

FOCUS:

**OPERATING
SMARTER**

Cover top image

The approved Sishen Western expansion into the buffer zone between the Dingleton town and the mine has necessitated a solution to relocate the Dingleton community to Kathu, some 30km away. The dump lies on top of the ore body which will be mined in the future.

Cover bottom image

Itumeleng Maphage, an operator, Florencia Bekend, a drill operator, Rebaowe Mangope, a production operator and Terrence Jordaan, the mining manager inspecting the drill holes in the Leeuwfontein pit at Kolomela mine.

FOCUS:

QUALITY GRADE

OPERATING SMARTER

Following the decline in iron ore prices in 2014, we reviewed our strategy to ensure our ability to achieve our goals and commitments. In this report we demonstrate how we are doing this.

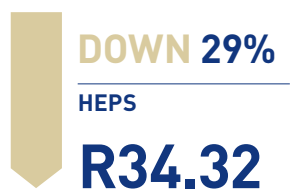
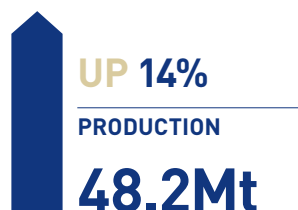
Top image

Process controllers, Frederick Motsiele and Dean Hurter working at the primary crusher at Kolomela mine.

Bottom image

A view from the load out station at Kolomela mine.

KEY FEATURES



DIVIDENDS PAID
(2013: R13.7bn)

R15.2bn

PAID TO FISCUS (SA)
(2013: R8.3bn)

R5.4bn

(income tax and mineral royalty)

Exceeded production targets
Three-year wage agreement concluded

SAFETY

(2013: 0 fatalities)

Regrettably one loss of life

Dividend declared to ordinary shareholders

Rand per share

2010

34.50

2011

44.20

2012

31.70

2013

40.04

2014

23.34*

* Includes the final 2014 cash dividend of R7.73 per share, which was paid in March 2015.

DIRECTORS' DECLARATION

The Kumba Iron Ore Limited (Kumba or the company or the group) board, assisted by the audit committee, is ultimately responsible for the preparation, fair presentation and integrity of the audited annual financial statements and related financial information of the group, as contained in this report, the Annual Financial Statements 2014.

The directors confirm that they have collectively reviewed the content of this report and approved it at its meeting on 12 March 2015, for presentation to shareholders at the next annual general meeting on 8 May 2015.

The Annual Financial Statements 2014 have been prepared under the supervision of FT Kotzee CA(SA), chief financial officer.

AUDITED ANNUAL FINANCIAL STATEMENTS

CONTENTS

Annual Financial Statements

- 02 Financial review
- 10 Directors' responsibility for financial reporting
- 11 Certificate of the company secretary
- 12 Directors' report
- 16 Report of the audit committee
- 20 Remuneration report
- 29 Independent auditor's report
- 30 Principal accounting policies

Kumba Iron Ore Limited group

- 44 Balance sheet
- 45 Balance sheet
US\$ convenience translation
(unaudited supplementary information)
- 46 Income statement
- 46 Statement of comprehensive income
- 47 Income statement
US\$ convenience translation
(unaudited supplementary information)
- 48 Statement of changes in equity
- 49 Cash flow statement
- 50 Notes to the group annual financial statements

Kumba Iron Ore Limited company

- 78 Balance sheet
- 79 Income statement
- 79 Statement of changes in equity
- 80 Cash flow statement
- 81 Notes to the company annual financial statements

Annexures

- 84 Annexure 1 – Investments in subsidiaries
- 85 Annexure 2 – Investments in associates, joint ventures and other investments
- 86 Annexure 3 – Equity-settled share-based payment schemes
- 91 Annexure 4 – Accounting policies adopted which are not significant to the reported results
- 94 Annexure 5 – New and amended accounting standards

Shareholder analysis

- 98 Shareholder analysis

OTHER SOURCES OF INFORMATION



For more information visit
[www.angloamericankumba.com/
investor_fin_reports.php](http://www.angloamericankumba.com/investor_fin_reports.php)

The Annual Financial Statements 2014 were published on 27 March 2015. You can find this report and additional information about Kumba Iron Ore Limited on our corporate website.

FINANCIAL REVIEW



Frikkie Kotzee
Chief financial officer

“Kumba continues to deliver value to shareholders, with a solid operational performance for the year. The production recovery plan at Sishen mine was executed and the strong performance at Kolomela mine continued. However, the significant drop in the iron ore price more than offset these operational improvements. While the decline in the iron ore price resulted in a decrease in our earnings, we continued to invest in our business and our balance sheet remains strong.”

The iron ore price had a significant impact on the financial results. The average of the 62% Platts index declined 28% - from US\$135 to US\$97 per tonne. Kumba's achieved average FOB export prices were down US\$34 per tonne, or 27% from US\$125 to US\$91 per tonne. The weaker average ZAR/US\$ exchange rate partially countered the effects of the price decline. As a result operating profit (EBIT) decreased 32% to R19.2 billion (2013: R28.4 billion) and headline earnings of R11 billion were 29% lower than the R15.4 billion achieved in 2013. Attributable and headline earnings for the period were R33.44 and R34.32 per share respectively (2013: R48.09 and R48.08).

While the market was tough during the year with iron ore prices declining throughout, we are pleased with our stable operational performance overall. Although our operating margin decreased by 12% it is still strong at 40% (2013: 52%), while the group's mining margin remained healthy at 45%. The board has declared a final cash dividend of R7.73 per share, giving a total cash dividend of R23.34 per share for the year.

Financial overview

Rand million	31 Dec 2014	31 Dec 2013	% change	31 Dec 2012	31 Dec 2011
Revenue	47,597	54,461	(13)	45,446	48,553
Operating expenses	(28,405)	(26,076)	9	(21,800)	(16,587)
Operating expenses (excl. royalty and deferred stripping costs)	(29,067)	(24,742)	17	(21,191)	(14,825)
Mineral royalty	(1,176)	(2,157)	(45)	(1,127)	(1,762)
Deferred stripping capitalised	1,838	823	123	518	–
Operating profit	19,192	28,385	(32)	23,646	31,966
Operating margin (%)	40	52		52	66
Profit attributable to:	14,148	20,300	(30)	16,455	22,298
Equity holders of Kumba	10,724	15,446	(31)	12,486	17,042
Non-controlling interest	3,424	4,854	(29)	3,969	5,256
Headline earnings	11,006	15,443	(29)	12,472	17,048
Effective tax rate (%)	25	28		25	25
Cash generated from operations	21,769	29,354	(26)	24,688	32,814
Capital expenditure	8,477	6,453	31	5,917	5,849
Net debt/(cash)	7,929	1,796	341	4,342	(1,551)
Equity	27,001	27,184	(1)	19,664	20,592

FINANCIAL PERFORMANCE

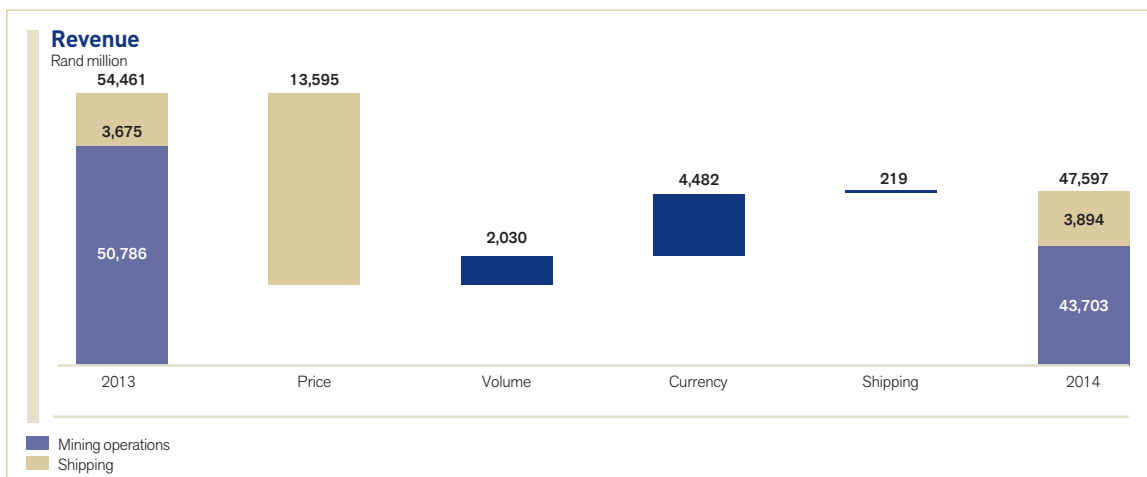
Revenue

The group's total revenue of R47.6 billion for the year decreased 13% from R54.5 billion in 2013, mainly as a result of the significant drop in average realised iron ore prices (2014: US\$91/tonne; 2013: US\$125/tonne) offset to an extent by the weaker average ZAR/US\$ exchange rate (2014: R10.83; 2013: R9.62), as well as 4% higher total sales volumes of 45.3Mt.

The export price at the beginning of the financial year was US\$135/tonne, falling to a five year low of US\$72/tonne by the end of December 2014, following strong growth in supply,

particularly from the major suppliers, and slower crude steel production growth in China. As a result, lower achieved iron ore prices significantly reduced our revenue line with R13.6 billion compared to the 2013 base. Lower freight rates have supported FOB prices and higher grade materials have maintained their premium. On average for the year, the spot lump premium was around US\$11 per tonne. The premiums Kumba achieved on its lump products and the higher lump:fines export ratio partially countered the effects of the price decline.

The average Rand/US\$ exchange rate of R10.83 was 13% weaker than the R9.62 achieved in 2013, increasing revenue



by R4.5 billion when compared to the 2013 base, as all our export sales are denominated in US\$. Furthermore, higher total sales volumes added an additional R2 billion to our revenue line as the group's total sales volumes increased by 1.6Mt to 45.3Mt in 2014 (2013: 43.7Mt) from a 4% increase in both domestic and export sales volumes, to 4.8Mt (2013: 4.6Mt) and 40.5Mt (2013: 39.1Mt) respectively. The higher domestic sales volumes were supported by improved production at Thabazimbi mine while improved export sales volumes were the result of better production at Sishen mine and Kolomela mine. In addition, Saldanha's multi-purpose terminal (MPT) allowed for the export of additional tonnage, particularly towards the end of the year. In the fourth quarter, the MPT accounted for 0.7Mt of exports.

Export sales to China accounted for 57% of the company's total exports in 2014, compared to 67% in 2013. Exports to Japan, South Korea and the rest of Asia remained at 22% of the total while sales to Europe and MENA made up 10% of total sales during the year. India took up 11%. In 2014, Kumba was rewarded for its customer development efforts in India and elsewhere in the past few years in line with our strategy to broaden the customer base. Most sales to China are on a CFR basis, whereas Indian sales are mostly FOB. CFR shipments therefore, have fallen slightly accounting for 62% of export sales (2013: 63%).

Export sales volumes geographical split (%)

	2014	2013	2012
China	57	67	69
Japan, South Korea and rest of Asia	22	22	18
India	11	–	2
Europe and MENA	10	11	11
Total	100	100	100

Although the weakening of the Rand/US\$ exchange rate and the increased sales volume worked in our favour, our revenue

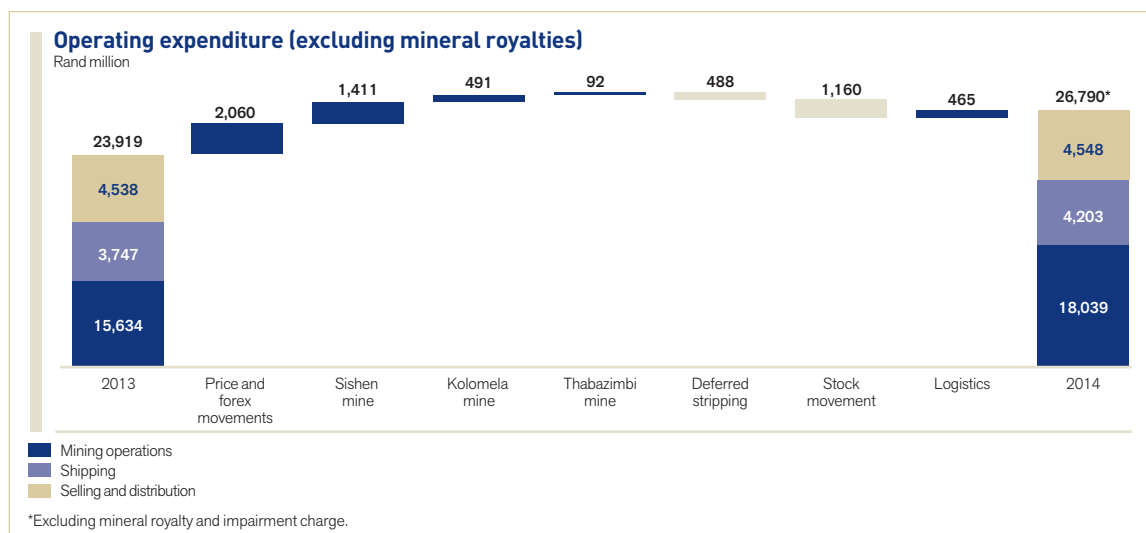
line was significantly impacted by the decline in the iron ore price. Our revenue remains sensitive to iron ore prices and the Rand/US\$ exchange rate. Subsequent to year end, iron ore prices continued to decline.

Operating expenses

Operating expenses increased 12% year-on-year to R26.8 billion, excluding the mineral royalty and impairment charge, driven primarily by 37Mt growth in total mining volumes and cost increases in labour, diesel, mining contractor rates and rail and port tariffs.

Total tonnes mined at Sishen rose 10% to 229.9Mt (2013: 208.8Mt) and at Kolomela mine 18% to 70.4Mt (2013: 59.9Mt). On the back of the growth in total mining volumes at Sishen and Kolomela mines, mining operating costs increased by R1.4 billion and R491 million respectively. The impact of the increased mining activity at Sishen and Kolomela mines were offset by higher waste stripping deferred to the balance sheet, reducing mining operating costs by R488 million. Finished product inventory at the mines and ports rose to 6.5Mt from 2.9Mt at the end of 2013 reducing mining operating costs by a further R1.2 billion. The net impact of the above is that Kumba's mining operating costs increased by R345 million (excluding price and foreign exchange movements of R2.1 billion).

The group's total logistic costs were R465 million higher than the 2013 base with shipping costs contributing R456 million incurred on 23Mt sold on a CFR basis. The Sishen-Saldanha Iron Ore Export Channel (IOEC) continued to support the increased production as 42.2Mt were railed to Saldanha, an increase of 6% (2013: 39.7Mt). Kumba shipped 40.1Mt from the Saldanha port for the export market, 2% more than the 39.3Mt in 2013. The increase in railed and shipped volumes led to higher selling and distribution costs, offset by penalties and super tariff volumes recorded in the previous year. Minimal penalties were recorded in 2014 on rail and port performances.



Going forward, the group expects a positive impact on overhead costs from the restructuring of head office and support functions at our operations currently underway and the implementation of the operating model at mining and plant operations.

Unit cash cost Sishen mine

Overall, Kumba showed a marked improvement in production as plans implemented over the past few years yielded benefits. Sishen mine production increased by 15% to 35.5Mt (2013: 30.9Mt) with total tonnes mined at Sishen mine rising 10% to 229.9Mt (2013: 208.8Mt) with waste amounting to 187.2Mt (2013: 167.8Mt), an increase of 12% compared to the prior year. Waste removal run rates are now meeting targets and were complemented by the implementation of the Operating Model at internal waste and ore mining in the Sishen North mine in August 2014. The model is already yielding results including improving scheduled work, now over 70% compared to 20% on commencement, a 50% reduction in waiting time on shovels, and 23% efficiency improvements in total tonnes handled since June 2014.

