286	42
Euro	1	13	14	(1)
		341	**300**	**41**
2010				
US dollar	–	2	2	–
Euro	3	27	30	3
		29	**32**	**3**

Rand million	Foreign amount (million)	Market related value	Contract value	Recognised fair value in profit or loss
Derivative instruments – held for trading				
2011				
FECs related to the repatriation of foreign cash receipts				
US dollar	180	1,466	1,505	39
		1,466	**1,505**	**39**
2010				
FECs related to the repatriation of foreign cash receipts				
US dollar	130	863	925	62
FECs related to future commitments for the import of capital equipment				
US dollar	(15)	(99)	(107)	(8)
Euro	–	(3)	(6)	(3)
		761	**812**	**51**

29. FINANCIAL INSTRUMENTS continued

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 below.

The impact on equity includes the after-tax impact of the movements in profit or loss. The analysis has been performed on the basis of the change occurring at the start of the reporting period and is performed on the same basis for 2010.

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).

	Impact on profit or loss		Impact on equity	
Rand million	Increase	Decrease	Increase	Decrease
2011				
US dollar	**91**	**(91)**	**66**	**(66)**
2010				
US dollar	58	(58)	42	(42)

Interest rate risk

Interest rate risk arises from the group's floating rate borrowings and the floating rate cash balances which exist. 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. As part of the process of managing the company's interest rate risk, interest rate characteristics of new borrowings and the refinancing of existing borrowings are positioned according to expected movements in interest rates. For further details on long-term borrowings refer to note 9 'Interest-bearing borrowings'.

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 increased/(decreased) profit or loss and equity by the amounts shown below.

The impact on equity includes the after-tax impact of the movements in profit or loss. The analysis has been performed on the basis of the change occurring at the start of the reporting period and is performed on the same basis for 2010.

	Impact on profit or loss		Impact on equity	
Rand million	Increase	Decrease	Increase	Decrease
2011				
Floating interest rate instruments	**(8)**	**8**	**(6)**	**6**
2010				
Floating interest rate instruments	(8)	8	(6)	6

Price risk

The group is not exposed to commodity price risk, as the value of its financial assets or liabilities are not subject to commodity price movements.

The group is exposed to equity securities price risk from equity investments held by the environmental trust. Refer to note 4 'Investments held by environmental trust'.

Fair value

The fair values of cash and cash equivalents, trade and other receivables and trade and other payables approximate the respective carrying amounts of these financial assets and financial liabilities because of the short period to maturity of these instruments. The fair value of interest-bearing borrowings is disclosed in note 9.

	Level 1[1]	Level 2[2]	Level 3[3]
Fair value measurements recognised in the consolidated balance sheet			
2011			
Investments held by the environmental trust (refer to note 4)	283	–	–
Derivative financial assets	90	–	–
Derivative financial liabilities	(14)	–	–
	359	**–**	**–**
2010			
Investments held by the environmental trust (refer to note 4)	–	71	–
Derivative financial assets	78	–	–
Derivative financial liabilities	(30)	–	–
	48	**71**	**–**

[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 that are not based on observable market data.*

There were no transfers between level 1 and level 2 during the year. This was also the case in 2010.

29. FINANCIAL INSTRUMENTS continued

Fair value gains and losses recognised in operating profit are disclosed in note 17, 'Finance gains/(losses)'. All gain and losses included in other comprehensive income relate to cash flow hedges in respect of future commitments for the import of capital equipment held at the end of the reporting period.

Capital management

The group strives to maintain strong credit ratings. In managing its capital, the group focuses on a sound net debt position, return on shareholders' equity (or return on capital employed) and the level of dividends to shareholders. Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

The group's net cash position at balance sheet dates was as follows:

Rand million	2011	2010
Long-term interest-bearing borrowings	–	3,185
Short-term interest-bearing borrowings	3,191	–
Total	**3,191**	**3,185**
Cash and cash equivalents	(4,742)	(4,855)
Net cash	(1,551)	(1,670)
Total equity	**20,592**	**18,376**

It is the intention of management to fund Kumba's capital projects through debt financing and available cash resources.

The undrawn short- and long-term borrowing facilities available to the group are R9.1 billion (2010: R9.3 billion). Kumba was not in breach of any of its covenants during the current year.

30. EMPLOYEE BENEFITS

Retirement fund

Independent funds provide pension and other benefits for all permanent employees and their dependants. At the end of 2011 and 2010 the following funds were in existence:

- Kumba Iron Ore Selector Pension Fund and Kumba Iron Ore Selector Provident Fund, both operating as defined contribution funds; and
- Iscor Employees Umbrella Provident Fund, operating as a defined contribution 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.

Defined contribution funds

Membership of each fund and employer contributions to each fund were as follows:

Rand million	Working members 2011 Number	Employer contributions 2011	Working members 2010 Number	Employer contributions 2010
Kumba Iron Ore Selector Pension and Provident Funds	2,242	83	2,066	68
Iscor Employees Umbrella Provident Fund	3,508	60	3,779	50
Total	**5,750**	**143**	**5,845**	**118**

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

Medical fund

The group contributes to defined benefit medical aid schemes for the benefit of permanent employees and their dependants. The contributions charged against income amounted to R93 million (2010: R76 million). The group has no obligation to fund medical aid contributions for current or retired employees.

31. GUARANTEES AND LEGAL PROCEEDINGS

Rand million	2011	2010
Guarantees		
Environmental trust closure liability	868	583
	868	**583**

Environmental obligations

During 2011 SIOC issued financial guarantees to the DMR to the value of R286 million (2010: R567 million) in respect of the environmental rehabilitation and decommissioning obligations of the group.