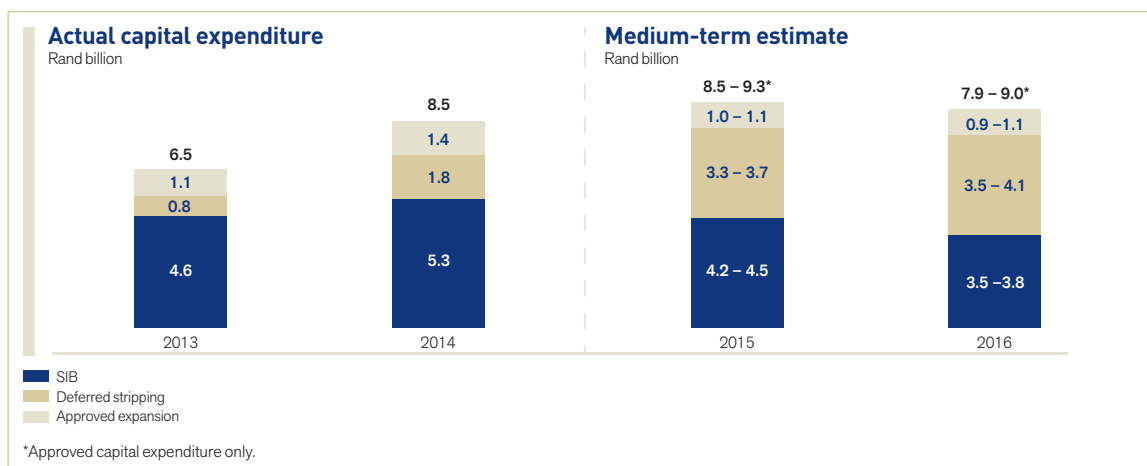
One of the benefits of the successful recovery was that unit cash costs at Sishen mine were contained around R272/t compared to R267/t in 2013. This was achieved despite a challenging South African cost environment. The input cost pressures of inflation and prices added R20/t, while higher mining volumes added R28/t. These were offset by higher production volumes of R40/t and deferred stripping of R13/t. Rising mining contractor rates were impacted by longer hauling distances and increased vertical lift in the pit. In US Dollar terms, mining cost per ton decreased by 4%.

As Sishen mine approaches its peak of the waste mining, unit cash cost growth for the mine is expected to peak in 2015 and flatten thereafter. Going forward we should also see a benefit from the reduction in oil prices, increasing productivity and the operating model. If the average Brent crude oil price of US\$99/barrel in 2014 realised at the current US\$60/barrel, the lower oil price would have benefited unit cost at Sishen mine by R1.35/mining tonne or R10.65/production tonne.

Execution of the pit redesign plan has resulted in 780Mt of waste taken out of the revised life-of-mine plan, with an 87Mt reduction in reserves, increasing the net present value of the mine. The outcome was a reduction in the average life-of-mine stripping ratio from 4.4 to 3.9. As a result the remaining life-of-mine of Sishen mine has reduced from 18 years to 16 years at the end of 2014. The increase in the proved to probable ore reserve ratio from 49:51 in 2013 to 70:30 in 2014, is primarily the result of the reversal of the downgrading of 225Mt reserves from proved to probable in 2013 at Sishen mine, subsequent to the granting of the mining right over the Sishen Rail properties in February 2014.

Kolomela mine

At Kolomela mine unit cash costs of R208/t were incurred, a 14% increase on 2013 due to increased input costs on diesel, and drilling and blasting material. Mining contractor rates rose because of greater travelling distances. Cost escalation added R13/t, in line with inflation. Further waste mining growth increased unit costs by R31/t which included 2.5Mt from the third pit as pre-stripping was completed in October. This was offset by the impact of increased production volumes and deferred stripping, each around R15/t. Other cash costs, at around R12/t, included additional drilling to ensure optimal placement of waste dumps, reclaimer related maintenance



and exploration drilling to increase geological confidence in the resource, in line with Kolomela mine's 11Mt life-of-mine production capacity.

With the establishment of the third pit, waste levels going forward are expected to come down and normalise. The new steady state production capacity is 11Mtpa, up from 10Mtpa. As a result, the remaining reserve life of Kolomela mine has reduced from 24 years to 21 years at the end of 2014 (from 19 years to 16 years excluding inferred resources).

Thabazimbi mine

Thabazimbi mine has performed well as a domestic supplier of ore. The mine produced 1.1Mt (2013: 0.6Mt), an increase of 83% which benefited unit costs, containing it to R682/t, a net increase of only 6%, mainly due to 20% improvement in mining volumes.

An impairment charge of R439 million was recognised, which relates to Thabazimbi mine's deferred stripping asset. As part of the review of Kumba's entire portfolio, the future of Thabazimbi mine is still under consideration, and future capitalisation of deferred stripping costs will be reviewed accordingly.

Taxation

The group's effective tax rate decreased to 25% (2013: 28%). The effective tax rate is impacted by a number of factors, including the geographies in which we operate, the relative mix of profits across those geographies, the level of cash and gearing in each of those jurisdictions, the group's dividend and capital management programmes and a number of non-recurring adjustments, which will, by their very nature, fluctuate year-on-year. As at 31 December 2014 the group was engaged in discussions with SARS around certain tax matters with a view to seeking resolution. These matters have been considered in consultation with external tax and legal

advisors, who support the group's position. Refer to the contingent liability disclosure in the group annual financial statements on page 69.

Capital expenditure

Kumba continues to invest in the development and expansion of its business, to ensure future sustainability.

In 2014 R8.5 billion (2013: R6.5 billion) was spent on capital. Expansion capex of R1.4 billion focused on the Dingleton relocation project and R7.1 billion (2013: R5.4 billion) on stay-in-business (SIB) activities (including heavy mining equipment, infrastructure, housing and deferred stripping). In light of the current pricing environment, the group has reduced capital expenditure guidance (excluding deferred stripping) for 2015 and 2016 from what was previously guided, and optimised our project portfolio resulting in the deferral of some of the capital spend to later years. The group expects capital expenditure for 2015 to be in the range of R8.5 billion to R9.3 billion and for 2016 to be between R7.9 billion and R9.0 billion (excluding unapproved projects).

Deferred stripping capital expenditure estimates per mine are shown in the table below.

Rand million	2014	(unaudited)	
		2015	2016
Sishen	1,025	2,450 – 2,750	3,100 – 3,650
Kolomela	351	450 – 500	350 – 450
Thabazimbi	462	400 – 450	Under review
Total	1,838	3,300 – 3,700	3,450 – 4,100

The increase expected at Sishen mine is mainly due to higher stripping ratios expected in certain areas of the pit as a result of the pushback design.

Cash flow

The group continued to generate substantial cash from its operations; R23 billion for the year (before mineral royalties) (2013: R31.4 billion) before a net working capital decrease of R1.1 billion (2013: R749 million decrease). The cash was used to pay income tax of R4.2 billion (2013: R6.2 billion), mineral royalties of R1.2 billion (2013: R2.1 billion) and dividends of R15.2 billion (2013: R13.7 billion). Dividends paid to Kumba shareholders came to R11.5 billion while our empowerment partners received R3.7 billion.

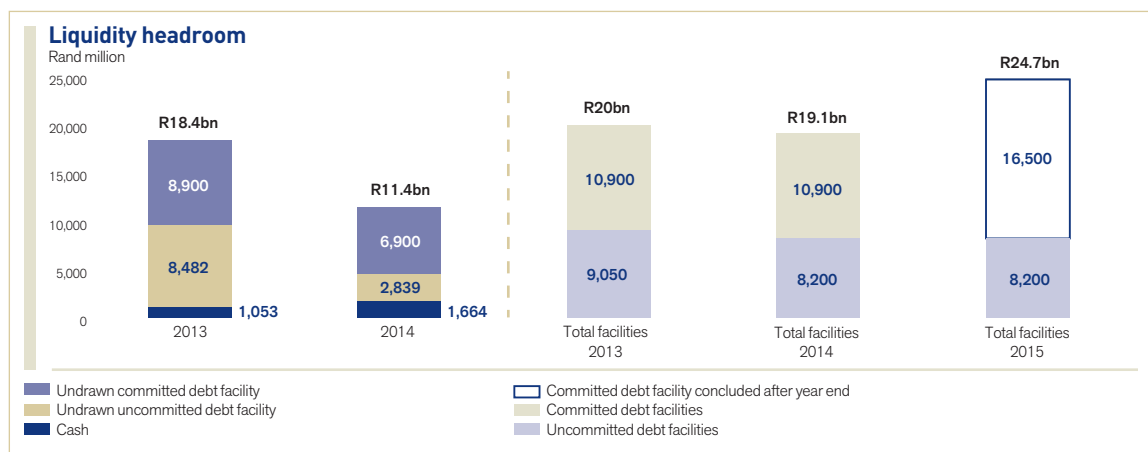
The group's working capital position remains healthy, ensuring sufficient reserves to cover short-term positions. Higher stock levels added R2.2 billion to net working capital.

Net debt and liquidity

Kumba ended 2014 with net debt of R7.9 billion, which is R6.1 billion higher than our net debt of R1.8 billion at the end of 2013. Total debt facilities at year end amounted to R19.1 billion, of which R9.7 billion was undrawn. We have recently signed a new five year committed facility of R16.5 billion at attractive rates.

The group's gearing (net debt as a percentage of equity) increased to 29% from 7% in 2013 with an interest cover for the year at 44 times compared to 108 times in 2013.

On a pro-forma basis, after payment of the final SIOC and Kumba dividends, net debt will peak at around R11.3 billion, before cash generation between end December and the dividend payment date. The group aims to manage debt levels between R11 billion and R16 billion.



SHAREHOLDER RETURNS

Total shareholder returns

The total shareholder return for Kumba over the eight years since listing is 287% up to 31 December 2014, which is a reflection of the share's solid performance and the consistent cash dividend returns over the period.

Share price

Kumba's share price declined during the year from R443 at 31 December 2013 to R240 at 31 December 2014. Notwithstanding this decline, the share price has grown at a compound annual growth rate of 10% from the listing share price of R110 at the end of 2006.

The share price history since listing is presented below.



Dividends

A final cash dividend of R7.73 per share was declared by the board, at a 1.7 times cover. The full year dividend amounts to R23.34 per share, at 1.4 times cover (2013: R40.04). The increase in dividend cover from 1.3 times for the 2014 interim dividend to 1.7 times for the final 2014 dividend recognises the impact of lower iron ore prices on the company's cash generation and seeks to protect Kumba's balance sheet amidst the continued uncertain market environment.

It remains the group's intent to continue to pay excess cash to its shareholders, after considering growth and investment opportunities, while remaining within its committed debt facilities. In line with the board's policy, the dividend cover will be reviewed at each declaration, after considering, amongst other factors, the low iron ore price environment and the group's capital expenditure profile. We accordingly envisage further increases to dividend cover in the next dividend cycle.

Key factors affecting future operating results

Export iron ore sales prices and volumes

Crude steel production is forecast to grow by approximately 2% in 2015, with slower growth of 1% to 2% in China and slightly stronger in the rest of the world. We do not expect a major recovery in the average iron ore price and the group has undertaken a number of decisive actions to ensure that Kumba remains a resilient organisation in a low iron ore price environment which we expand on in the Integrated Report 2014 (see pages 12 and 65).

The production outlook for Sishen mine is 36Mt in 2015. Following the planned commissioning of a new modular plant in 2015, production guidance for Sishen mine has been increased for both 2016 and 2017 to 38Mt. Kolomela mine is expected to produce 11Mt in 2015 and 12Mt in 2016. It is expected that waste volumes will reach between 240Mt and 250Mt at Sishen mine and between 42Mt and 46Mt at Kolomela mine in 2015. Export sales volumes for 2015 are targeted at above 43Mt.

Domestic sales volume of up to 6.25Mtpa is contracted to ArcelorMittal SA in terms of the supply agreement.

Exchange rate

A significant portion of our turnover and capital expenditure is affected by the Rand/US\$ exchange rate and as such, Kumba's operating profit remains highly sensitive to fluctuations in it. The average Rand/US\$ exchange rate weakened 13% during the year. The eight-year exchange rate history is presented in the graph at the bottom of the page.

ACCOUNTING MATTERS

Change to accounting estimates: environmental rehabilitation and decommissioning provisions

The measurement of the environmental rehabilitation and decommissioning provisions is a key area where management's judgement is required. The closure provisions are measured at the present value of the expected future cash flows required to perform the rehabilitation and decommissioning. This calculation requires the use of certain estimates and assumptions when determining the amount and timing of the future cash flows and the discount rate. The closure provisions are updated at each balance sheet date for

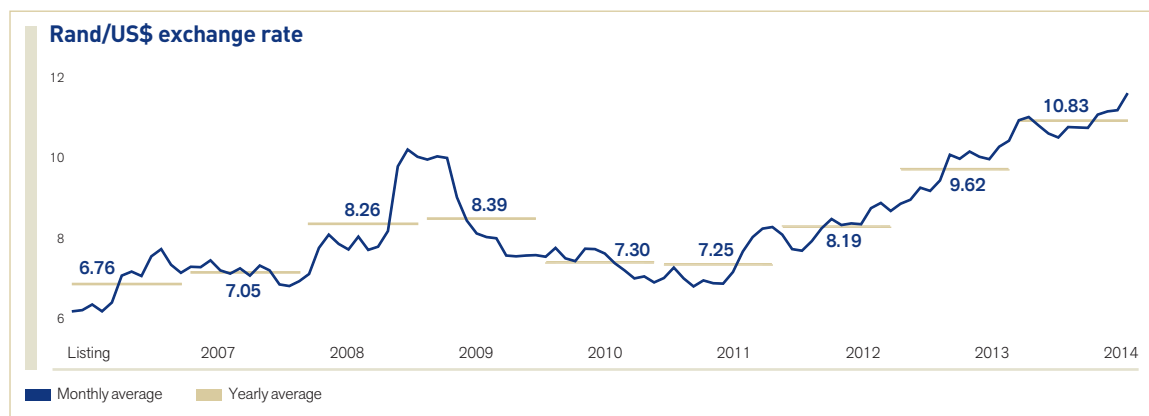
changes in the estimates of the amount or timing of future cash flows and changes in the discount rate. The LoM plan on which accounting estimates are based only includes proved and probable ore reserves as disclosed in Kumba's annual ore reserves and mineral resources statement. Management has revised the Sishen and Thabazimbi life-of-mine during the period under review as well as assumptions on the discount rate and inflation rate used to calculate the provisions for the three mines.

The change in estimate in the environmental rehabilitation provision was applied prospectively from 1 January 2014. The effect of this change is a net decrease in the environmental rehabilitation provision of R7 million and an increase in the decommissioning provision of R16 million. The total rehabilitation and decommissioning provisions of the group were R1.9 billion at the end of 2014 (2013: R1.8 billion).

In 2015, we expect further changes in the provisions as a result of the life-of-mine changes reported in the Ore Reserves and Mineral Resources section in the Integrated Report 2014.

Thabazimbi mine impairment charge

The group recorded an impairment charge of R439 million relating to Thabazimbi mine's deferred stripping asset.



Due to the low iron ore price environment in which the company is now operating, the future of this mine is being reconsidered. After a detailed impairment assessment it was concluded the carrying value is not considered recoverable. As a result, the carrying value of Thabazimbi mine's deferred stripping asset of R439 million was impaired to RNil.

The recoverable amount of RNil was measured based on a discounted cash flow model. The cash flow projections were based on the pricing mechanism contained in the supply agreement between SIOC and ArcelorMittal SA incorporating economic assumptions and forecast trading conditions drawn up by management. Key assumptions are long-term iron ore price lines, the Rand/US\$ exchange rate, inflation, the remaining life of the mine and the discount rate. The recoverable amount is sensitive to the discount rate used in its measurement.

CONCLUSION

While the company successfully navigated a very tough year we do not expect a major recovery in iron ore prices. It is for that reason that we have made some tough calls now. We spent the year revising our business and operating strategy to ensure we are as flexible as we are sustainable. We are confident that the steps we have put in place to counter declining prices will make us more resilient than ever.

I would like to thank the finance team for their support and commitment in delivering quality financial information to our stakeholders during the year under review. We look forward to another productive year in 2015.

Frikkie Kotzee

Chief financial officer

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

for the year ended 31 December 2014

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

The annual financial statements, set out on pages 30 to 97, are based on appropriate accounting policies which have been consistently applied, except for changes in accounting policies as detailed in the notes, and which are supported by reasonable and prudent judgements and estimates. The annual financial statements comprise the balance sheets at 31 December 2014; 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; the directors' report, the audit committee report and the company secretary certificate.

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

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

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

The independent external 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. The independent auditor's report to the shareholders of the group and Kumba is set out on page 29 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 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 regulatory, insurance and taxation issues, an assessment of the solvency and liquidity taking into account the current financial position and existing borrowing facilities as well as the group's financial budgets with their underlying business plans, the directors consider it appropriate that the annual financial statements be prepared on the going concern basis.

APPROVAL OF GROUP ANNUAL FINANCIAL STATEMENTS AND COMPANY ANNUAL FINANCIAL STATEMENTS

The group annual financial statements on pages 30 to 77 and 84 to 97 and the company annual financial statements on pages 78 to 83 of Kumba Iron Ore Limited were approved by the Kumba board of directors on 6 February 2015 and will be presented to the shareholders at the annual general meeting on 8 May 2015. The group and company annual financial statements are signed on the directors' behalf by:

F Titi
Chairman

NB Mbazima
Chief executive

6 February 2015

CERTIFICATE OF THE COMPANY SECRETARY

for the year ended 31 December 2014

I, A Parboosing, in my capacity as company secretary, confirm that, for the year ended 31 December 2014, Kumba Iron Ore Limited has lodged with the Registrar of Companies all such returns and notices as are required of a public company in terms of the Companies Act 71 of 2008 (as amended) of South Africa, and that all such returns and notices are true, correct and up to date.

A Parboosing

Company secretary

6 February 2015

DIRECTORS' REPORT

for the year ended 31 December 2014

The directors have pleasure in presenting the annual financial statements of Kumba and the group for the year ended 31 December 2014.

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 Johannesburg Stock Exchange Limited (JSE) on 20 November 2006, and remains 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 and sale and shipping 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 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 112 to 119 of the Integrated Report 2014.

FINANCIAL RESULTS

The financial statements on pages 30 to 97 set out fully the financial position, results of operations and cash flows of the group for the financial year ended 31 December 2014. The financial statements have been prepared under the supervision of FT Kotzee, CA(SA), chief financial officer.

Operating results for the year

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

Rand million	2014	2013	% Decrease
Revenue	47,597	54,461	13
Operating profit	19,192	28,385	32
Cash generated from operations (excluding mineral royalties paid)	23,028	31,427	27

The group's total revenue of R47.6 billion for the year decreased 13% from R54.5 billion in 2013, mainly as a result of the significant drop in the average iron ore price achieved (FOB) (2014: US\$91/tonne; 2013: US\$125/tonne) offset to an extent by the weaker average ZAR/US\$ exchange rate (2014: R10.83; 2013: R9.62).

Operating expenses rose by 9% to R28.4 billion from R26.1 billion principally as a result of:

- 37Mt growth in total mining volumes
- Inflationary cost increases in diesel, mining contractor rates and rail and port tariffs
- R456 million in higher freight costs
- R439 million impairment charge for Thabazimbi mine; partially offset by
- Higher waste stripping deferred to the balance sheet

One of the benefits of the successful recovery plan was that unit cash costs at Sishen mine were contained at R272 per tonne (2013: R267 per tonne). The input cost pressures (R20/tonne), higher mining volumes (R28/tonne) and labour and maintenance (R10/tonne) were largely offset by higher production volumes (R40/tonne) and deferred stripping (R13/tonne).

Kolomela mine incurred unit cash costs of R208 per tonne (2013: R182 per tonne), a 14% increase. This was due to increased input costs on diesel, mining contractor rates as a result of increased travelling distances, as well as drilling and blasting material (R13/tonne), and higher mining volumes (R31/tonne). This was offset by the impact of increased production volumes of R15/tonne and deferred stripping of R15/tonne. Other cash costs for the period included additional drilling cost to ensure optimal placement of waste dumps and reclaimer related maintenance, as well as exploration drilling to increase the geological confidence in the resource in line with Kolomela mine's 11Mt life of mine production capacity (R12/tonne).

Thabazimbi mine delivered the planned increased production, which incurred additional costs. Unit cash costs rose 6% to R682/tonne. The impairment charge relates to Thabazimbi mine's deferred stripping asset. Due to the low iron ore price environment in which the company is now operating, the future of this mine is being reconsidered. After a detailed impairment assessment it was concluded the carrying value is not considered recoverable. As a result, the carrying value of Thabazimbi mine's deferred stripping asset of R439 million was impaired to RNil.

Kumba's operating profit margin for 2014 decreased to 40% (2013: 52%), 45% from mining activities (2013: 56%). Operating profit of R19.2 billion decreased by 32% (2013: R28.4 billion). The fall in iron ore prices and input cost pressures from higher mining volumes outlined previously have impacted profitability.

The group continued to generate substantial cash from its operations; R23 billion for the year (before mineral royalties) (2013: R31.4 billion). The cash was used to pay dividends of R15.2 billion (2013: R13.7 billion), income tax of R4.2 billion (2013: R6.2 billion) and mineral royalties of R1.2 billion (2013: R2.1 billion). The group's working capital position remains healthy, ensuring sufficient reserves to cover short-term positions.

FINANCIAL POSITION

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

Rand million	2014	2013	% Increase / (decrease)
Property, plant and equipment	35,170	29,922	18
Working capital (excluding cash and cash equivalents)	8,349	7,407	13
Net debt	7,929	1,796	341
Net asset value per share (R)	64.47	64.68	–

Property, plant and equipment

Capital expenditure of R8.5 billion was incurred. Expansion capex of R1.4 billion focused on the Dingleton relocation project and R7.1 billion on stay-in-business (SIB) activities (including heavy mining equipment, infrastructure, housing and deferred stripping). In light of the current pricing environment, the group has reduced capital expenditure guidance (excluding deferred stripping) for 2015 and 2016 from what was previously guided, and optimised the project portfolio resulting in the deferral of some of the capital spend to later years. The group expects capital expenditure for 2015 to be in the range of R8.5 billion to R9.3 billion and for 2016 to be between R7.9 billion and R9.0 billion (excluding unapproved projects).

Deferred stripping capital expenditure per mine is forecast to be in the ranges as per the table below. The increase expected at Sishen mine is mainly as a result of higher stripping ratios expected in certain areas of the pit as a result of the pushback design.

Rand million	2014	(unaudited)	
		2015	2016
Sishen mine	1,025	2,450 – 2,750	3,100 – 3,650
Kolomela mine	351	450 – 500	350 – 450
Thabazimbi mine	462	400 – 450	Under review
Total	1,838	3,300 – 3,700	3,450 – 4,100

Working capital

Net working capital increased by R942 million from 31 December 2013 to R8.3 billion. This increase is mainly due to an increase in the inventory balance of R2.2 billion which was offset by a R1.6 billion decrease in trade receivables. Finished goods at the port as well as all three mines increased in 2014 relative to 2013.

Net debt

At 31 December 2014 the group was in a net debt position of R7.9 billion (2013: R1.8 billion).

At 31 December 2014, R4.0 billion of the R10.9 billion long-term debt facility had been drawn down and R5.4 billion of the total short-term uncommitted facilities of R8.2 billion had been drawn down. Kumba was not in breach of any of its financial covenants during the year.

The group had undrawn long-term borrowings and uncommitted short-term facilities at 31 December 2014 of R9.7 billion (2013: R17.4 billion) of which R2.8 billion is with Anglo American SA Finance Limited.

Subsequent to year end, management negotiated new committed debt facilities, which were concluded on 3 February 2015 and increased the total committed debt facilities of the group to R16.5 billion.

ACCOUNTING POLICIES

A number of new and amended accounting standards were effective for the first time for the financial year beginning on or after 1 January 2014. None had a material impact on the group.

SHARE CAPITAL**Authorised capital**

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

Share movements

Rand million	2014	2013
Balance at beginning of year	(297)	(121)
Total shares issued for cash consideration	–	2
Net movement in treasury shares under employee share incentive schemes	(14)	(178)
Share capital and share premium	(311)	(297)

The group acquired 299,600 (2013: 660,923) of its own shares through purchases on the JSE during the year. The total amount paid to acquire the shares was R107 million (2013: R265 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 cash dividend of R15.61 per share was paid on 18 August 2014. A final cash dividend of R7.73 per share was declared on 10 February 2015 from profits accrued during the financial year ended 31 December 2014. The total dividend for the year amounted to R23.34 per share.

The estimated total cash flow of the final cash dividend of R7.73 per share, payable on 16 March 2015, is R2.5 billion.

The board of directors is satisfied that the capital remaining after payment of the final dividend is sufficient to support the current operations and to facilitate future development of the business.

SUBSIDIARIES, JOINT ARRANGEMENTS AND ASSOCIATES

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

EQUITY COMPENSATION PLANS

Refer to the detailed remuneration report on pages 20 to 28, note 21, '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 1 for a detailed segmental analysis of the group's operating results for the year ended and financial position as at 31 December 2014.

HOLDING COMPANY AND RELATED PARTIES

Anglo American plc Group is the group's ultimate holding company. The interest in the group is held through a 69.72% holding by Anglo South Africa Capital Proprietary Limited (2013: 69.72%).

The analysis of ordinary shareholders is given on pages 98 and 99.

EVENTS AFTER THE REPORTING DATE

Refer to note 31 for a detailed description of events after the reporting period for the year ended 31 December 2014. The directors are not aware of any other matter or circumstances arising since the end of the year and up to date of this report, not otherwise dealt with in this report.

CONTINGENT LIABILITY AND GUARANTEES**Contingent liability**

As at 30 June 2014, the group reported that it had certain tax matters under review with the South African Revenue Service (SARS). As at 31 December 2014 the group was engaged in discussions with SARS around these matters with a view to seeking resolution. These matters have been considered in consultation with external tax and legal advisors, who support the group's position. We believe that these matters have been appropriately treated in the results for the year ended 31 December 2014.

Guarantees

During the year ended 31 December 2014, the group issued additional financial guarantees in favour of the DMR in respect of its environmental rehabilitation and decommissioning obligations, to the total value of R225 million, bringing the total financial guarantees as at 31 December 2014 to R2.3 billion (2013: R2.1 billion). Included in this amount are financial guarantees for the environmental rehabilitation and decommissioning obligations of the group in respect of Thabazimbi mine of R438 million (2013: R331 million). ArcelorMittal SA has guaranteed R429 million of this amount by means of bank guarantees issued in favour of SIOC.

REGULATORY UPDATE

21.4% undivided share of the Sishen mine mineral rights

There have been no significant changes to the matters reported on for the year ended 31 December 2013. SIOC has not yet been awarded the 21.4% Sishen mining right, which it applied for early in 2014 following the Constitutional Court judgment on the matter in December 2013. The Constitutional Court ruled that SIOC held a 78.6% undivided share of the Sishen mining right and that, based on the provisions of the MPRDA, only SIOC can apply for, and be granted, the residual 21.4% share of the mining right at the Sishen mine. The grant of the mining right may be made subject to such conditions considered by the Minister to be appropriate. The group is actively continuing its engagement with the DMR in order to finalise the grant of the residual right.

COMPANY SECRETARY

The company secretary of Kumba is A Parboosing. The contact details of the company secretary are set out on page 100. Refer to page 122 of the Integrated Report 2014 for her abridged CV.

DIRECTORS

The names of the directors in office during the year and at the date of this report are set out on pages 20 to 21 of the Integrated Report 2014. 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 20 to 28.

PRESCRIBED OFFICERS

The names of the prescribed officers during the year and at the date of this report are set out on pages 22 to 23 of the Integrated Report 2014. The remuneration and fees of the prescribed officers are set out in the detailed remuneration report on pages 20 to 28. Although Timo Smit is a prescribed officer of Kumba as a member of Exco, he is employed by Anglo American Luxembourg S.A.R.L. As such his remuneration is not disclosed in the table on page 26.

AUDITORS

Deloitte & Touche continued in office as auditors of Kumba and its subsidiaries. At the annual general meeting on 8 May 2015, shareholders will be requested to re-appoint Deloitte & Touche as auditors of Kumba for the 2015 financial year.

SPECIAL RESOLUTION

On 9 May 2014 the shareholders of Kumba resolved the following:

- 1) 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 Companies Act (as amended) and the Listings Requirements of the JSE
- 2) The board of directors of the company may from time to time, subject to compliance with the requirements of the company's memorandum of incorporation, the Companies Act (as amended), and the Listings Requirements of the JSE, authorise the company to grant financial assistance in terms of sections 44 and 45 of the Companies Act (as amended)
- 3) The company is authorised to remunerate its non-executive directors for their services as directors and/or pay any fees related thereto provided that the aforementioned authority shall be valid until the ninth annual general meeting of the company in 2015
- 4) The directors are hereby authorised by way of a general authority, to issue the authorised but unissued ordinary shares of one cent each in the capital of the company for cash, as and when suitable opportunities arise, subject to the memorandum of incorporation of the company, the Companies Act and certain other conditions

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

for the year ended 31 December 2014

INTRODUCTION

The committee is pleased to present its report for the financial year ended 31 December 2014 as recommended by the King III principles of good corporate governance, and in line with the Companies Act. The audit committee is constituted as a statutory committee of the group, as well as a board committee.

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 external auditors annually for appointment by the shareholders
- Monitoring and reviewing the effectiveness of the group's internal audit function
- Reviewing the expertise, appropriateness and experience of the finance function annually
- 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
- Monitoring compliance with the business integrity policy and performance standards
- 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 2014, comprised the following independent non-executive directors, who have the requisite financial skills and experience to fulfil the committee's duties:

- ZBM Bassa (chairman)
- DD Mokgatle
- AJ Morgan
- LM Nyhonyha

Brief biographies of the committee members are available on pages 20 to 21 of the Integrated Report 2014. During the year under review, the current members of the committee were nominated by the board for re-election and, all the members, having availed themselves for re-election by the shareholders at the 2014 AGM, were re-elected accordingly.

FREQUENCY AND ATTENDANCE OF AUDIT COMMITTEE MEETINGS

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

The chairman of the committee meets separately with management; and internal and external auditors prior to committee meetings. The committee meets separately with internal and external auditors at least once a year.

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	6 February 2014	4 March 2014	5 May 2014	16 July 2014	4 November 2014
ZBM Bassa	✓	✓	✓	✓	✓
DD Mokgatle	✓	A	✓	✓	✓
AJ Morgan	✓	✓	✓	✓	✓
LM Nyhonyha	✓	✓	✓	✓	✓

✓ Indicates attendance.

A 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 group's risk committee, Litha Nyhonyha, is a member of the audit committee and the chairman of the audit committee, Zarina Bassa, is a member of the risk committee, to ensure that the audit committee is aware of matters canvassed by the risk committee which may impact the control environment. The other members of the audit committee, Dolly Mokgatle and Allen Morgan, are also members of the risk committee.

INTERNAL AUDIT

The group's internal audit function is fulfilled by Anglo American Business Assurance Services (ABAS) and provides the board with positive 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 including whistle blowing via Tip-offs Anonymous
- Objectively assuring effectiveness of the risk assurance framework and the internal control framework
- Analysing and assessing business processes and associated controls
- Reporting audit findings and recommendations to management and the audit committee
- Assessing the effectiveness of the process for the rectification of all audit findings

ABAS has tested the group's internal financial controls in order to provide the board with assurance on the key areas of the group's internal financial controls. These systems are designed to provide reasonable, but not absolute, assurance as to the integrity and reliability of the financial statements and to safeguard, verify and maintain accountability of its assets, as well as to detect and minimise significant fraud, potential liability, loss and material misstatement, while complying with applicable laws and regulations.

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 2014

During the financial year ended 31 December 2014 the committee carried out its duties as required by section 94(7) of the Companies Act, King III, the committee's terms of reference and in accordance with its annual plan.

The committee performed the following statutory duties:

- Evaluated the independence and effectiveness of the external auditors, Deloitte & Touche, and having conducted such assessment, accordingly nominated Deloitte & Touche as independent auditors and proposes that Sebastian Carter be re-appointed as the designated auditor to continue in office until the conclusion of the 2015 AGM
- Considered and approved the audit fee payable to the external auditors for the year ended 31 December 2014
- Reviewed and recommended group and company's liquidity and solvency analyses, funding strategies, compliance with debt covenants, going concern assessments, dividend policy and the interim and final dividends
- Ensured and satisfied itself that the appointment of the external auditor is in compliance with the Companies Act, the Auditing Profession Act, 2005 and the JSE Listings Requirements
- 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 was not compromised
- Performed the audit committee functions for subsidiaries within the group as contemplated in section 90 of the Companies Act and reviewed the findings of the external assurance provider, PwC, emanating from the performance of an independent assurance exercise on the sustainability content of the Integrated Report 2014. The committee is satisfied with the findings of the independent assurance exercise and, in addition, has reviewed the sustainability information set out in the Integrated Report 2014 and is satisfied that the sustainability information is reliable and consistent with the information contained in the annual financial statements

DUTIES CARRIED OUT IN 2014 continued

The committee performed the following additional duties as part of its mandate:

- 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 recommended the budget review, revised the Delegated Authority Framework (DAF) and the committees' terms of reference
- Reviewed and was satisfied that the external auditors and engagement partner were independent
- Recommended the re-appointment 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, including the risk assurance framework, 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
 - legal risks
 - internal financial controls
 - fraud risks
 - strategic risks
 - operational risks
 - IT governance risks
- Reviewed and was satisfied with the expertise and the appropriateness of the finance function
- Reviewed and was satisfied with the expertise of the chief financial officer

COMBINED ASSURANCE

The audit committee has reviewed the company's combined assurance model and has satisfied itself as to its completeness, and that the level of unmitigated risks, both individually and in totality, are within the risk appetite of the group, and that there is sufficient assurance provided to manage risks and the control environment through both internal and external assurance providers.