Legal proceedings

ArcelorMittal SA Limited (ArcelorMittal)

SIOC notified ArcelorMittal on 5 February 2010, that it was no longer entitled to receive 6.25Mtpa of iron ore contract mined by SIOC at cost plus 3% from Sishen mine, as a result of the fact that ArcelorMittal had failed to convert its old order mining rights. This contract mining agreement, concluded in 2001, was premised on ArcelorMittal owning an undivided 21.4% interest in the mineral rights of Sishen mine. As a result of ArcelorMittal's failure to convert its old order mining right, the contract mining agreement automatically lapsed and became inoperative in its entirety as of 1 May 2009.

As a result, a dispute arose between SIOC and ArcelorMittal, which SIOC has referred to arbitration. During 2011, three arbitrators were appointed and May 2012 was set as the date for the arbitration to begin. On 9 December 2011, SIOC and ArcelorMittal agreed to postpone the arbitration until the final resolution of the mining right dispute.

SIOC and ArcelorMittal reached an interim pricing arrangement in respect of the supply of iron ore to ArcelorMittal from Sishen mine. This interim arrangement endured until 31 July 2011. SIOC and ArcelorMittal agreed to an addendum to the interim supply agreement which extended the terms and conditions of the current interim pricing agreement. The new interim pricing agreement, which is on the same terms and conditions as the first interim pricing agreement, commenced on 1 August 2011 and will endure to 31 July 2012.

21.4% undivided share of Sishen mine mineral rights

After ArcelorMittal failed to convert its old order rights, SIOC applied for the residual 21.4% mining right previously held by ArcelorMittal and its application was accepted by the DMR on 4 May 2009. A competing application for a prospecting right over the same area was also accepted by the DMR. SIOC objected to this acceptance. Notwithstanding this objection, a prospecting right over the 21.4% interest was granted by the DMR to Imperial Crown Trading 289 (Pty) Limited ('ICT'). SIOC initiated a review application in the North Gauteng High Court on 21 May 2010 in relation to the decision of the DMR to grant a prospecting right to ICT.

The High Court Review, in which SIOC challenged the award of the 21.4% prospecting right over Sishen mine by the DMR to ICT, was presided over by Judge Raymond Zondo in the North Gauteng High Court in Pretoria, South Africa, from 15 – 18 July 2011.

On 21 December 2011, judgment was delivered in the High Court regarding the status of the mining rights at the Sishen mine. The High Court held that, upon the conversion of SIOC's old order mining right relating to the Sishen mine properties in 2008, SIOC became the exclusive holder of a converted mining right for iron ore and quartzite in respect of the Sishen mine properties. The High Court held further that as a consequence, any decision taken by the DMR after such conversion in 2008 to accept or grant any further rights to iron ore at the Sishen mine properties was void. Finally, the High Court reviewed and set aside the decision of the Minister of Mineral Resources or her delegate to grant a prospecting right to ICT relating to the iron ore as a 21.4% share in respect of the Sishen mine properties. On 3 February 2012, both the DMR and ICT submitted applications for leave to appeal against the High Court judgment. SIOC has noted an application for leave to present a conditional cross appeal, in order to present its rights. SIOC is awaiting a date for the hearing of the application for leave to appeal.

The High Court order does not affect the interim supply agreement between AMSA and SIOC, which will endure until 31 July 2012 as indicated above.

SIOC will continue to take the necessary steps to protect its shareholders' interests in this regard.

Lithos Corporation (Pty) Limited (Lithos)

Lithos Corporation (Pty) Limited is claiming USD421 million from Kumba for damages in relation to the Falémé Project in Senegal. Kumba continues to defend the merits of the claim and is of the view, and has been so advised, that the basis of the claim and the quantification thereof is fundamentally flawed. The trial date has been postponed indefinitely. There have been no further developments in this matter.

32. COMMITMENTS

Rand million	2011	2010
Operating lease commitments		
The future minimum lease payments under non-cancellable operating leases are as follows:		
Property		
Within 1 year	8	14
Between 1 and 2 years	40	40
2 to 5 years	27	47
	75	**101**
Plant and equipment		
Within 1 year	11	2
Between 1 and 2 years	2	–
2 to 5 years	1	–
	14	**2**
Other		
2 to 5 years	–	1
Total operating lease commitments	**89**	**104**
Commitments – shipping services		
The future commitments under contracts for affreightment are as follows:		
Within 1 year	943	–
Between 1 and 2 years	924	–
2 to 5 years	2,817	–
More than 5 years	4,784	–
The future commitments for spot vessels are as follows:		
Within 1 year	148	73
	9,616	**73**

33. CONTINGENT ASSETS AND LIABILITIES

Falémé Project

Kumba initiated arbitration proceedings against La Société des Mines De Fer Du Sénégal Oriental (Miferso) and the Republic of Senegal under the rules of the Arbitration of the International Chamber of Commerce in 2007, in relation to the Falémé Project.

Following the arbitration award rendered in July 2010, a mutually agreed settlement was concluded between the parties. The parties agreed that the precise terms of the settlement agreement will remain confidential. The first settlement was paid by the Republic of Senegal in April 2011. The remaining settlement amount will be recovered in equal instalments from the Republic of Senegal over the remaining four-year period, on which contingent legal costs will be payable. A portion of the amount recovered was committed to social and community development projects to benefit the population of Senegal.

Other

There have been no other significant changes in the contingent assets and liabilities disclosed at 31 December 2010.

34. POST-BALANCE SHEET EVENTS

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.