LEGAL MATTERS

Updates on the legal matters are provided to the committee at each meeting. The committee considers the implications of these matters on fair presentation.

ORE RESERVES AND MINERAL RESOURCES

The group's ore reserves and mineral resources and changes thereto are reviewed annually by the committee.

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, Frikkie Kotzee (view Frikkie's abridged profile on page 22 of the Integrated Report 2014) and was satisfied with the appropriateness thereof.

GOING CONCERN

The audit committee has reviewed a documented assessment, including key assumptions, prepared by management of the going concern status of the company and has made recommendations to the board in support thereof. The board's statement on the going concern status of the company, as supported by the audit committee, is included on page 15 of this report.

ANNUAL FINANCIAL STATEMENTS

The audit committee has evaluated the group and company annual financial statements for the year ended 31 December 2014 and concluded that they comply, in all material aspects, with the requirements of the Companies Act, the JSE Listings Requirements and International Financial Reporting Standards (IFRS). The committee therefore recommended the approval of the annual financial statements to the board.

INTEGRATED AND SUSTAINABLE DEVELOPMENT REPORTS

The committee fulfils an oversight role regarding the group's Integrated and Sustainable Development Reports and its reporting processes and, having regard to material factors that may impact on the integrity of the information, has recommended the Integrated Report 2014 and Sustainable Development Report 2014 for approval by 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

6 February 2015

REMUNERATION REPORT

KEY FEATURES

During 2014, the following are some of the key developments and activities of the human resources and remuneration committee (Remco):

- There were no changes to the membership of Remco
- In keeping with best practice and King III recommendations, the board has created a new committee (the nominations and governance committee – NomGov) to fulfil all the nominations and governance obligations of the company, which had previously been incorporated into the work-plan of the Remco. As such, the Remco's terms of reference has been amended to reflect its new scope of responsibilities and accountabilities. In alignment with the specific scope of the committee on human resources/human capital issues, the name of the committee was changed to the human resources and remuneration committee. The revised terms of reference for the committee can be accessed at www.angloamericankumba.com/investors/corporate-governance

Key management changes during 2014 included:

- Restructuring the Kumba project portfolio during the year resulted in the functions of project management and business development being incorporated in the technical services function. The incumbent Mr Francois Louw was retained as a consultant in order to ensure completion of key projects
- The resignation of the company secretary Mr Vusani Malie with effect from 1 March 2014. Ms Avanthi Parboosing was appointed as company secretary with effect from 28 July 2014. Before the appointment of Ms Parboosing, Mr Kevin Lester was appointed to act as the company secretary

Employees continue to share in the company's performance through their participation in the employee share ownership plan (Envision). Dividend payments to the total value of R169.4 million before tax were made during March and August 2014.

The company successfully concluded a multi-year wage agreement with recognised trade unions, applicable to bargaining category employees. The agreement is effective from 1 July 2014 up to 30 June 2017 and provides for increases of between 8.5% and 10% in the first two years and between 7.5% and 9% in the third year. In addition to wages, the agreement provides for guaranteed minimum housing allowance values and other social enhancement benefits like sick leave and family responsibility leave.

Remco also undertook the following key decisions during 2014:

- Approved changes to the conditions of the bonus share plan (BSP) for the chief executive, aligned to his peers within the Anglo American plc Group of companies. This will result in 40% delivered in cash, 40% in shares deferred for three years and 20% in shares deferred for five years
- Approved a new methodology for calculation of ROCE targets as performance condition applicable to the executive directors' long-term incentive plan
- Approved a new Total Shareholder Return comparator peer group and methodology as performance condition applicable to the executive directors' long-term incentive plan
- Approved annual salary increases for management and the executives
- Approved the 2013 performance assessments and performance incentive payments, BSP awards and long-term incentive plan (LTIP) awards for the chief executive, management and total workforce
- Approved the 2014 performance contracts of the chief executive, the chief financial officer as well as all prescribed officers
- Reviewed the remuneration report for inclusion in the 2013 Annual Financial Statements and 2013 Integrated Report

OUR REMUNERATION PHILOSOPHY UNDERPINS OUR STRATEGY

Kumba's reward philosophy forms an integral part of our employment offer and supports company strategy.

Our reward strategy aims to:

- maintain Kumba as an employer of choice
- motivate and engage employees to increase their level of commitment, resulting in high levels of performance of individuals and teams
- facilitate the attraction and retention of top talent and those employees with critical skills
- target the market median in respect of fixed pay, with variable performance-related pay, both short-and long-term, included in the total reward offering to ensure market competitiveness
- ensure the fair, equitable and consistent application of our remuneration principles and policies
- allow employees to share in the performance of the business

The Remco has the overarching responsibility to ensure that the principles of accountability, transparency, sustainability and good governance are enacted in all remuneration-related matters. This includes the crucial link between executive remuneration and performance against strategy, with the ultimate aim of creating shareholder value.

AIMS OF THIS REPORT

This report covers the following aspects of remuneration in Kumba:

- The roles, responsibilities and constitution of the Remco
- An overview of key elements of the reward mix for directors, executive management and prescribed officers
- An overview of reward policy and practices within Kumba
- Details of the remuneration paid and long-term incentives awarded to executive directors and executive management during 2014
- Details of the remuneration paid to non-executive directors

THE REMCO

As a committee of the board, Remco operates under terms of reference, a copy of which can be found on the company website at: www.angloamericankumba.com/investors/corporate-governance, assisting the board with remuneration policies and programmes in line with company strategy and objectives, with a specific focus on executive and prescribed officer remuneration.

Amongst its duties, Remco undertakes the following governance activities:

- Approves:
 - annual performance targets for both the chief executive and the executive management team
 - performance conditions and measures, objectives, and targets for all performance-related pay, fixed, variable and long-term
 - reward policies and programmes
 - overall cost of remuneration increases awarded to employees, including the costs of short- and long-term incentives
- Reviews and recommends to the board:
 - evaluation of the performance of executive directors against targets and business achievement
 - remuneration of executive directors and executive management, including short-term incentive payments and long-term share awards, directly linked to the achievement of targets
 - succession planning for executive management
 - industrial relations strategies

Membership of the remuneration committee

The Remco comprises the following non-executive directors:

- AJ Morgan (chairman)*
- GS Gouws
- F Titi*

* Independent.

Frequency and attendance of Remco meetings

In addition to the committee members, the chief executive, executive head of human resources and the Anglo American plc Group head of reward attend meetings of Remco. Directors are not involved in any decisions regarding their own remuneration. Remco met four times during the year and attendance is presented in the following table:

Member	3 February 2014	6 May 2014	15 July 2014	6 November 2014
AJ Morgan (chairman)	✓	✓	✓	✓
GS Gouws	✓	✓	✓	✓
F Titi	✓	✓	✓	✓

✓ Indicates attendance.

THE REMCO continued**Frequency and attendance of Remco meetings** continued

Abridged CVs for the members of the Remco are available on pages 20 to 21 of the Integrated Report 2014 as well as on the company website at: www.angloamericankumba.com/about-us/leadership-teams.

KUMBA'S APPROACH TO REWARD**Elements of remuneration**

The following table describes the key elements of the remuneration packages paid to all employees, including executive directors and prescribed officers, during the 2014 financial year.

	Strategic intent is to	Remuneration elements	Pay delivery	Eligibility
Base salary	Attract people with the necessary competencies (knowledge, skill, attitude) to add value to our business	Salary	Monthly	All employees
	Retain competent, high-performing employees who are engaged and demonstrate company values	Benefits	<ul style="list-style-type: none"> • Employer contribution to selected retirement funds • Subsidised medical aid • Life and disability insurance • Housing allowances and five-year mortgage subsidy plan 	All employees
	Ensure that pay is competitive and market related			
	Comply with legislative provisions and negotiated contractual commitments		Other allowances	Job specific Scarce skills Transformation
	Support high-performing individuals and teams by aligning reward with performance			
	Reinforce and enhance the principle that employees are key assets of our company			
Performance incentives	Aim to align achievement of production, safety and cost targets at operational level	Performance bonus	Cash paid on monthly, quarterly, bi-annual or annual basis, depending on circumstances at each mine	Bargaining unit employees
	Encourage the achievement of stretch targets at company/business unit/functional/individual level		The incentive is delivered in two parts:	(i) Senior management and above
	Align management and shareholder interest		(i) Annual cash incentive	(ii) Entry-level management and above
	A portion of the annual cash incentive is deferred into bonus shares for long-term retention, applicable to senior managers		(ii) Shares allocated under the BSP rules vesting after a three-year period	

	Strategic intent is to	Remuneration elements	Pay delivery	Eligibility
Long-term incentives	Retention of skills and achievement of direct alignment with shareholder interest	LTIP	Delivered in conditional shares with specified performance conditions attached	Executive directors
	Reward employees for contribution to long-term sustainable company performance	Forfeitable shares	Delivered in forfeitable shares	Prescribed officers and selected senior managers, excluding executive directors
	Attract and retain key employees	Participation in Envision	Units awarded in terms of the rules of the ownership plan	Junior management and below that do not participate in any of the other long-term incentives

EXECUTIVE DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION

Approach to reward

The policy provides for executive directors and prescribed officers to receive remuneration appropriate to their scope of responsibility and contribution to operating and financial performance, taking into account industry norms and external market and country benchmarks.

This remuneration consists of fixed and variable components. 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 fixed package and the annual cash bonus of the chief executive and the chief financial officer is 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 executive director on services performed offshore. These figures are included in the emoluments table on page 26 of this report.

Fixed remuneration

The total package per role is compared to levels of pay at the market median in companies of comparable size and complexity within the industry. Annual salary reviews are conducted to ensure market competitiveness.

The company contributes 12% of pensionable salary to approved retirement funds. Medical aid is subsidised at 60% of the contribution to a maximum amount determined by market comparisons. Risk insurance benefits include life cover and death-in-service benefits subject to the rules of the approved Kumba retirement funds.

Variable remuneration

Variable remuneration consists of two elements, an annual performance incentive scheme and a long-term incentive plan that runs over a three year performance period (and an additional two-year holding period in the case of the chief executive).

Annual performance incentives

Purpose	The incentive is designed to reward and motivate the achievement of agreed company financial, strategic and operational objectives, linked to key performance areas within cited employees' respective portfolios. Through the delivery of deferred bonus shares, long-term sustained performance is ensured.
Eligible participants	Executive directors, prescribed officers and management employees
Elements	<p>There are two elements to the incentive:</p> <ul style="list-style-type: none"> • An annual cash incentive, linked to performance during the financial year, payable at the end of the relevant financial year • An award of deferred bonus shares based on the annual cash payment received, which is awarded after the end of the relevant financial year. These bonus shares are linked to performance during the financial year in the same manner as the annual cash incentive, and are subject to a three- to five-year holding period before vesting, during which it remains restricted. The bonus shares will be forfeited if the participant leaves employment during the restricted period (except if the incumbent is a 'good leaver' under the scheme rules). Participants earn dividends on the bonus shares.
Performance measures	<p>Managers within Kumba are measured on business-specific strategic value drivers aligned to operational and/or mine-specific strategic business plans as approved by the board. In 2014 emphasis was placed on the following:</p> <ul style="list-style-type: none"> • Safety – leading and lagging indicators including safety leadership, fatalities and LTIFR • Operational performance – total production, waste stripping, operational improvement, staff training and transformation • Financial performance – cost efficiency, operating profit, operating free cash flow, Anglo American plc Group earnings per share
Maximum value of annual performance incentive	<p>The values of the annual performance incentive for executive directors and prescribed officers are calculated as follows:</p> <p>Chief executive</p> <p>The chief executive's annual incentive is determined by measuring performance against overall company targets (75%) and specific, individual key performance measures (25%) approved by the board. The cash element of the incentive is capped at 70% of basic employment cost.</p> <p>Chief financial officer</p> <p>The chief financial officer participates in the Anglo American plc Group performance management standard. This is based on a predetermined on-target bonus percentage of 30%, an individual performance modifier (IPM) and a business multiplier (BM) that is determined at the end of the year taking into account Kumba business performance against the targets set for the year.</p> <p>Prescribed officers</p> <p>As with the case of the chief financial officer, prescribed officers participate in the Anglo American plc Group performance management standard that is linked to an Anglo American plc Group-wide annual performance incentive. This is based on a maximum on-target cash bonus percentage of 25% or 30% of basic employment cost, an IPM and a BM that is determined at the end of the year taking into account Kumba business performance against the targets set for the year.</p>
Business multiplier (BM)	The BM is determined and approved by the Anglo American plc Group management committee (GMC) at the end of the year taking into account Kumba business performance against the targets set for the year. The BM has ranged between 0.5 and 1.3 over the past five years.
Individual Performance Modifier (IPM)	An IPM is based on individual performance rating and is determined at business unit level and approved by the GMC. It ranges from 0 to 2.0.
Maximum value of deferred bonus shares award	The maximum face value of the deferred bonus shares award is 150% for the chief executive and 140% of the annual cash bonus for prescribed officers.
Changes in 2014	Changes to the chief executive's performance incentive have been approved to align with Anglo American plc Group peers. This will result in 40% of the incentive delivered in cash, 40% in shares deferred for three years and 20% in shares deferred for five years, in line with institutional preference for longer holding periods.

Long-term incentives

Long-term incentives are offered to executive directors, prescribed officers and senior management who have the opportunity and the responsibility to contribute towards the company's overall strategic objectives.

The rationale is as follows:

- Encourage participants to build up a shareholding in the company and thus increase alignment of employees' interests with those of shareholders
- Provide a mechanism for wealth creation for participants that is linked to wealth creation for shareholders
- Strengthen the performance culture and provide a direct link between annual performance objectives and share-based incentives
- Increase the effectiveness of the overall reward mix to enable the company to attract, motivate and retain key management talent

The long-term incentives for executive directors and prescribed officers are detailed below.

Long-term incentive plan (LTIP)

Description	The LTIP consists of conditional awards of shares vesting after three years, subject to the achievement of stretching performance conditions. Full voting and dividend rights will only accrue from the vesting date.			
Eligible participants	Executive directors			
Maximum value of the award	The maximum annual face value of the LTIP award is 150% of base salary for the chief executive and 100% of base salary for the chief financial officer.			
Performance measures	Two performance conditions, measured over a three year performance period, apply to each award:			
	Performance Indicator	Weighting	Threshold target	Stretch target
	Return on Capital Employed (ROCE) achieved	50%	55%	70%
	Total Shareholder Return (TSR) achieved	50%	Median TSR ranking	Upper quartile TSR ranking
	TSR is further split 25% JSE/FTSE mining index (this index is compiled by the FTSE but consists of JSE mining companies only) and 25% global iron ore peer group. The global iron ore companies comparator group comprises Fortescue Metals (Australia), Cliffs Natural Resources (USA), MMX Mineracao (Brazil), Ferrexpo (Great Britain), Atlas Iron (Australia), Mount Gibson (Australia), Vale (Brazil), China Vanadium (China), Rio Tinto Ltd (Australia).			
	Targets are approved by Remco for each allocation and no retesting of performance conditions is allowed. Shares that do not vest after three years in terms of the performance conditions will lapse.			
Changes in 2014	<ul style="list-style-type: none"> • Methodology for setting the ROCE target was changed to align to the Anglo American plc Group • Vesting will be evaluated based on attributable ROCE. Attributable ROCE is the return on the adjusted capital employed attributable to equity shareholders of Kumba, and therefore excludes the portion of the return and capital employed attributable to non-controlling interests in operations where Kumba has control but does not hold 100% of the equity. The key changes are that: <ul style="list-style-type: none"> • adjustments for changes in the commodity price of iron ore are no longer applicable • adjustments for changes to the Rand/US Dollar exchange rate are no longer applicable • adjustment for capital work-in-progress/non-productive assets are no longer applicable 			
Company limits	The aggregate limit for the BSP and LTIP awards is 10% of the issued share capital. Shares are purchased in the market and not issued for purposes of settlement of the BSP or LTIP. The current level of outstanding shares is less than 1% of total issued share capital.			

Executive directors' and prescribed officers' contracts of employment

Executive directors and prescribed officers are not employed on fixed-term contracts but have standard employment contracts with notice periods of up to 12 months. Although restrictions apply for six months after termination of service, no restraint of trade provisions apply and no restraint payments have been made during the year. There are no changes of control provisions or any provisions relating to payment on termination of employment.

External appointments of executive directors and prescribed officers

External appointments are subject to approval by the board and are governed by the business integrity policy.

NON-EXECUTIVE DIRECTORS' FEES

Non-executive directors do not have employment contracts with the company or participate in any of the company's incentive plans. Non-executive directors are subject to retirement by rotation and re-election by shareholders in accordance with the memorandum of incorporation of the company.

Remco recommends fees payable to non-executive directors for approval by the shareholders. Non-executive directors' remuneration is determined by benchmarking using market data, including a survey of the top 40 companies listed on the JSE, by an independent external service provider. Fees are not dependent upon meeting attendance, and no other supplementary fees are payable.

Annual fees payable to non-executive directors were approved by shareholders at the AGM on 9 May 2014. The fees are as follows:

Capacity	2014/2015 Fees per annum (Rand)	
	Chairman	Member
Board of directors	1,183,000	199,300
Audit committee	266,000	132,300
Risk committee	266,000	132,300
Social, ethics and transformation committee	266,000	132,300
Remco	266,000	132,300
Nominations and governance committee	N/A*	132,300

* The chairman of the board chairs this committee but does not receive additional remuneration in this role.

2014 EMOLUMENTS (AUDITED)

Executive directors, non-executive directors and prescribed officers

The table below provides an analysis of the emoluments paid to executive and non-executive directors as well as prescribed officers.

R'000	Base salary	Benefits (retirement and medical aid)	Cash bonus based on 2014 performance (paid March 2015)	Retention payment	Face value of BSP shares awarded in respect of 2014 performance (awarded March 2015)	Directors' fees	Committee fees	LTIP value earned in respect of performance period 2012-2014 (vesting 2015)	Total emoluments	
									2014	2013
Executive directors										
NB Mbazima ¹	8,082	941	3,532	–	5,298			1,912	19,765	18,742
FT Kotzee ²	3,885	390	1,516	–	2,123			–	7,914	7,392
Sub-total	11,967	1,331	5,048	–	7,421	–	–	1,912	27,679	26,134
Non-executive directors										
F Titi						1,166	–		1,166	1,116
ZBM Bassa						196	382		578	523
GS Gouws						196	251		447	396
KT Kweyama						196	–		196	276
DD Mokgatle						196	513		709	647
AJ Morgan						196	643		839	772
LM Nyhonyha						196	372		568	480
AM O'Neill						196	–		196	47
BP Sonjica						196	251		447	396
DM Weston ³						–	–		–	141
Sub-total						2,734	2,411		5,146	4,794
Prescribed officers										
AC Loots	2,659	372	1,015	–	1,421				5,467	5,515
FM Louw ⁴	2,006	282	702	–	982				3,972	5,483
VF Malie ⁵	287	41	–	–	–				328	3,914
B Mawasha	3,768	509	1,678	–	2,349				8,304	8,491
Y Mfolo	1,935	279	615	–	862				3,691	4,168
LLA Mgadzah	1,806	262	479	–	670				3,217	3,319
A Parboosing ⁶	741	108	197	1,473	276				2,795	–
SV Tyobeka	2,075	303	772	–	1,081				4,231	4,384
Cvan Loggerenberg ⁷	–	–	–	–	–				–	1,043
Sub-total	15,277	2,156	5,458	1,473	7,641				32,005	36,317
Total	27,244	3,487	10,506	1,473	15,062	2,734	2,411	1,912	64,830	67,245

¹ Emolument includes base salary of R889,300 (EUR63,345) and retirement benefits of R222,321 (25% of base salary) paid by KITSA in respect of services rendered off shore during 2014. The LTIP value earned relates to an award made while the chief executive was at Anglo Thermal Coal.

² Emolument includes base salary of R867,610 (EUR61,800) and retirement benefits of R216,902 (25% of base salary) paid by KITSA in respect of services rendered off shore during 2014.

³ Resigned 30 September 2013.

⁴ Restructuring of the executive head of projects role during the year resulted in FM Louw ceasing to be a prescribed officer with effect 1 November 2014.

⁵ Resigned 1 March 2014.

⁶ Appointed 28 July 2014.

⁷ Retired 30 April 2013.

Interests of executive directors and the prescribed officers

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

Capacity and name	Number of awards at 1 Jan 2014	Granted awards			Vested awards			Outstanding awards			Share-based payment expense R'000
		Granted during 2014	Date of grant	Market value on grant date R'000	Number of awards vested during 2014	Vesting date	Notional value at date of vesting R'000	Number of awards at 31 Dec 2014	Notional value of outstanding awards R'000	Earliest date of vesting of outstanding awards	
Executive directors											
Bonus Share Plan											
NB Mbazima	7,488	11,674	01 Mar 14	5,098	–			19,162	4,597	01 Mar 16	3,319
FT Kotzee	3,299	4,773	01 Mar 14	2,084	740	01 Jun 14	249	7,332	1,759	01 Jun 15	1,421
LTIP											
NB Mbazima	19,873	31,523	01 Aug 14	11,663				51,396	6,924	01 Mar 16	2,157
FT Kotzee	6,002	9,841	01 Aug 14	3,641				15,843	2,151	01 Mar 16	664
Sub-total	36,662	57,811		22,486	740		249	93,733	15,431		7,561
Prescribed officers											
Bonus Share Plan											
AC Loots	10,788	5,093	01 Mar 14	2,224	3,532	02 Mar 14	1,542	12,349	2,963	01 Mar 15	1,923
FM Louw	14,497	5,228	01 Mar 14	2,283	4,652	02 Mar 14	2,031	15,073	3,616	01 Mar 15	2,364
VF Malie	7,048	3,577	01 Mar 14	1,562	2,323	01 Mar 14	1,014	8,302	1,992	01 Mar 15	1,139
A Parboosing	–	4,076	25 Jul 14	1,467	–			4,076	978	01 Mar 15	435
B Mawasha	9,054	5,437	01 Mar 14	2,374	3,018	01 Mar 14	1,318	11,473	2,752	01 Mar 15	3,461
Y Mfolo	5,244	3,426	01 Mar 14	1,496	–			8,670	2,080	01 Mar 15	1,343
LLA Mgadzah	5,551	2,629	01 Mar 14	1,148	–			8,180	1,962	01 Mar 15	1,269
SV Tyobeka	9,502	3,814	01 Mar 14	1,665	2,990	02 Mar 14	1,306	10,326	2,477	01 Mar 15	1,618
Sub-total	61,684	33,280		14,219	16,515		7,211	78,449	18,820		13,552
Total	98,346	91,091		36,705	17,255		7,460	172,182	34,251		21,113

Directors' beneficial interest in Kumba

The aggregate beneficial interest in Kumba at 31 December 2014 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 to the shareholding since 2014 and the date of approval of the annual financial statements.

Capacity and name	2014			2013		
	Number of shares	Long-term incentive scheme shares ¹	Total beneficial interest	Number of shares	Long-term incentive scheme shares ¹	Total beneficial interest
Executive Directors						
NB Mbazima	–	70,558	70,558	–	27,361	27,361
F Kotzee	–	23,175	23,175	740	9,301	10,041
	–	93,733	93,733	740	36,662	37,402
Non-executive Directors						
DD Mokgatle ²	428	–	428	428	–	428
GS Gouws ²	213	–	213	213	–	213
	641	–	641	641	–	641
	641	93,733	94,374	1,381	36,662	38,043

¹ Granted under the bonus share plan, long-term incentive plan and disclosed in the tables above.

² Total indirect interest held by spouses.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF KUMBA IRON ORE LIMITED

We have audited the consolidated and separate financial statements of Kumba Iron Ore Limited set out on pages 30 to 97, which comprise the balance sheets as at 31 December 2014, and the income statements, statements of other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated and separate 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 control 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 control. 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, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Kumba Iron Ore Limited as at 31 December 2014, 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.

OTHER REPORTS REQUIRED BY THE COMPANIES ACT

As part of our audit of the consolidated and separate financial statements for the year ended 31 December 2014, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements.

These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Deloitte & Touche

Registered Auditor
Per: SBF Carter
Partner

6 February 2015

National executive: *LL Bam Chief Executive *AE Swiegers Chief Operating Officer *GM Pinnock Audit DL Kennedy Risk Advisory *NB Kader Tax TP Pillay Consulting *K Black Clients & Industries *JK Mazzacco Talent & Transformation *MJ Jarvis Finance *M Jordan Strategy S Gwala Managed Services *TJ Brown Chairman of the board *MJ Comber Deputy Chairman of the board

A full list of partners and directors is available on request

*Partner and Registered Auditor

B-BBEE rating: Level 2 contributor in terms of the Chartered Accountancy Profession Sector Code

Member of Deloitte Touche Tohmatsu Limited

PRINCIPAL ACCOUNTING POLICIES

for the year ended 31 December 2014

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 and company financial statements are prepared in accordance with the IFRSs and International Accounting Standards (IASs) as issued by the International Accounting Standards Board (IASB) and IFRS Interpretations Committee (IFRIC) interpretations applicable to companies reporting under IFRS, the Companies Act, the JSE Listings Requirements and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee.

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.

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 2014. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.2 Statement of compliance

2.2.1 New accounting standards, amendments to published standards and interpretations

The following standards, amendments to published standards and interpretations which became effective for the year commencing on 1 January 2014 were adopted by the group:

IFRIC 21 Levies (effective date: 1 January 2014)

In May 2013, the IASB issued IFRIC 21 *Levies* to address inconsistencies in the current practice in accounting for levies.

The interpretation considers outflows of economic resources, imposed by governments in accordance with legislation. The scope of the interpretation excludes outflows of economic resources covered by other IFRSs, acquisition of assets, contractual arrangements with government, fines or penalties.

The application of this standard has not resulted in any changes to the group's financial statements.

Amendments to IAS 36 Impairment of Assets (effective date: 1 January 2014)

The primary intention behind this amendment is to harmonise the disclosure requirements for fair value less costs of disposal and value in use when present value techniques are used to measure the recoverable amount of impaired assets. However, the amendment also requires a new disclosure relating to impaired assets.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement: Novation of Derivatives and Continuation of Hedge Accounting (effective date: 1 January 2014)

The amendment to IAS 39 provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria, in particular if the novation was a result of a law or legislative change.

The application of this standard has not resulted in any changes to the group's financial statements.

Amendments to IAS 32 Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities (effective date: 1 January 2014)

The amendment to IAS 32 clarifies that an entity will meet the net settlement criterion if and only if the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk and that will process receivables and payables simultaneously.

The application of this standard has not resulted in any changes to the group's financial statements.

Amendments to IFRS 10, IFRS 12, IAS 27 Separate Financial Statements: Investment Entities (effective date: 1 January 2014)

This amendment requires an investment entity to measure investments in certain subsidiaries at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* instead of consolidating those subsidiaries in its consolidated and separate financial statements, except where a subsidiary provides services that relate to the investment entity's investment activities, in which case it shall consolidate that subsidiary and apply the requirements of IFRS 3 to the acquisition of any such subsidiary.

The application of this standard has not resulted in any changes to the group's financial statements.

2.2.2 New accounting standards and interpretations not yet effective and not early adopted

In 2014 the group did not early adopt any new, revised or amended accounting standards or interpretations. The accounting standards, amendments to issued accounting standards and interpretations, which are relevant to the group but not yet effective at 31 December 2014, are being evaluated for the impact of these pronouncements. These accounting standards are listed in Annexure 5.

2.3 Currencies

Functional and presentation currency

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

Foreign currency transactions and balances

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

Monetary assets and liabilities that are denominated in foreign currencies are translated into the functional currency of an entity at the rate of exchange ruling at the 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 comprehensive income.

Foreign operations

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

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 other comprehensive income. 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 in a foreign operation, the proportionate share of the related cumulative gains and losses previously recognised in the FCTR in the statement of changes in equity are re-classified in the income statement on disposal of that investment.

In the case of a partial disposal that does not result in the group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the group's ownership interest in associates or jointly controlled entities that do not result in the group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.4 Segment reporting

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

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

2.5 Events after the reporting period

Recognised amounts in the financial statements are adjusted to reflect events arising after the 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 in note 31.

2.6 Comparative figures

Comparative figures are restated in the event of a change in accounting policy. No comparative figures were restated during the period under review.

3. COMPANY FINANCIAL STATEMENTS

Subsidiaries, associates and joint arrangements

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

Where necessary, adjustments are made to the results of subsidiaries, joint arrangement and associates to ensure the consistency of their accounting policies with those used by the group.

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

Subsidiaries

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

Non-controlling interests

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

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 historical 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 includes 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 historical 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
- Capitalised preproduction expenditure and waste stripping costs
- Deferred waste stripping costs

The cost of items of property, plant and equipment is capitalised into its various components where the useful life of the components differ from the main item of property, plant and equipment to which the component can be logically assigned. Expenditure incurred to replace or modify a significant component of property, plant and equipment is capitalised and any remaining carrying value of the component replaced is written off as an expense in the 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 at the end of each reporting period, with any changes in such accounting estimates being adjusted in the year of reassessment and applied prospectively.

The estimated useful lives of items of property, plant and equipment are:

Mineral properties	10 – 19 years
Residential buildings	5 – 19 years
Buildings and infrastructure	5 – 19 years
Mobile equipment, built-in process computers and reconditionable spares	2 – 19 years
Fixed plant and equipment	4 – 19 years
Loose tools and computer equipment	5 years
Mineral exploration, site preparation and development	5 – 19 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:

- Evaluates as being technically or commercially feasible
- Has sufficient resources to complete development
- Can demonstrate that it 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. During the development of a mine, before production commences, stripping expenses are capitalised as part of the investment in construction of the mine. Capitalisation of pre-production expenditure ceases when the mining property is capable of commercial production.

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

Waste stripping expenses

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

The average LoM stripping ratio is calculated as the tonnes of ex-pit waste material expected to be removed over the LoM, per tonne of ex-pit ore extracted. The cost per tonne is calculated as the total mining costs for a mine for the period under review divided by total tonnes handled for the period under review.

A component has been identified as a geographically distinct ore body within a pit to which the stripping activities being undertaken within that component could be allocated.

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

The deferred costs capitalised per component are depreciated on a unit of production method with reference to the ex-pit ore production from a component achieved in the current period and expected over the LoM for that component.

4. CONSOLIDATED FINANCIAL STATEMENTS continued**4.3 Impairment of non-financial assets**

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

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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 (other than a goodwill 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.

**4.4 Financial assets
Classification**

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.

Financial assets at fair value through profit or loss

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.

Loans and receivables

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. The group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet.

Recognition and measurement

Regular 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. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'Finance (losses)/gains' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the group's right to receive payments is established.

Investments held by environmental trust

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 re-invested by the trust. The equity investments held by the trust have been designated as fair value through profit and loss instruments, and the bonds and cash held by the trust are classified as loans and receivables measured at amortised cost.

Trade and other receivables

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

If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current receivables.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Cash and cash equivalents

In the consolidated and separate statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks and investments in money market instruments that are readily convertible to a known amount of cash with original maturities of three months or less, all of which are available for use by the group unless otherwise stated.

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.

Financial liabilities are subsequently carried at amortised cost and any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Interest calculated using the effective interest rate method is recognised in profit or loss.

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

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Interest-bearing borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Offsetting financial instruments

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

4.5 Finance leases

The group leases certain heavy mining equipment. Leases where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased equipment and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding lease obligations, net of finance charges, are included in interest-bearing borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The equipment acquired under finance leases is depreciated over the useful life of the asset.

4.6 Inventories

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

The cost of finished goods and work-in-progress comprises 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.

4. CONSOLIDATED FINANCIAL STATEMENTS *continued***4.6 Inventories** *continued*

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 variable 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.

4.7 Share capital

Ordinary shares are classified as equity instruments.

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

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

4.8 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. Dividends withholding tax is levied on the recipient but collected by the group and remitted to the authorities. A liability is recognised in respect of the tax levied for the period when the dividends are recognised as a liability. Dividends withholding tax is not 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.

4.9 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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

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 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 'Investments held by environmental trust'. Interest earned on cash funds invested in the environmental rehabilitation trust is accrued on a time-proportion basis and recognised as interest income. Fair value gains and losses are recognised in the income statement on equity instruments held by the trust.

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.

4.10 Deferred tax

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

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

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

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

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 and laws that are enacted or substantively enacted 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.

4.11 Employee benefits

Post-employment benefits

The group operates defined contribution plans for the benefit of its employees. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate 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 does not provide defined employee benefits to its current employees.