35. RELATED PARTY TRANSACTIONS

During the year the company and its subsidiaries, in the ordinary course of business, entered into various sale and purchase of goods and services with the ultimate holding company, Anglo American plc, its subsidiaries, associates and joint ventures. Certain deposits are also placed with the holding company (refer to note 8). 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 the group's ultimate holding company. The interest in the group is held through a 65.22% holding by Anglo South Africa Capital (Pty) Limited (2010: 65.25%).

Subsidiaries

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 note 3 of the group financial statements and in annexure 2.

Entities with significant influence over SIOC

Exxaro is SIOC's 20% Black Economic Empowerment shareholder. Details of dividends paid to Exxaro as well as its proportionate share of earnings for the year are detailed in note 23 of the group financial statements.

Special purpose entities

The group has an interest in the following special purpose entities which are consolidated:

Entity	Nature of business
SIOC Employee Share Participation Scheme (Envision)	Investment vehicle
Kumba Iron Ore Rehabilitation Trust	Trust fund for mine closure
Kumba BSP Trust	Share incentive scheme administration
Kumba Iron Ore Management Share Trust	Share incentive scheme administration

Directors and prescribed officers

Details relating to directors' and the group's Executive Committee remuneration and shareholdings (including share options) are disclosed in the remuneration report on pages 19 to 26.

Shareholders

The principal shareholders of the company are detailed under 'Shareholder analyses' on page 84.

Material related party transactions

Rand million	2011	2010
Purchase of goods and services and finance charges		
Subsidiary of the ultimate holding company	–	22
Fellow subsidiaries	259	166
Aircraft services	95	69
Research	59	27
Technical services	21	7
Corporate Operations (including shared services)	67	42
Scaw metals	16	21
Other	1	–
Associates and joint ventures	–	174
Enitities with significant influence over SIOC[1]	58	53
	317	**415**
Finance income		
Holding company[2]	197	4
	197	**4**
Amounts owing to related parties (after eliminating intercompany balances)		
Holding company		
Derivative financial instruments	14	30
Fellow subsidiaries		
Trade payables	49	15
	63	**45**

[1] *Goods were purchased from Exxaro and consisted mainly of ferrosilicon.*

[2] *Interest was earned at an average rate of 5.37% (2010: 5.30%) on cash deposits held with Anglo American SA Finance Ltd.*

35. RELATED PARTY TRANSACTIONS continued

Rand million	2011	2010
Amounts owing by related parties (after eliminating intercompany balances)		
Subsidiaries of ultimate holding company	3,980	1,472
Interest receivable	5	3
Cash and cash equivalents	3,885	1,391
Derivative financial instruments	90	78
Fellow subsidiaries		
Trade receivables	5	3
Associates and joint ventures		
Loans	33	29
	4,018	**1,504**

36. SEGMENT REPORTING

The Kumba Executive Committee considers the business principally according to the nature of the products and service provided, with the identified segments each representing a strategic business unit.

The total reported segment revenue comprises revenue from external customers as the group does not have any inter-segment revenue and is measured in a manner consistent with that disclosed in the income statement.

The performance of the operating segments are assessed based on a measure of earnings before interest and tax (EBIT), which is consistent with 'Operating profit' in the financial statements. 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 only, which is allocated based on the operations of the segment and the physical location of the asset.

'Other segments' comprise corporate, administration and other expenditure not allocated to the reported segments.

Rand million	Sishen mine	Thabazimbi mine	Kolomela mine*	Shipping operations	Total
2011					
Revenue (from external customers)	44,903	907	32	2,711	**48,553**
EBIT	32,661	112	(80)	337	**33,030**
Total segment assets	392	268	133	–	**793**
2010					
Revenue (from external customers)	35,159	666	–	2,879	**38,704**
EBIT	25,540	(44)	–	319	**25,815**
Total segment assets	682	306	–	–	**988**

* *Kolomela mine represents a strategic business unit for Kumba, although it does not yet qualify as a reportable segment in terms of IFRS 8, Operating Segments.*

36. SEGMENT REPORTING continued

REVENUE FROM EXTERNAL CUSTOMERS ANALYSED BY GOODS AND SERVICES

Rand million	2011	2010
Sale of products*	45,842	35,825
Shipping services	2,711	2,879
Revenue per the income statement	**48,553**	**38,704**
Reconciliation of EBIT to total profit before taxation		
Total EBIT for reportable segments	33,030	25,815
Other segments	(1,064)	(684)
Operating profit	31,966	25,131
Net finance costs/(income)	92	(29)
Profit before taxation per the income statement	**32,058**	**25,102**
Reconciliation of reportable segments' assets to total assets		
Segment assets for reportable segments	793	988
Other segments and WIP inventory	3,071	2,114
Inventory per balance sheet	3,864	3,102
Other current assets	8,311	7,975
Non-current assets	22,238	16,798
Total assets per the balance sheet	**34,413**	**27,875**

* *Derived from extraction, production and selling of iron ore.*

GEOGRAPHICAL ANALYSIS

Kumba is domiciled in South Africa. The result of its revenue from external customers and its non-current assets disclosed on a geographical basis, are set out below.