Bonus plans

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

Termination benefits

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

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

4. CONSOLIDATED FINANCIAL STATEMENTS *continued***4.11 Employee benefits** *continued***Equity compensation benefits**

The various equity compensation schemes operated by the group allow certain senior employees, including executive directors, the option to acquire shares in Kumba over a prescribed period in return for services rendered. These options are settled by means of the issue of shares. Such equity-settled share-based payments are measured at fair value at the date of the grant. The fair value determined at the grant date of the equity-settled share-based payments is charged as employee costs on a straight-line basis over the period that the employees become unconditionally entitled to the options, based on management's estimate of the shares that will vest and adjusted for the effect of non-market based vesting conditions. These share options are not subsequently revalued.

The fair value of the share options is measured using option pricing models. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of 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**4.12 Revenue recognition**

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.

Sale 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 when the related sale of iron ore is recognised as indicated by the relevant sales terms stipulated in the sales contract.

4.13 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.

4.14 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 by the company are recognised when the right to receive payment is established. All dividend income received within the group is eliminated on consolidation.

4.15 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.

Qualifying assets are assets that necessarily take a substantial period of time (more than 12 months) to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

4.16 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.

4.17 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.

4.18 Taxation

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

Tax is recognised in the 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.

Dividend tax

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

4.19 Earnings per share

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

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

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

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

4.20 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.

4. CONSOLIDATED FINANCIAL STATEMENTS continued**4.21 Accounting policies adopted by the group which are not significant to the reported results for the current and comparative years**

The accounting policies included below relate to items and/or transactions that did not have a significant impact on the group's reported results for the current and comparative financial years. It also includes the group's accounting policy choices in respect of transactions which could potentially have a significant impact on the reported results but that did not occur during the years presented. The full accounting policies have been included for information purposes in Annexure 4 to these annual financial statements.

- Disposals of subsidiaries
- Consolidation of associates
- Consolidation of joint arrangements
- Business combinations
- Goodwill
- Impairment of financial assets
- Derivative financial instruments and hedging activities
- Biological assets

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 Consolidation of special purpose entities

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

5.2 Segment reporting

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

5.3 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
- Changes in capital, operating, mining, processing, reclamation and logistics costs, discount rates and foreign exchange rates

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

5.4 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:

- Average LoM stripping ratio
- Total expected production over the LoM

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

5.5 Impairment of assets

The group reviews and tests the carrying value of financial and non-financial 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. Non-financial 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. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued**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.

5.7 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.

5.8 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.

5.9 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.

5.10 Provisionally priced revenue from spot sales

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

Provisionally priced sales are marked to market with reference to the iron ore index (Platts) price at each reporting date. The forward market for iron ore is not considered sufficiently liquid and therefore the price for the last day of the month is assumed to continue into the following month for the purposes of calculating the provisionally priced revenue transactions. This adjustment is recognised in revenue with a contra-entry to accounts receivable balance.

5.11 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.

5.12 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.

5.13 Lease accounting

The group followed the guidance in IFRIC 4 *Determining whether an Arrangement contains a Lease* to determine how to account for a supply agreement. This determination required significant judgement. In making this judgement the group evaluated whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset. Based on its evaluation, the group concluded that the arrangement contains a lease and as a result, the underlying asset is the subject of a lease. Furthermore, the group had to classify the lease as either an operating lease or a finance lease. The group concluded the lease to be classified as a finance lease. This classification also required significant judgement. In making this judgement, the group used as guidance the indicators provided in paragraph 10 of IAS 17. As at 31 December 2014 the net investment in the lease had a zero carrying value as it was fully settled at year end.



Top image
Godfrey Modise, a mine overseer inspecting drill holes in the Sishen mine pit.

Bottom image
A view of the Sishen mine Western expansion.



BALANCE SHEET

as at

Rand million	Notes	31 December 2014	31 December 2013
Assets			
Property, plant and equipment	2	35,170	29,922
Biological assets		6	6
Investments held by environmental trust	3	791	737
Long-term prepayments and other receivables	4	555	605
Deferred tax assets	10	871	920
Non-current assets		37,393	32,190
Inventories	5	7,366	5,171
Trade and other receivables	6	4,476	6,124
Cash and cash equivalents	7	1,664	1,053
Current assets		13,506	12,348
Total assets		50,899	44,538
Equity and liabilities			
Shareholders' equity		20,764	20,831
Non-controlling interest	22	6,237	6,353
Total equity		27,001	27,184
Liabilities			
Interest-bearing borrowings	8	4,000	2,234
Provisions	9	1,964	1,809
Deferred tax liabilities	10	8,201	7,888
Non-current liabilities		14,165	11,931
Interest-bearing borrowings	8	5,593	615
Provisions	9	92	355
Trade and other payables	11	3,493	3,888
Current tax liabilities		555	565
Current liabilities		9,733	5,423
Total liabilities		23,898	17,354
Total equity and liabilities		50,899	44,538

BALANCE SHEET – US\$ CONVENIENCE TRANSLATION

(unaudited supplementary information)

as at

US Dollar million	31 December 2014	31 December 2013
Assets		
Property, plant and equipment	3,362	2,861
Biological assets	1	1
Investments held by environmental trust	76	70
Long-term prepayments and other receivables	53	58
Deferred tax assets	83	88
Non-current assets	3,575	3,078
Inventories	704	494
Trade and other receivables	428	585
Cash and cash equivalents	159	101
Current assets	1,291	1,180
Total assets	4,866	4,258
Equity and liabilities		
Shareholders' equity	1,985	1,992
Non-controlling interest	596	607
Total equity	2,581	2,599
Liabilities		
Interest-bearing borrowings	382	214
Provisions	188	173
Deferred tax liabilities	784	754
Non-current liabilities	1,354	1,141
Interest-bearing borrowings	535	59
Provisions	9	34
Trade and other payables	334	371
Current tax liabilities	53	54
Current liabilities	931	518
Total liabilities	2,285	1,659
Total equity and liabilities	4,866	4,258
Exchange rate		
Translated at closing Rand/US Dollar exchange rate	11.57	10.46

INCOME STATEMENT

for the year ended 31 December

Rand million	Notes	2014	2013
Revenue	12	47,597	54,461
Operating expenses	13	(28,405)	(26,076)
Operating profit	14	19,192	28,385
Finance income	17	84	117
Finance costs	17	(519)	(396)
Loss from equity accounted joint venture		(5)	(46)
Profit before taxation		18,752	28,060
Taxation	18	(4,604)	(7,760)
Profit for the year		14,148	20,300
Attributable to:			
Owners of Kumba		10,724	15,446
Non-controlling interest		3,424	4,854
		14,148	20,300
Earnings per share for profit attributable to the owners of Kumba (Rand per share)	19		
Basic		33.44	48.09
Diluted		33.38	48.03

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December

Rand million	2014	2013
Profit for the year	14,148	20,300
Other comprehensive income for the year ¹	318	570
Exchange differences on translation of foreign operations	352	570
Reclassification of gain relating to exchange differences on translation of foreign operations	(34)	–
Total comprehensive income for the year	14,466	20,870
Attributable to:		
Owners of Kumba	11,036	15,917
Non-controlling interest	3,430	4,953
	14,466	20,870

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

INCOME STATEMENT – US\$ CONVENIENCE TRANSLATION

(unaudited supplementary information)

for the year ended 31 December

US Dollar million	2014	2013
Revenue	4,948	5,661
Operating expenses	(2,953)	(2,711)
Operating profit	1,995	2,950
Finance income	9	12
Finance costs	(54)	(41)
Loss from equity accounted joint venture	(1)	(5)
Profit before taxation	1,949	2,916
Taxation	(479)	(807)
Profit for the year	1,470	2,109
Attributable to:		
Owners of Kumba	1,115	1,606
Non-controlling interest	355	504
	1,470	2,109
Earnings per share for profit attributable to the owners of Kumba (US Dollar per share)		
Basic	3.48	5.00
Diluted	3.47	4.99
Exchange rate		
Translated at average Rand/US Dollar exchange rate	10.83	9.62

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December

Rand million	Share capital and share premium	Treasury shares	Equity-settled share-based payments reserve	Foreign currency translation reserve	Fair value reserve	Retained earnings	Share-holders' equity	Non-controlling interest (Note 22)	Total equity
Balance at 31 December 2012	371	(492)	822	571	(24)	13,990	15,238	4,426	19,664
Shares issued during the year	2	–	–	–	–	–	2	–	2
Net movement in treasury shares under employee share incentive schemes	–	(178)	–	–	–	–	(178)	–	(178)
Equity-settled share-based payments expense	–	–	504	–	–	–	504	120	624
Vesting of shares under employee share incentive schemes	–	–	(90)	–	–	(1)	(91)	–	(91)
Total comprehensive income for the year	–	–	–	439	32	15,446	15,917	4,953	20,870
Dividends paid	–	–	–	–	–	(10,561)	(10,561)	(3,146)	(13,707)
Balance at 31 December 2013	373	(670)	1,236	1,010	8	18,874	20,831	6,353	27,184
Net movement in treasury shares under employee share incentive schemes	–	(14)	–	–	–	–	(14)	–	(14)
Equity-settled share-based payments expense	–	–	525	–	–	–	525	111	636
Vesting of shares under employee share incentive schemes	–	–	(76)	–	–	(17)	(93)	–	(93)
Total comprehensive income for the year	–	–	–	246	66	10,724	11,036	3,430	14,466
Dividends paid	–	–	–	–	–	(11,521)	(11,521)	(3,657)	(15,178)
Balance at 31 December 2014	373	(684)	1,685	1,256	74	18,060	20,764	6,237	27,001

Dividend per share

(Rand)	2014	2013
Interim	15.61	20.10
Final *	7.73	19.94
Total	23.34	40.04

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

FOREIGN CURRENCY TRANSLATION RESERVE

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

CASH FLOW STATEMENT

for the year ended 31 December

Rand million	Notes	2014	2013
Cash flows from operating activities			
Cash receipts from customers		49,084	53,532
Cash paid to suppliers and employees		(27,315)	(24,178)
Cash generated from operations	23	21,769	29,354
Net finance costs paid	24	(285)	(161)
Taxation paid	25	(4,165)	(6,171)
		17,319	23,022
Cash flows from investing activities			
Additions to property, plant and equipment	27	(8,477)	(6,453)
Investment in associate and joint ventures		(5)	(17)
Proceeds from disposal of non-current assets		78	37
Deconsolidation of subsidiary		–	5
		(8,404)	(6,428)
Cash flows from financing activities			
Shares issued		–	2
Purchase of treasury shares		(107)	(265)
Dividends paid to owners of Kumba	26	(11,450)	(10,500)
Dividends paid to non-controlling shareholders	26	(3,728)	(3,207)
Interest-bearing borrowings raised		14,891	2,000
Interest-bearing borrowings repaid		(8,147)	(5,332)
		(8,541)	(17,302)
Net increase/(decrease) in cash and cash equivalents		374	(708)
Cash and cash equivalents at beginning of year	7	1,053	1,527
Exchange differences on translation of cash and cash equivalents		237	234
Cash and cash equivalents at end of year	7	1,664	1,053

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December

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

The total reported segment revenue comprises revenue from external customers, and is measured in a manner consistent with that disclosed in the income statement.

The performance of the operating segments is assessed based on 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.

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

	Products ¹				Services		
Rand million	Sishen mine	Kolomela mine	Thabazimbi mine	Logistics ²	Shipping operations	Other	Total
2014							
Income statement:							
Revenue	33,094	9,437	1,172	–	3,894	–	47,597
(from external customers)							
EBIT ⁴	20,423	5,906	(706)	(4,548)	(309)	(1,574)	19,192
The following significant items are included in EBIT:							
Depreciation	1,858	643	36	6	–	93	2,636
Impairment charge	–	–	439	–	–	–	439
Staff costs	2,605	572	420	26	–	957	4,580
Balance sheet:							
Total segment assets	740	243	124	1,061	–	242	2,410
Cash flow statement:							
Additions to property, plant and equipment							
Expansion capex ³	826	370	–	–	–	237	1,433
Stay-in-business capex	4,281	915	–	10	–	–	5,206
Deferred stripping	1,025	351	462	–	–	–	1,838
2013							
Income statement:							
Revenue	36,685	13,022	1,079	–	3,675	–	54,461
(from external customers)							
EBIT	24,888	9,296	301	(4,538)	(72)	(1,490)	28,385
The following significant items are included in EBIT:							
Depreciation	1,441	570	1	5	–	22	2,039
Staff costs	2,121	482	364	20	5	682	3,674
Balance sheet:							
Total segment assets	177	66	75	398	–	478	1,194
Cash flow statement:							
Additions to property, plant and equipment							
Expansion capex	484	285	8	108	–	247	1,132
Stay-in-business capex	3,933	564	1	–	–	–	4,498
Deferred stripping	637	186	–	–	–	–	823

¹ Derived from extraction, production and selling of iron ore.

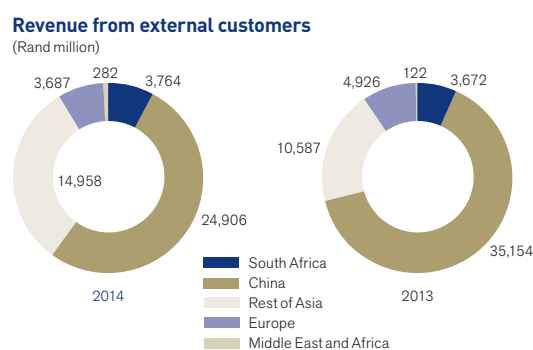
² No revenue is reported for this segment as its performance is reviewed with reference to volumes railed and rail tariffs achieved.

³ The R237 million capital expenditure allocated to the other segment is in respect of an information management systems upgrade. This expenditure has not been allocated to the various segments.

⁴ After impairment charge of R439 million at Thabazimbi mine.

Rand million	2014	2013
Reconciliation of reportable segments' assets to inventories		
Segment assets for reportable segments	2,410	1,194
WIP inventory, plant spares and stores	4,956	3,977
Inventories per balance sheet	7,366	5,171

GEOGRAPHICAL ANALYSIS



Non-current assets

All non-current assets, excluding investments in associates and joint ventures and deferred tax assets, are located in South Africa, with the exception of R40 million located in Singapore (2013: R20 million), which relates to prepayments.

2. PROPERTY, PLANT AND EQUIPMENT

Rand million	Land	Mineral properties	Residential buildings	Buildings and infrastructure	Machinery, plant and equipment	Mineral exploration, site preparation and development	Assets under construction	Total
2014								
Cost								
Balance at beginning of year	330	621	2,303	4,858	23,692	1,413	4,518	37,735
Additions (refer to note 27)								
Capital acquisitions	–	–	38	–	1,707	–	4,894	6,639
Deferred stripping	–	–	–	–	–	1,838	–	1,838
Changes in decommissioning provision (refer to note 9)	–	–	–	(2)	11	–	7	16
Disposals and scrapping	(11)	–	(56)	(2)	(262)	–	(38)	(369)
Transfers between asset classes	–	–	1,050	135	3,244	734	(5,163)	–
Exchange differences on translation	–	–	–	*	–	–	–	*
Balance at 31 December 2014	319	621	3,335	4,989	28,392	3,985	4,218	45,859
Accumulated depreciation								
Balance at beginning of year	–	272	136	449	6,775	181	–	7,813
Depreciation	–	18	108	226	2,123	161	–	2,636
Disposals and scrapping	–	–	(5)	(1)	(193)	–	–	(199)
Balance at 31 December 2014	–	290	239	674	8,705	342	–	10,250
Impairment charges								
Balance at beginning of year	–	–	–	–	–	–	–	–
Impairment charge	–	–	9	1	–	429	–	439
Balance at 31 December 2014	–	–	9	1	–	429	–	439
Carrying amount at 31 December 2014	319	331	3,087	4,314	19,687	3,214	4,218	35,170
2013								
Cost								
Balance at beginning of year	278	621	1,055	3,243	20,103	595	5,212	31,107
Additions (refer to note 27)								
Capital acquisitions	33	–	16	153	251	–	5,177	5,630
Deferred stripping	–	–	–	–	–	823	–	823
Finance lease assets (refer to note 8)	–	–	–	–	280	–	–	280
Changes in decommissioning provision (refer to note 9)	–	–	(2)	4	4	–	4	10
Disposals and scrapping	–	–	(20)	(4)	(75)	–	(11)	(110)
Derecognition of assets	(5)	–	–	–	–	–	–	(5)
Transfers between asset classes	24	–	1,254	1,462	3,129	(5)	(5,864)	–
Exchange differences on translation	–	–	–	*	–	–	–	*
Balance at 31 December 2013	330	621	2,303	4,858	23,692	1,413	4,518	37,735
Accumulated depreciation								
Balance at beginning of year	–	252	74	290	5,167	66	–	5,849
Depreciation	–	20	63	163	1,676	117	–	2,039
Disposals and scrapping	–	–	(1)	(3)	(71)	–	–	(75)
Transfers between asset classes	–	–	–	(1)	3	(2)	–	–
Balance at 31 December 2013	–	272	136	449	6,775	181	–	7,813
Carrying amount at 31 December 2013	330	349	2,167	4,409	16,917	1,232	4,518	29,922

* Value is less than R1 million.