Rand million	2011	2010
Revenue from external customers		
South Africa	3,388	2,874
Export	45,165	35,830
China	29,904	23,112
Rest of Asia	9,274	7,465
Europe	5,450	4,896
Middle East	227	300
Americas/other	310	57
Total revenue	**48,553**	**38,704**
Non-current assets*		
South Africa	21,450	16,243
China	2	2
Total non-current assets	**21,452**	**16,245**

* *Excluding pre-payments, investments in associates and joint ventures and deferred tax assets.*

BALANCE SHEET

Rand million	Notes	2011	2010
Assets			
Investments in subsidiaries	1	213	834
Deferred tax assets	2	1	1
Non-current assets		**214**	**835**
Other receivables		–	8
Current tax assets	10	23	4
Cash and cash equivalents	3	147	543
Current assets		**170**	**555**
Total assets		**384**	**1,390**
Equity and liabilities			
Share capital and premium	4	366	350
Reserves		(74)	993
Total equity		**292**	**1,343**
Liabilities			
Provisions	5	–	–
Non-current liabilities		**–**	**–**
Loans from subsidiary companies	1	18	–
Other payables		74	47
Current liabilities		**92**	**47**
Total liabilities		**92**	**47**
Total equity and liabilities		**384**	**1,390**

INCOME STATEMENT

Rand million	Notes	2011	2010
Net operating expenses	6	(44)	(33)
Operating loss		(44)	(33)
Finance income		71	122
Finance costs		(1)	–
Income from investments	7	13,016	6,705
Profit before taxation		13,042	6,794
Taxation	8	(95)	(35)
Profit for the year		**12,947**	**6,759**
Total comprehensive income for the year		**12,947**	**6,759**

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 2011 and 2010.

STATEMENT OF CHANGES IN EQUITY

Rand million	Share capital (note 4)	Share premium (note 4)	Equity-settled share-based payment	Retained earnings	Total
Balance at beginning of year	3	267	202	518	990
Shares issued during the period	–	80	–	–	80
Equity-settled share-based payments	–	–	246	–	246
Vesting of shares under employee share incentive schemes	–	–	(3)	(9)	(12)
Total comprehensive income for the year	–	–	–	6,759	6,759
Dividends paid	–	–	–	(6,720)	(6,720)
Balance at 31 December 2010	**3**	**347**	**445**	**548**	**1,343**
Shares issued during the period	–	16	–	–	16
Equity-settled share-based payments	–	–	(244)	–	(244)
Vesting of shares under employee share incentive schemes	–	–	(7)	(14)	(21)
Total comprehensive income for the year	–	–	–	12,947	12,947
Dividends paid	–	–	–	(13,749)	(13,749)
Balance at 31 December 2011	**3**	**363**	**194**	**(268)**	**292**

CASH FLOW STATEMENT

Rand million	Notes	2011	2010
Cash flows from operating activities			
Cash utilised by operations	9	3	6
Net finance income		71	122
Income from investments		13,016	6,705
Taxation paid	10	(114)	(16)
Dividends paid		(13,749)	(6,720)
		(773)	**97**
Cash flows from investing activities			
Redemption of long-term asset		–	458
Net increase/(decrease) in loans to subsidiaries		364	(164)
		364	**294**
Cash flows from financing activities			
Share capital issued	4	16	80
Increase in loans from subsidiaries		18	–
Vesting of shares under employee share incentive schemes		(21)	(12)
		13	**68**
Net (decrease)/increase in cash and cash equivalents		(396)	459
Cash and cash equivalents at beginning of year		**543**	**84**
Cash and cash equivalents at end of year	3	**147**	**543**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1. INVESTMENTS IN SUBSIDIARIES

Rand million	2011	2010
Reflected as non-current assets		
Shares at cost	3	3
Share-based payment expenditure*	149	406
Long-term loans to subsidiaries	61	425
Short-term loans from subsidiaries	(18)	–
Net investments in subsidiaries	**195**	**834**

* *Arising from the accounting for share-based payment transactions in terms of IFRS 2.*

Investments in subsidiaries are accounted for at cost.

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

2. DEFERRED TAX ASSET

Rand million	2011	2010
Balance at beginning of year	1	1
Balance at end of year	**1**	**1**
Deferred tax asset attributable to the following temporary differences		
Leave pay accrual	1	1
Total deferred tax assets	**1**	**1**

3. CASH AND CASH EQUIVALENTS

Rand million	2011	2010
Cash	147	543
Currency analysis of cash and cash equivalents		
Rand	147	543

Credit risk
Cash and cash equivalents are held in various 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 maturity of these instruments.

4. SHARE CAPITAL AND SHARE PREMIUM

Number of shares	2011	2010
Authorised		
500,000,000 ordinary shares of R0.01 each	500,000,000	500,000,000
Issued		
Ordinary shares of R0.01 each	322,058,624	321,911,721
Reconciliation of issued shares		
Number of shares at beginning of year	321,911,721	320,415,081
Number of ordinary shares issued	5,377,770	1,496,640
Number of ordinary shares repurchased and cancelled	(5,230,867)	–
Number of shares at end of year	**322,058,624**	**321,911,721**

For further detail refer to the group annual financial statements.

Rand million	2011	2010
Reconciliation of share capital and premium		
Share capital	3	3
Share premium	363	347
	366	**350**

5. PROVISIONS

Rand million	2011	2010
Balance at beginning of year	–	1
Amounts utilised against provision	2	(2)
Cash-settled share-based payments	(2)	1
Balance at end of year	**–**	**–**

6. OPERATING (EXPENSES)/INCOME

Rand million	2011	2010
Cost by type		
Salaries and wages	(18)	(26)
Equity-settled share-based payments	(13)	(14)
Cash-settled share-based payments	(2)	(1)
Pension and medical costs	(9)	(2)
General charges	(8)	4
Cost recoveries	6	6
	(44)	**(33)**
The above costs are stated after including:		
Directors' emoluments	18	15
Executive directors		
Emoluments received as directors of the company	10	8
Bonuses and cash incentives	4	4
Non-executive directors – emoluments as directors of the company	4	3

7. INCOME FROM INVESTMENTS

Rand million	2011	2010
Dividends received from subsidiaries	**13,016**	**6,705**

8. TAXATION

Rand million	2011	2010
Charge to income		
SA normal tax		
Current year	21	35
STC	74	–
Total	**95**	**35**

%	2011	2010
Reconciliation of taxation rates		
Taxation as a percentage of profit before taxation	0.7	0.5
Taxation effect of:		
Capital profits	(0.6)	–
Disallowable expenditure	(0.1)	(0.1)
Exempt income	28.0	27.6
Standard tax rate	**28.0**	**28.0**

9. CASH UTILISED BY OPERATIONS

Rand million	2011	2010
Operating loss	(44)	(33)
Adjusted for:		
Movement in provisions	–	(1)
Share-based payment expense	13	15
Cash flows from operations	(31)	(19)
Working capital movements:		
Decrease in other receivables	8	12
Increase in other payables	26	13
	3	**6**

10. NORMAL TAXATION PAID

Rand million	2011	2010
Amounts unpaid at beginning of year	(4)	(23)
Amounts charged to the income statement	95	35
Amount paid during the period	(114)	(16)
Current tax asset at end of year	**(23)**	**(4)**

11. RELATED PARTY TRANSACTIONS

During the year Kumba in the ordinary course of business, entered into various sale and purchase of goods and services transactions with its subsidiaries SIOC and Main Street 576 (Pty) Ltd as well as its holding company, Anglo American plc. The effects of these transaction is included in the results of Kumba. 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 Kumba is held through a 65.22% holding by Anglo South Africa Capital (Pty) Limited (2010: 65.25%).

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 analyses" on page 84.

Material related party transactions

Rand million	2011	2010
Purchase of goods and services and finance charges		
Holding company – Anglo American plc[1] (2011 and 2010 <R1 million)	–	–
	–	**–**
Sale of goods and services and finance income		
Subsidiaries: – SIOC[2]	60	76
	60	**76**
Amounts owing to related parties		
Subsidiaries: – SIOC	18	–
	18	**–**
Amounts owing by related parties		
Subsidiaries: – SIOC	–	386
– Main Street 576 (Pty) Ltd	61	39
	61	**425**
Dividends paid by Kumba		
Holding company – Anglo American plc[1]	8,969	4,324
	8,969	**4,324**
Dividends paid to Kumba		
Subsidiaries: – SIOC	13,009	**6,699**
	13,009	**6,699**

[1] *Goods and services consists of directors fees paid directly to Anglo Operations Limited for Mr DM Weston and Mr GG Gomwe.*

[2] *Goods and services consists of a management fee charged by Kumba to SIOC. Finance income was also earned on dividends payable to Kumba by SIOC.*

12. POST-BALANCE SHEET EVENTS

A final dividend of R22.50 per share was declared on 7 February 2012 from profits accrued during the financial year ended 31 December 2011. The total dividend for the year amounted to R44.20 per share. The estimated total cash flow of the final dividend of R22.50 per share, payable on 19 March 2012, is R7.2 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

Rand million	Country of incorporation[1]	Nature of business[2]	% holding	Nominal issued capital	Investments at cost 2011 Rand	Investments at cost 2010 Rand	Loans (from)/to subsidiaries 2011 Rand	Loans (from)/to subsidiaries 2010 Rand
Direct investments								
Sishen Iron Ore Company (Pty) Limited	RSA	A	74	100	3,008,810	3,008,810	(17,940,816)	385,646,729
Main Street 576 (Pty) Limited	RSA	E	100	100	100	100	60,613,188	39,050,027
Indirect investments								
Groler Investments Limited	SWL	E	100	258,958	–	–	–	–
Kumba Hong Kong Limited	HK	B	100	915	–	–	–	–
Kumba Hong Kong Shipping Limited	HK	C	100	897	–	–	–	–
Kumba International BV	NE	B	100	10,806,511	–	–	–	–
Kumba International Trading SA	LUX	B	100	55,335,369	–	–	–	–
Kumba Iron Ore Holdings SARL	NE	E	100	154,654	–	–	–	–
Mineco Limited	MAU	F	100	21	–	–	–	–
Oreco Leasing Limited	MAU	F	75	17	–	–	–	–
Sibelo Resources Development (Pty) Limited	RSA	D	100	2	–	–	–	–
Sishen South Mining (Pty) Limited	RSA	F	100	1	–	–	–	–
Vulcan Leasing Limited	MAU	F	100	19	–	–	–	–
Total investments in subsidiaries					**3,008,910**	**3,008,910**	**42,672,372**	**424,696,756**

Rand million	2011	2010
Aggregate attributable after tax profits/(losses) of subsidiaries:		
Profits	**19,347**	17,653
Losses[3]	**–**	(745)

[1] *RSA – South Africa, NE – Netherlands, SWL – Switzerland, HK – Hong Kong, LUX – Luxembourg, MAU – Mauritius*
[2] *A – Mining, B – Iron ore marketing and sales, C – Shipping charter, D – Exploration, E – Investment holding, F – Dormant*
[3] *Includes the impairment of investments in subsidiaries.*