Additional disclosures

The impairment charge of R439 million recorded relates to Thabazimbi mine's deferred stripping asset. Due to the low iron ore price environment in which the company is now operating, the future of this mine is being reconsidered. After a detailed impairment assessment it was concluded the carrying value is not considered recoverable. As a result, the carrying value of Thabazimbi mine's deferred stripping asset of R439 million was impaired to RNil.

The recoverable amount of RNil was measured based on a discounted cash flow model. The cash flow projections were based on the pricing mechanism contained in the supply agreement between SIOC and ArcelorMittal SA incorporating economic assumptions and forecast trading conditions drawn up by management. Key assumptions are long-term iron ore price lines, the Rand/US\$ exchange rate, inflation, the remaining life of the mine and the discount rate. The recoverable amount is sensitive to the discount rate used in its measurement. If the discount rate had been 1% higher or lower than the estimate, management would have arrived at the same conclusion.

During the year the group scrapped fully depreciated assets with an original cost of R8.8 million (2013: R12.3 million).

The group generated proceeds from the disposal of items of property, plant and equipment of R78.2 million (2013: R36.7 million).

The estimated replacement value of assets for insurance purposes and assets under construction at cost amounts to R50.4 billion (2013: R40.1 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 (except for the assets under the finance leases as disclosed in note 8) for any of the group's liabilities, nor is the title to any of the assets restricted, except for the finance lease arrangement noted below.

Rand million	2014	2013
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 will be financed principally from borrowing facilities and cash generated from operations. Capital expenditure still in the study phase of the project pipeline for which specific board approvals have not yet been obtained is excluded.		
Capital expenditure contracted for plant and equipment	3,430	600
Capital expenditure authorised for plant and equipment but not contracted	3,040	4,943
Capital commitments for Thabazimbi mine to be financed by ArcelorMittal SA:		
Capital expenditure contracted for plant and equipment	11	–
Capital expenditure authorised for plant and equipment but not contracted	26	18
Assets held under finance lease arrangement (refer to note 8)		
In 2013 the group entered into a finance lease in respect of heavy mining equipment. These assets are included in property, plant and equipment.		
Cost	280	280
Accumulated depreciation	(82)	(35)
Carrying amount	198	245

3. INVESTMENTS HELD BY ENVIRONMENTAL TRUST

Rand million	2014	2013
Balance at beginning of year	737	673
Growth in environmental trusts	54	64
Balance at end of year	791	737
Comprising:		
Equity investments	379	475
Cash investments	206	236
Bonds	206	26

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 re-invested by the trust. Refer to note 9 for the environmental rehabilitation and decommissioning provisions.

3. INVESTMENTS HELD BY ENVIRONMENTAL TRUST *continued*

Rand million	2014	2013
Maturity profile of the investments held by environmental trust		
More than 5 years*	791	737

* The use of these assets is restricted, and they may only be realised for settling environmental rehabilitation and decommissioning activities. As these activities are scheduled to commence at the end of the LoM, the maturity profile of these investments is considered to be more than five years from the date of these annual financial statements.

Financial risk management

Refer to note 33 for financial risk management disclosures.

4. LONG-TERM PREPAYMENTS AND OTHER RECEIVABLES

Rand million	2014	2013
Long-term receivables*	429	491
Prepayments	126	114
	555	605

* This receivable relates to the long-term contractual liabilities of ArcelorMittal SA in respect of the rehabilitation obligations of Thabazimbi mine, and is secured by the financial guarantees as set out in note 28.1.

Maturity profile of long-term prepayments and other receivables

Rand million	2014	2013
1 to 2 years	18	20
2 to 5 years	24	42
More than 5 years	513	543
	555	605

5. INVENTORIES

Rand million	2014	2013
Finished products	2,410	1,194
Work-in-progress	3,770	3,104
Plant spares and stores	1,186	873
	7,366	5,171

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

6. TRADE AND OTHER RECEIVABLES

Rand million	2014	2013
Trade receivables	3,011	5,024
Prepayments	210	143
Other receivables	1,254	956
Derivative financial instruments (refer to note 33)	1	1
	4,476	6,124

Credit risk

Kumba is largely exposed to the credit risk relating to end-user customers within the steel manufacturing industry.

Refer to note 33 for detailed disclosure regarding the group's approach to credit risk management.

Significant concentrations of credit risk:

R2,181 million (2013: R2,877 million) or 72% (2013: 57%) of the total outstanding trade receivables balance of R3,011 million (2013: R5,024 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 2014.

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

Rand million	2014	2013
Trade receivables credit risk exposure by geographical area		
South Africa	284	410
Europe	96	463
Asia	2,631	4,151
China	1,001	2,872
Japan	867	990
Rest of Asia	763	289
	3,011	5,024
Trade receivables credit risk exposure by currency		
Rand	284	410
US Dollar	2,727	4,614
	3,011	5,024
Ageing of trade receivables		
Not past due	3,011	5,018
Past due 31 to 60 days but not impaired	–	6
	3,011	5,024

Other receivables

Other receivables mainly comprise VAT receivables of R1,099 million (2013: R805 million).

7. CASH AND CASH EQUIVALENTS

Rand million	2014	2013
Bank balance and cash	1,664	1,053
Currency analysis of cash and cash equivalents		
Rand	315	120
US Dollar	1,342	925
Euro	4	8
Other	3	–
	1,664	1,053

Refer to note 33 for detailed disclosure regarding the group's approach to credit risk management.

Short-term deposit facilities were placed with fellow subsidiaries and subsidiaries of the ultimate holding company during the year under review (refer to note 32).

8. INTEREST-BEARING BORROWINGS

Rand million	2014	2013
Long-term interest-bearing borrowings	4,000	2,234
Current interest-bearing borrowings	5,593	615
	9,593	2,849
Reconciliation		
Balance at beginning of year	2,849	5,869
Interest-bearing borrowings raised	14,891	2,000
Finance lease (repaid)/raised during the year	(49)	312
Interest-bearing borrowings repaid	(8,098)	(5,332)
	9,593	2,849
Maturity profile of interest-bearing borrowings		
Within 1 year	5,593	615
1 to 2 year	–	234
2 to 5 years	4,000	2,000
	9,593	2,849

				Outstanding balance	
Rand million	Maturity date	Interest rate at 31 December	Facility	2014	2013
Unsecured loans					
Revolving syndicated facility at a variable interest rate of Jibar plus a margin which varies based on the period of the borrowings. Maturity date 2 January 2018	2018	2014: 7.93% 2013: 7.1%	10,900	4,000	2,000
Call loan facility at floating call rates ¹	Open	2014: 6.53% 2013: 6.0%	8,200	5,361	568
Fair value at end of year			19,100	9,361	2,568
Carrying value at end of year			19,100	9,361	2,568

¹ The full amount drawn down at 31 December was from facilities with a related party (refer to note 32).

Subsequent to year end, management has negotiated new committed debt facilities, which was concluded on 3 February 2015 and increased the total committed debt facilities of the group to R16.5 billion.

The three-month Jibar rate at 31 December 2014 was 6.13% (2013 : 5.22%).

Financial covenants

The group is in compliance with its debt covenants (Total debt/earnings before interest, tax, depreciation and amortisation (EBITDA) and EBITDA/Net interest expense). This was also the case in 2013.

Currency analysis of interest-bearing borrowings

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

Finance lease arrangement

Included in interest-bearing borrowings is a finance lease in respect of heavy mining equipment.

Rand million	2014	2013
Minimum future lease payments		
Within 1 year	235	65
1 to 2 years	–	235
	235	300
Less: Future finance charges	(3)	(19)
Present value of lease liability	232	281
Comprising		
Current lease liability	232	47
Non-current lease liability	–	234

9. PROVISIONS

Rand million	Employee benefits cash-settled share-based payments	Environmental rehabilitation	Decommissioning	Other	Total
Non-current provisions	11	1,608	345	–	1,964
Current portion of provisions	14	–	–	78	92
Total provisions	25	1,608	345	78	2,056
2014					
Balance at beginning of the year	26	1,497	307	334	2,164
Notional interest (refer to note 17)	–	118	23	–	141
Increase in provision charged to income statement	8	–	–	113	121
Unused amounts reversed	–	(7)	–	–	(7)
Capitalised to property, plant and equipment (refer to note 2)	–	–	16	–	16
Utilised during the year	(9)	–	–	(369)	(378)
Balance at 31 December 2014	25	1,608	345	78	2,056
Expected timing of future cash flows					
Within 1 year	14	–	–	78	92
2 to 5 years	11	–	–	–	11
More than 5 years	–	1,608	345	–	1,954
	25	1,608	345	78	2,056
Estimated undiscounted obligation	25	2,499	589	78	3,191

9. PROVISIONS continued

Rand million	Employee benefits cash-settled share-based payments	Environmental rehabilitation	Decommis- sioning	Other	Total
2013					
Non-current provisions	5	1,497	307	–	1,809
Current portion of provisions	21	–	–	334	355
Total provisions	26	1,497	307	334	2,164
Balance at beginning of the year	29	1,141	276	–	1,446
Notional interest (refer to note 17)	–	95	23	–	118
Increase in provision charged to income statement	–	261	(2)	224	483
Capitalised to property, plant and equipment (refer to note 2)	–	–	–	251	251
Utilised during the year	–	–	10	–	10
Cash-settled share-based payments	(15)	–	–	(141)	(156)
Exchange differences on translation	12	–	–	–	12
Balance at 31 December 2013	26	1,497	307	334	2,164
Expected timing of future cash flows					
Within 1 year	21	–	–	334	355
2 to 5 years	5	–	–	–	5
More than 5 years	–	1,497	307	–	1,804
	26	1,497	307	334	2,164
Estimated undiscounted obligation	26	2,346	525	334	3,231

Cash-settled share-based payments

At 31 December the current provision represents amounts payable to deceased beneficiaries on the Envision phase 2 share scheme (refer to annexure 3). The non-current provision represents amounts payable to beneficiaries of certain conditional share awards under the bonus share scheme.

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 3)

Contributions towards the cost of mine closure are made to the Kumba Iron Ore Rehabilitation Trust and the carrying value of the assets held by the Trust amounted to R791 million at 31 December 2014 (2013: R737 million).

Other

Other provisions relate to restructuring as well as rail and port activities.

Significant accounting estimates and assumptions

The measurement of the environmental rehabilitation and decommissioning provisions is a key area where management's judgement is required. The closure provisions are measured at the present value of the expected future cash flows required to perform the rehabilitation and decommissioning. This calculation requires the use of certain estimates and assumptions when determining the amount and timing of the future cash flows and the discount rate. The closure provisions are updated at each balance sheet date for changes in the estimates of the amount or timing of future cash flows and changes in the discount rate. 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. Management has revised the Sishen and Thabazimbi life of mine during the period under review as well as assumptions on the discount rate and inflation rate used to calculate the provisions for the three mines.

The resultant changes in the provisions are summarised as follows:

Rand million	Environmental rehabilitation	Decommissioning	Total
Change in provision	(7)	16	9
Revised estimates of closure costs	101	33	133
Expected timing of future cash flows	(108)	(17)	(124)

The change in expected timing of future cash flows, which decreased the closure provisions by R124 million, is the result of the revision of the LoM plan for Sishen and Thabazimbi. The R17 million decrease in the decommissioning provision was capitalised to property, plant and equipment whereas the R108 million decrease was recognised to the income statement increasing the profits attributable to the owners of Kumba with R60 million and headline earnings per share attributable to the owners of Kumba by 19 cents.

The carrying value of the closure provisions is sensitive to the estimates and assumptions used in its measurement. If the discount rate had been 1% higher than management's estimate, the group would have decreased the current provision by R236 million (2013: R216 million). On the other hand, if the discount rate had been 1% lower than management's estimate, the group would have increased the current provision by R280 million (2013: R255 million). A change of one year in the expected timing of the commencement of environmental rehabilitation and decommissioning would result in an increase of R70 million (2013: R67 million) or a decrease of R67 million (2013: R64 million) in the carrying value of the provision.

10. DEFERRED TAX

Rand million	2014	2013
Deferred tax assets		
Reconciliation		
Balance at beginning of year	920	842
Foreign exchange translation differences	88	160
Current year utilisation	(137)	(82)
	871	920
Expected timing		
Deferred tax assets to be recovered after 12 months	770	835
Deferred tax assets to be recovered within 12 months	101	85
	871	920
Deferred tax assets attributable to the following temporary differences:		
Estimated tax losses	871	920
Total deferred tax assets	871	920

Based on management's most recent forecast financial information this balance recognised is supported by sufficient future taxable profits anticipated to be generated. There was R1 billion of unused tax losses for which no deferred tax asset was recognised at 31 December 2014 (2013: R907 million).

10. DEFERRED TAX *continued*

Rand million	2014	2013
Deferred tax liabilities		
Reconciliation		
Balance at beginning of year	7,888	6,835
Prior year adjustment	(697)	30
Current year charge per the income statement	1,010	1,023
	8,201	7,888
Expected timing		
Deferred tax liabilities to be recovered after 12 months	7,435	7,196
Deferred tax liabilities to be recovered within 12 months	766	692
	8,201	7,888
Deferred tax liabilities attributable to the following temporary differences:		
Property, plant and equipment	8,303	7,415
Environmental rehabilitation provision	(450)	(419)
Decommissioning provision	(37)	(30)
Environmental rehabilitation trust asset	221	206
Leave pay accrual	(76)	(60)
Other	240	776
Total deferred tax liabilities	8,201	7,888

11. TRADE AND OTHER PAYABLES

Rand million	2014	2013
Trade payables	2,380	2,393
Other payables	840	1,281
Leave pay accrual	273	214
	3,493	3,888
Currency analysis of trade and other payables		
Rand	2,999	3,413
Euro	10	7
US Dollar	472	462
Other	12	6
	3,493	3,888

12. REVENUE

Rand million	2014	2013
Sale of iron ore	43,703	50,786
Services rendered – shipping	3,894	3,675
	47,597	54,461
Sales by destination		
Domestic – South Africa	3,764	3,672
Export	43,833	50,789
China	24,906	35,154
Rest of Asia	14,958	10,587
Europe	3,687	4,926
Middle East and Africa	282	122
	47,597	54,461

13. OPERATING EXPENSES

Rand million	Notes	2014	2013
Operating expenditure by function			
Production costs		19,250	16,303
Movement in work-in-progress inventories		(667)	(884)
Cost of goods produced		18,583	15,419
Movement in finished product inventories		(237)	1,141
Finance gains	16	(443)	(830)
Other		172	(62)
Cost of goods sold		18,075	15,668
Impairment charge (refer to note 2)		439	–
Mineral royalty		1,176	2,157
Selling and distribution costs		4,548	4,538
Distribution costs		4,329	4,245
Selling costs		219	293
Cost of services rendered – shipping		4,203	3,747
Sub-lease rentals received		(36)	(34)
Operating expenses		28,405	26,076
Cost of goods sold comprises:			
Staff costs		4,580	3,674
Salaries and wages		3,522	2,693
Equity-settled share-based payments		636	623
Cash-settled share-based payments		7	12
Termination benefits		3	3
Pension and medical aid contributions	15	412	343
Outside services		4,549	3,514
Raw materials and consumables		4,693	3,428
Deferred stripping costs capitalised ¹		(1,838)	(823)
Depreciation of property, plant and equipment	2	2,636	2 039
Mineral properties		18	20
Residential buildings		108	63
Buildings and infrastructure		226	163
Machinery, plant and equipment		2,123	1,676
Mineral exploration, site preparation and development		161	117
Repairs and maintenance		1,864	1,577
Legal		23	71
Professional fees		384	382
Technical services and project studies		740	694
General expenses		1,453	1,382
Net finance gains	16	(443)	(830)
Energy costs		338	305
Own work capitalised		–	(2)
Net movement in finished product and work-in-progress inventories		(904)	257
Cost of goods sold		18,075	15,668

¹ Includes the current year capitalisation for Thabazimbi mine.