ANNEXURE 2: INVESTMENTS IN ASSOCIATES

Rand '000	Nature of business[1]	Number of shares held	% holding	Investment at cost	Group Loan balance 2011 Rand '000	Group Loan balance 2010 Rand '000	Company Loan balance 2011 Rand '000	Company Loan balance 2010 Rand '000
Associates								
Unlisted								
Manganore Iron Mining Limited[2]	A	25,000	50	50	–	–	–	–
Incorporated joint ventures								
Unlisted								
Polokwane Iron Ore Company (Pty) Limited[2]	A	4,000	50	3,740	33,251	28,952	–	–
Safore (Pty) Limited[3]	B	400	40	–	–	–	–	–
Sishen Shipping (Pty) Limited[3]	B	400	40	–	–	–	–	–
Trans Orient Ore Supplies Limited[3]	C	2000	50	–	–	–	–	–
				3,740	**33,251**	**28,952**	**–**	**–**

Rand '000	Investment at cost	Group Loan balance 2011 Rand '000	Group Loan balance 2010 Rand '000	Company Loan balance 2011 Rand '000	Company Loan balance 2010 Rand '000
Directors' valuation of investments at 31 December					
Unlisted investments in associates	50	**–**	–	**–**	–
Unlisted investments in joint ventures	3,740	**33,251**	28,952	**–**	–

The financial year-end for Manganore Iron Ore Mining Limited and Sibelo Resources Development (Pty) 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.

All above entities are incorporated in South Africa other than Trans Orient Ore Supplies Limited which is incorporated in Hong Kong.

1 *A – Mining, B –Shipping charter, C – Iron ore merchant, D – Community development*
2 *On 5 July 2011 the company changed its name from Pietersburg Iron Company (Pty) Limited to Polokwane Iron Ore Company (Pty) Limited.*
3 *Dormant*

ANNEXURE 3: SHARE-BASED PAYMENTS

BONUS SHARE PLAN

Grant	2011	2010	2009
Movement in the number of awards granted			
Balance at beginning of year	–	225,874	310,777
Bonus shares awarded	223,868	16,241	–
Awards exercised*	(4,878)	(17,611)	(11,549)
Awards forfeited	(2,302)	(3,787)	(1,325)
Balance at 31 December 2011	**216,688**	**220,717**	**297,903**
Balance at beginning of year	–	–	299,138
Bonus shares awarded	–	231,573	26,564
Awards exercised*	–	(512)	(4,360)
Awards forfeited	–	(5,187)	(10,565)
Balance at 31 December 2010	**–**	**225,874**	**310,777**

* *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	Expiry date
Vesting period of awards granted		
Less than 1 year	297,903	2012
1 to 2 years	220,717	2013
2 to 5 years	216,688	2014

The share awards granted under the BSP are considered equity-settled. The share-based payment expense is 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.

Grant	2011	2010	2009
Fair value assumptions			
Share price on date of grant (Rand)	**439.82**	346.68	172.60
Expected share option life (years)	**3.00**	3.00	3.00
Expected dividend yield (%)	**5.25**	6.94	10.28
Risk-free interest rate (%)	**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.

LONG-TERM INCENTIVE PLAN

			Awards		
Number of conditional awards	**2011**	**2010**	**2009**	**2008**	**2007[1]**
Movement in the number of conditional awards granted					
Balance at beginning of year	–	23,365	36,490	210,845	388
Conditional awards issued	17,960	–	–	2,314	–
Conditional awards vested	–	–	–	(208,775)	–
Conditional awards forfeited	–	–	–	(4,384)	(388)
Balance at 31 December 2011	**17,960**	**23,365**	**36,490**	**–**	**–**
Balance at beginning of year		–	36,490	217,175	74,913
Conditional awards issued		24,219	–	–	–
Conditional awards vested[2]		–	–	–	(74,525)
Conditional awards forfeited		(854)	–	(6,330)	–
Balance at 31 December 2010		**23,365**	**36,490**	**210,845**	**388**

1 *The balance of 2007 awards remaining at 31 December 2010 represents a pro-rata allocation of LTIP awards made to employees that joined Kumba after the original award and these awards will vest on the third anniversary.*

2 *This relates to employees who are considered good leavers in terms of the share rules.*

LONG-TERM INCENTIVE PLAN continued

	Number of conditional awards	Expiry date
Vesting period of conditional awards granted		
Less than 1 year	36,490	2012
1 to 2 years	23,365	2013
2 to 5 years	17,960	2014

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.

Grant	2011	2010	2009	2008	2007
Fair value assumptions					
Share price on date of grant (Rand)	**439.82**	361.97	172.06	332.06	126.50
Annualised expected volatility (%)	**46.55**	45.00	51.66	38.95	37.20
Expected share option life (years)	**3.00**	3.00	3.00	3.00	3.00
Expected dividend yield (%)	**5.25**	6.94	10.28	5.81	2.65
Risk-free interest rate (%)	**7.08**	6.50	6.14	8.96	7.70

The risk-free interest rate for the period within the contractual term of the conditional 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.

SHARE APPRECIATION RIGHTS SCHEME

	Number of rights 2008 award	Number of rights 2007 award	Exercise price range Rand
Movement in the number of rights granted			
Balance at beginning of year	210,524	104,987	124.27 – 332.06
Rights exercised	(111,230)	(43,377)	124.27 – 332.06
Rights forfeited	(1,130)	–	–
Balance at 31 December 2011	**98,164**	**61,610**	**124.27 – 332.06**
Balance at beginning of year	215,894	252,501	124.27 – 332.06
Rights exercised*	–	(145,514)	124.27 – 267.61
Rights forfeited	(5,370)	(2,000)	124.27 – 332.06
Balance at 31 December 2010	**210,524**	**104,987**	**124.27 – 332.06**

* *This relates to employees who are considered good leavers in terms of the share rules.*

	Exercise price range Rand	Number of rights	Expiry date
Vesting period of rights granted			
2 to 5 years	124.27 – 332.06	61,610	2014
2 to 5 years	247.30 – 332.06	98,164	2015

The rights granted under the SARS are considered equity-settled. The share-based payment expense is measured using the fair value of the rights issued under the SARS which was determined using the Black-Scholes option pricing model.

ANNEXURE 3: SHARE - BASED PAYMENTS

FOR THE YEAR ENDED 31 DECEMBER

	2008 award	2007 award
Fair value assumptions		
Share price on date of grant (Rand)	332.06	126.50
Weighted average exercise price (Rand)	332.06	124.27
Annualised expected volatility (%)	38.95	37.20
Expected share option life (years)	5.50	4.50
Expected dividend yield (%)	6.30	2.66
Risk-free interest rate (%)	9.12	7.66

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

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

DEFERRED BONUS PLAN

	Number of rights	Exercise price range Rand
Movement in the number of pledged shares		
Balance at beginning of year	1,578	232.75 – 342.25
Exercised	(1,578)	
Balance at 31 December 2011	**–**	**–**
Balance at beginning of year	1,578	232.75 – 342.25
Balance at 31 December 2010	**1,578**	**232.75 – 342.25**

	Exercise price range Rand	Number of pledged shares	Expiry date
Vesting period of pledged shares			
1 to 2 years	232.75 – 342.25	1,578	2011

The shares awarded under the DBP are considered equity-settled. The share-based payment expense is measured using the fair value of the shares issued under the DBP which was determined using the Black-Scholes option pricing model.

MANAGEMENT SHARE OPTION SCHEME

	Number of share options	Option price range (Rand)
Movement in the number of share options granted		
Balance at beginning of year	321,148	15.38 – 97.74
Share options exercised	(149,218)	15.38 – 97.74
Share options forfeited	–	75
Balance at 31 December 2011	**171,930**	**15.38 – 97.74**
Balance at beginning of year	798,620	15.38 – 97.74
Share options exercised	(462,752)	15.38 – 97.74
Share options forfeited	(14,720)	75
Balance at 31 December 2010	**321,148**	**15.38 – 97.74**

Number of share options	2011	2010
Vesting period of share options granted		
Already vested	171,930	177,168
Within 1 year	–	143,980
	171,930	**321,148**

Range of exercise prices (rand)	Weighted average option price Rand	Number of share options	Expiry date
37.62 – 67.26	39.78	46,260	2012
68.53 – 97.74	78.58	125,670	2013
		171,930	

The share options granted under the Management Share Option Scheme are considered equity-settled. The share-based payment expense is measured using the fair value of the share options issued under the Management Share Option Scheme which was determined using the Black-Scholes option pricing model.

MANAGEMENT SHARE OPTION SCHEME continued

	Before unbundling	After unbundling Kumba	Exxaro
Fair value assumptions			
Share price (Rand)	142.00	110.00	39.00
Weighted average exercise price (Rand)	58.78	39.49	19.29
Annualised expected volatility (%)	37.90	37.90	37.90
Expected share option life (years)	4.34	4.34	4.34
Expected dividend yield (%)	4.00	4.00	4.00
Risk-free interest rate	8.24	8.24	8.24

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

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

ENVISION

	Phase 2		Phase 1	
	Number of share options	Weighted average option price Rand	Number of share options	Weighted average option price Rand
Movement in the number of share options granted				
Balance at beginning of year	–	170.11	15,622,571	22.84
Share options issued	22,618,800	170.11	98,127	22.84
Share options vested	–	170.11	(15,614,606)	22.84
Share options lapsed	–	170.11	(106,092)	22.84
Balance at 31 December 2011	**22,618,800**	**170.11**	**–**	**22.84**
Balance at beginning of year	–	–	15,353,793	22.84
Share options issued	–	–	655,811	22.84
Share options lapsed	–	–	(387,033)	22.84
Balance at 31 December 2010	**–**	**–**	**15,622,571**	**22.84**

	Number of share options	Expiry date
Vesting period of share options granted		
Within 5 years	22,618,800	2016

Envision is considered equity-settled. The share-based payment expense is measured using the fair value of the awards issued under the scheme which was determined using the Monte Carlo option pricing model.

	Phase 2	Phase 1
Share price on date of grant (Rand)	170.29	39.48
Weighted average exercise price (Rand)	170.11	22.84
Annualised expected volatility (%)	45.00	45.00
Expected share option life (years)	5.00	5.00
Expected dividend yield (%)	5.25	5.25
Risk-free interest rate (%)	7.06	8.00

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

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

ANNEXURE 4: BALANCE SHEET

US DOLLAR CONVENIENCE TRANSLATION

(Unaudited supplementary information)

US dollar million	2011	2010
Assets		
Property, plant and equipment	2,552	2,395
Biological assets	1	1
Investments in associates and joint ventures	4	4
Investments held by environmental trust	69	56
Long-term prepayments and other receivables	12	8
Deferred tax assets	80	71
Non-current assets	**2,718**	**2,535**
Inventories	472	468
Trade and other receivables	433	467
Current tax assets	4	4
Cash and cash equivalents	580	733
Current assets	**1,489**	**1,672**
Total assets	**4,207**	**4,207**
Equity and liabilities		
Shareholders' equity	1,936	2,164
Non-controlling interest	582	610
Total equity	**2,518**	**2,774**
Liabilities		
Interest-bearing borrowings	–	481
Provisions	110	101
Deferred tax liabilities	604	343
Non-current liabilities	**714**	**925**
Short-term portion of interest-bearing borrowings	390	–
Short-term portion of provisions	1	2
Trade and other payables	557	493
Current tax liabilities	27	13
	975	**508**
Total liabilities	**1,689**	**1,433**
Total equity and liabilities	**4,207**	**4,207**
Exchange rate		
Translated at closing rand/US dollar exchange rate	8.18	6.63

ANNEXURE 5: INCOME STATEMENT

US DOLLAR CONVENIENCE TRANSLATION

(Unaudited supplementary information)

US dollar million	2011	2010
Revenue	6,697	5,299
Operating expenses	(2,288)	(1,858)
Operating profit	4,409	3,441
Finance income	33	20
Finance costs	(21)	(24)
Profit before taxation	4,421	3,437
Taxation	(1,346)	(933)
Profit for the year	**3,075**	**2,504**
Attributable to:		
Owners of Kumba	2,351	1,961
Non-controlling interest	724	543
	3,075	**2,504**
(Cents per share)		
Basic	7.32	6.11
Diluted	7.31	6.10
Exchange rate		
Translated at average rand/US dollar exchange rate	7.25	7.30

SHAREHOLDER ANALYSIS

REGISTER DATE: 30 DECEMBER 2011
ISSUED SHARE CAPITAL: 322 058 624

	No of shareholdings	%	No of shares	%
Shareholder spread				
1 – 1 000 shares	20,951	89.61	4,641,663	1.44
1 001 – 10 000 shares	2,046	8.75	5,797,699	1.80
10 001 – 100 000 shares	314	1.34	8,813,690	2.74
100 001 – 1 000 000 shares	56	0.24	15,564,330	4.83
1 000 001 shares and over	12	0.05	287,241,242	89.19
Totals	**23,379**	**99.99**	**322,058,624**	**100.00**
Distribution of shareholders				
Banks/Brokers	200	0.86	25,338,283	7.87
Close corporations	215	0.92	137,472	0.04
Endowment funds	112	0.48	165,049	0.05
Individuals	18,834	80.56	7,776,453	2.41
Insurance companies	39	0.17	1,001,151	0.31
Investment companies	35	0.15	4,988,524	1.55
Medical schemes	2	0.01	4,771	0.00
Mutual funds	263	1.12	6,813,503	2.12
Nominees and trusts	2,966	12.69	4,195,893	1.30
Other corporations	114	0.49	64,191	0.02
Private companies	412	1.76	212,267,538	65.91
Public companies	21	0.09	42,659,948	13.25
Retirement funds	164	0.70	16,401,417	5.09
Share trust	2	0.01	244,431	0.08
Totals	**23,379**	**100.01**	**322,058,624**	**100.0**
Public / non-public shareholders				
Non-public shareholders	10	0.04	253,694,200	78.77
Directors and associates of the company holdings	4	0.02	42,871	0.01
Strategic holdings	2	0.01	251,547,711	78.11
Related holdings	4	0.02	2,103,618	0.65
Public shareholders	23,369	99.95	68,364,424	21.23
Totals	**23,379**	**99.99**	**322,058,624**	**100.0**
Beneficial shareholders holding 3% or more				
Anglo American plc			210,052,454	65.22
Industrial Development Corporation of South Africa Ltd			41,498,615	12.89
Government Employees Pension Fund			13,409,670	4.16
Totals			**264,960,739**	**82.27**

BREAKDOWN OF NON-PUBLIC HOLDINGS

	No of shares	%
Directors of the company		
Uren, VP	**21,509**	**0.01**
Uren, VP	20,509	0.01
V.N Centurien Trust	1,000	0.00
Griffith, CI	**21,362**	**0.01**
Griffith, CI	21,032	0.01
Griffith, CL	330	0.00
Totals	**42,871**	**0.01**
Strategic Holdings		
Anglo American South Africa Capital (Pty) Ltd	210,049,096	65.22
Industrial Development Corporation of South Africa Ltd	41,498,615	12.89
Totals	**251,547,711**	**78.11**
Related Holdings		
Mercantile Shareholder Nominees - Exxaro	1,630,802	0.51
Kumba Bonus Share Plan Trust	244,046	0.08
Sishen Iron Ore Company (Pty) Ltd	139,400	0.04
Exxaro Resources Limited (No8)	88,985	0.03
SIOC Employee Share Participation Scheme	385	0.00
Totals	**2,103,618**	**0.66**

BREAKDOWN OF BENEFICIAL SHAREHOLDERS HOLDING 3% OR MORE

	No of shares	%
Beneficial Shareholders		
Anglo American plc	**210,052,454**	**65.22**
Anglo American South Africa Capital (Pty) Ltd	210,052,454	65.22
Industrial Development Corporation of South Africa Ltd	**41,498,615**	**12.89**
Industrial Development Corporation of South Africa Ltd	41,498,615	12.89
Government Employees Pension Fund	**14,530,159**	**4.51**
Government Employees Pension Fund - PIC	13,383,011	4.16
Government Employees Pension Fund - Investec Asset Management	530,328	0.16
Government Employees Pension Fund - Prudential Portfolio Managers	448,371	0.14
Government Employees Pension Fund - Taquanta Asset Mangers	65,899	0.02
Government Employees Pension Fund - Sentio Capital Management	41,200	0.01
Government Employees Pension Fund - AEON Investment Management	32,850	0.01
Government Employees Pension Fund - Mergence Africa Investments	28,500	0.01
Totals	**266,081,228**	**82.62**

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, e.g. 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 such 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, and will not necessarily, update any of them in light of new information or future events, except to the extent required by applicable law or regulation.

NOTES

NOTES

Real Mining. Real People. Real Difference.