14. SIGNIFICANT ITEMS INCLUDED IN OPERATING PROFIT

Rand million	2014	2013
Operating profit includes the following amounts, some of which are also included in the analysis of operating expenses disclosed in the previous note:		
Staff costs		
Employee expenses	3,821	3,039
Restructuring costs	68	–
Share-based payments expenses	643	635
Directors' emoluments (refer to remuneration report on page 26)	23	22
Executive directors		
– Emoluments received as directors of the company	13	12
– Bonuses and cash incentives	5	5
Non-executive directors – emoluments received as directors of the company	5	5
Prescribed officers' remuneration (excluding executive directors – refer to remuneration report on page 26)	24	26
Depreciation of property, plant and equipment (refer to note 2)	2,636	2,039
Operating lease rental expenses		
Equipment	168	146
Property	103	87
Auditors' remuneration		
Audit fees	8	7
Other services	2	2
Research and development cost	1	2
Net profit on disposal of investment	–	(5)
Loss on lease receivable	86	–
Net loss/(profit) on disposal or scrapping of property, plant and equipment	91	(2)
Operating sub-lease rentals received		
Property	(30)	(19)
Equipment	(6)	(15)

15. EMPLOYEE BENEFITS: DEFINED CONTRIBUTION FUNDS**15.1 Retirement fund**

At the end of 2014 and 2013 the following independent funds providing pension and other benefits were in existence:

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

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

	2014		2013	
	Working members (number)	Employer contributions (Rand million)	Working members (number)	Employer contributions (Rand million)
Kumba Iron Ore Selector Pension and Provident Funds	2,979	148	2,770	129
Iscor Employees Umbrella Provident Fund	5,140	106	4,609	82
Total	8,119	254	7,379	211

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

15.2 Medical funds

The group contributes to medical aid schemes for the benefit of permanent employees and their dependants. The contributions charged against income amounted to R158 million (2013: R132 million). The group has no obligation to fund post-retirement medical aid contributions for current or retired employees.

16. NET FINANCE GAINS

Rand million	2014	2013
Finance gains recognised in operating profit		
Net losses on derivative financial instruments		
Realised	(96)	(181)
Unrealised	–	(32)
Net foreign currency gains/(losses)		
Realised	785	879
Unrealised	(302)	100
Fair value gains on financial instruments	56	64
	443	830

17. NET FINANCE COSTS

Rand million	Notes	2014	2013
Interest expense – borrowings		(360)	(262)
Finance leases	8	(18)	(16)
Notional interest on non-current provisions	9	(141)	(118)
Finance costs		(519)	(396)
Interest received on cash and cash equivalents		84	117
Net finance costs		(435)	(279)

18. TAXATION

Rand million	2014	2013
Taxation expense		
Current taxation	4,154	6,625
Deferred taxation	450	1,135
	4,604	7,760
Charges/(release) to the income statement		
South African normal taxation		
Current year	3,657	6,593
Prior year	464	34
Foreign taxation		
Current year	33	26
Prior year	–	(28)
Income taxation	4,154	6,625
Deferred taxation		
Current year	1,147	1,105
Prior year	(697)	30
	4,604	7,760

18. TAXATION *continued*

Rand million	2014	2013
Reconciliation of taxation rates	%	%
Taxation as a percentage of profit before taxation	24.6	27.7
Taxation effect of:		
Disallowable expenditure	(0.1)	(2.6)
Exempt income	0.3	0.1
Rate difference between South African and foreign subsidiaries' tax rates	2.2	2.5
Prior year overprovision	1.3	0.3
Equity-settled share-based payments	0.1	0.1
Recoupment from debt forgiveness	(0.4)	–
Foreign exchange translation differences	–	(0.1)
Standard taxation rate	28.0	28.0

19. EARNINGS AND HEADLINE EARNINGS PER SHARE

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	2014	2013
Profit attributable to equity holders of Kumba	10,724	15,446
Number of shares		
Weighted average number of ordinary shares in issue	320,662,676	321,186,591
Potential dilutive effect of outstanding share options	579,935	408,972
Diluted weighted average number of ordinary shares in issue	321,242,611	321,595,563

Reconciliation of headline earnings

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

Rand million	2014		2013	
	Gross adjustment	Net attributable	Gross adjustment	Net attributable
Profit attributable to equity holders of Kumba	10,724	10,724	15,446	15,446
Impairment charge	439	243		
Net loss/(profit) on disposal or scrapping of property, plant and equipment	91	58	(2)	2
Reclassification of exchange differences on translation of foreign operations	(34)	(19)	–	–
Net profit on disposal of investment	–	–	(5)	(5)
	11,220	11,006	15,439	15,443
Taxation effect of adjustments	(128)		3	
Non-controlling interest in adjustments	(86)		1	
Headline earnings	11,006	11,006	15,443	15,443

Rand	2014	2013
Attributable earnings per share		
Basic	33.44	48.09
Diluted	33.38	48.03
Headline earnings per share		
Basic	34.32	48.08
Diluted	34.26	48.02
Dividend per share	23.34	40.04
Interim	15.61	20.10
Final*	7.73	19.94

* The final dividend was declared subsequent to the year end and is presented for information purposes only.

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

Number of shares	2014	2013
Authorised		
Ordinary shares of R0.01 each	500,000,000	500,000,000
Issued		
Ordinary shares of R0.01 each	322,085,974	322,085,974
Reconciliation of issued shares		
Number of shares at beginning of year	322,085,974	322,058,624
Number of ordinary shares issued	–	27,350
Number of shares at end of year	322,085,974	322,085,974
Shares held in reserve reconciliation (unissued shares)		
Authorised shares at the beginning of year not issued	177,914,026	177,941,376
Shares issued	–	(27,350)
Unissued shares	177,914,026	177,914,026

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

Number of shares	2014	2013
Reconciliation of treasury shares held		
Number of treasury shares at beginning of year	1,444,526	1,064,531
Number of shares purchased	299,600	660,923
Shares issued to employees under the Long-Term Incentive Plan, Kumba Bonus Share Plan and Share Appreciation Rights Scheme	(210,780)	(251,570)
Net movement in shares held by Kumba Iron Ore Management Share Trust	–	(29,358)
Number of treasury shares at end of year	1,533,346	1,444,526

All treasury shares are held in respect of employee share schemes and are available for utilisation for the purposes of these schemes, as disclosed in note 21 and Annexure 3. At 31 December 2014, all treasury shares are held as conditional share awards under the Kumba Bonus Share Plan.

20. SHARE CAPITAL AND SHARE PREMIUM (INCLUDING TREASURY SHARES) continued

Rand million	2014	2013
Reconciliation of share capital and premium (net of treasury shares)		
Balance at beginning of year	(297)	(121)
Total shares issued for cash consideration	–	2
Shares issued – share premium	–	2
Net movement in treasury shares under employee share incentive schemes	(14)	(178)
Purchase of treasury shares under employee share incentive schemes*	(107)	(265)
Shares issued to employees under employee share incentive schemes	93	87
	(311)	(297)
Comprises:		
Share capital	3	3
Share premium	364	370
Treasury shares	(678)	(670)

* The average price paid for the purchase of the shares was R356 per share (2013: R411 per share).

21. EQUITY-SETTLED SHARE-BASED PAYMENTS RESERVE

Rand million	Unrecognised		Recognised	
	2014	2013	2014	2013
Balance at beginning of year			1,236	822
Equity-settled share-based payments expense	1,110	1,562	525	504
Employee share incentive schemes:				
– Envision phase 2	920	1,405	481	516
– Bonus Share Plan (BSP)	178	151	152	102
– Long-term Incentive Plan (LTIP)	12	6	3	6
Non-controlling interest	–	–	(111)	(120)
Vesting of shares under employee share incentive schemes			(76)	(90)
Balance at end of year			1,685	1,236

Refer to Annexure 3: 'Equity-settled share-based payments reserve' for a description, detailed movements and the valuation assumptions of each share scheme for the year under review.

22. NON-CONTROLLING INTEREST

Rand million	2014	2013
Balance at beginning of year	6,353	4,426
Profit for the year	3,424	4,854
Exxaro	2,830	4,096
SIOC Community Development SPV	425	614
Envision	169	144
Dividends paid	(3,657)	(3,146)
Exxaro	(3,095)	(2,664)
SIOC Community Development SPV	(464)	(399)
Envision	(169)	(144)
Recoupment of Envision dividend *	71	61
Interest in movement in equity reserves	117	219
Equity-settled share-based payments reserve	111	120
Foreign currency translation reserve	72	131
Fair value reserve	(66)	(32)
Balance at end of year	6,237	6,353

* The recoupment of the Envision dividend of R71 million (2013: R61 million) arises from SIOC's participation as an income beneficiary in Envision.

23. CASH GENERATED FROM OPERATIONS

Rand million	2014	2013
Operating profit	19,192	28,385
Adjusted for		
Depreciation of property, plant and equipment	2,636	2,039
Movement in provisions	(273)	327
Unrealised foreign currency revaluations and fair value adjustments	17	(805)
Loss/(profit) on disposal or scrapping of property, plant and equipment	91	(2)
Loss on lease receivable	86	–
Impairment charge	439	–
Profit on disposal of investments	–	(5)
Movement in non-current financial assets and prepayments	56	(471)
Equity-settled share-based payments expenses	636	623
Cash-settled share-based payments provision	8	12
Cash flows from operations	22,888	30,103
Working capital movements		
Increase in inventories	(2,174)	(856)
Decrease/(increase) in trade and other receivables	1,487	(929)
(Decrease)/increase in trade and other payables	(432)	1,036
	21,769	29,354

24. NET FINANCE COSTS PAID

Rand million	Note	2014	2013
Net financing costs as per income statement		435	279
Adjusted for:			
Notional interest on non-current provisions	9	(141)	(118)
Other non-cash movement		(9)	–
		285	161

25. TAXATION PAID

Rand million	2014	2013
Taxation liabilities at beginning of year	565	127
Income taxation per the income statement (refer to note 18)	4,154	6,625
Translation of taxation for foreign operations	1	(16)
Taxation liabilities at end of the year	(555)	(565)
Taxation paid per the cash flow statement	4,165	6,171
Comprising normal taxation:		
South Africa	4,165	6,272
Foreign	–	(101)
	4,165	6,171

26. DIVIDENDS PAID

Rand million	Note	2014	2013
Dividends paid to owners of Kumba		11,450	10,500
Recoupment of Envision dividend	22	71	61
Dividends per the statement of changes in equity		11,521	10,561
Dividends paid to non-controlling shareholders		3,728	3,207
Recoupment of Envision dividend	22	(71)	(61)
Dividends per the statement of changes in equity		3,657	3,146

27. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

Rand million	2014	2013
Investments to expand operations	1,433	1,132
Investment to maintain operations	5,206	4,498
Deferred stripping costs capitalised	1,838	823
Additions per the cash flow statement	8,477	6,453

28. GUARANTEES AND REGULATORY UPDATE

Rand million	2014	2013
Guarantees		
Environmental trust closure liability guarantees to the DMR	2,260	2,035
Operational guarantees to the DMR	21	21
	2,281	2,056

28.1 Environmental obligations

During the year ended 31 December 2014, the group issued additional financial guarantees in favour of the DMR in respect of its environmental rehabilitation and decommissioning obligations to the value of R225 million, bringing the total as at 31 December 2014 to R2.3 billion (2013: R2.1 billion). Included in this amount are financial guarantees for the environmental rehabilitation and decommissioning obligations of the group in respect of Thabazimbi mine of R438 million (2013: R331 million). ArcelorMittal SA has guaranteed R429 million of this amount by means of bank guarantees issued in favour of SIOC.

28.2 Regulatory update**21.4% undivided share of the Sishen mine mineral rights**

There have been no significant changes to the matters reported on for the year ended 31 December 2013. SIOC has not yet been awarded the 21.4% Sishen mining right, which it applied for early in 2014 following the Constitutional Court judgment on the matter in December 2013. The Constitutional Court ruled that SIOC held a 78.6% undivided share of the Sishen mining right and that, based on the provisions of the MPRDA, only SIOC can apply for, and be granted, the residual 21.4% share of the mining right at the Sishen mine. The grant of the mining right may be made subject to such conditions considered by the Minister to be appropriate. The group is actively continuing its engagement with the DMR in order to finalise the grant of the residual right.

29. COMMITMENTS

Rand million	2014	2013
Operating lease commitments		
The future minimum lease payments under non-cancellable operating leases are as follows:		
Property		
Within 1 year	30	27
Between 1 and 2 years	52	11
2 to 5 years	56	–
	138	38
Plant and equipment		
Within 1 year	8	10
Between 1 and 2 years	2	5
2 to 5 years	1	–
	11	15
Total operating lease commitments	149	53

Shipping commitments

Refer to note 32 for the group's shipping commitments to its fellow subsidiary Anglo American Marketing Limited.

30. CONTINGENT LIABILITY

30.1 Contingent liability

As at 30 June 2014, the group reported that it had certain tax matters under review with the South African Revenue Service (SARS). As at 31 December 2014 the group was engaged in discussions with SARS around these matters with a view to seeking resolution. These matters have been considered in consultation with external tax and legal advisors, who support the group's position. We believe that these matters have been appropriately treated in the results for the year ended 31 December 2014.

30.2 Other

There have been no significant changes in the contingent assets and liabilities disclosed at 31 December 2013.

31. EVENTS AFTER THE REPORTING PERIOD

31.1 Dividends

A final cash dividend of R7.73 per share was approved on 6 February 2015 from profits accrued during the financial year ended 31 December 2014. The total dividend for the year amounted to R23.34 per share. The estimated total cash flow of the final Kumba dividend, payable on 16 March 2015, is R2.5 billion.

31.2 Other

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

32. RELATED PARTY TRANSACTIONS

During the year the company and its subsidiaries, in the ordinary course of business, entered into various sale and purchases of goods and services with the group's related parties, as detailed below. The effect of these transactions is included in the results of the group. These transactions occurred on terms that are no less favourable than those arranged with third parties.

Shareholders

The principal shareholders of the company are detailed under 'Shareholder analyses' on page 98.

Ultimate holding company

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

Subsidiaries of ultimate holding company

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

32. RELATED PARTY TRANSACTIONS *continued*

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

Holding company

ASAC holds a 69.72% interest in the company (2013: 69.72%).

Fellow subsidiaries

The company regularly transacts with Anglo Operations Limited in respect of centralised services provided to Anglo American plc Group companies.

Subsidiaries of the company

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

Associates and joint ventures

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

Entities with significant influence over SIOC

Exxaro is SIOC's 19.98% (2013: 19.98%) Black Economic Empowerment shareholder. Details of dividends paid to Exxaro as well as its proportionate share of earnings for the year is detailed in note 22 of the group financial statements.

Special purpose entities

The group controls 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 administrator
Kumba Iron Ore Management Share Trust	Share incentive scheme administrator

Directors, senior management 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 26 to 27.

Material related party transactions:

Rand million	2014	2013
Purchase of goods and services and finance charges		
Subsidiaries of ultimate holding company ¹	4,286	4,262
Shipping services	4,152	4,058
Finance cost	134	204
Fellow subsidiaries	586	397
Corporate operations (including shared services)	306	187
Technical services	–	72
Aircraft services	80	68
Research	200	68
Other	–	2
Entities with significant influence over SIOC ²	107	46
	4,979	4,705
Sale of goods and services and finance income		
Subsidiaries of ultimate holding company ³		
Finance income	28	97
Services	25	–
	53	97

¹ Interest was accrued at an average rate of 6.70% (2013: 6.63%) on interest-bearing borrowings from AASAF.

² Goods were purchased from Exxaro and consisted mainly of ferrosilicon.

³ Interest was earned at an average rate of 5.73% (2013: 4.96%) on cash deposits held with AASAF.

Rand million	2014	2013
Amounts owing to related parties (after eliminating intercompany balances)		
Subsidiaries of ultimate holding company	5,786	925
Interest-bearing borrowings	5,361	568
Derivative financial instruments	–	1
Interest payable	20	–
Trade payables	405	356
Fellow subsidiaries		
Trade payables	114	71
	5,900	997
Amounts owing by related parties (after eliminating intercompany balances)		
Subsidiaries of ultimate holding company	1,105	577
Interest receivable	–	5
Cash and cash equivalents	1,092	572
Trade receivables	12	–
Derivative financial instruments	1	–
Fellow subsidiaries		
Trade receivables	–	3
Associates and joint ventures		
Loans	131	83
	1,236	663

Rand million	2014	2013
Shipping services commitments		
The future commitments under contracts of affreightment are as follows:		
Within 1 year	1,932	1,201
Between 1 and 2 years	1,750	1,477
2 to 5 years	4,965	4,725
More than 5 years	2,706	4,819
	11,353	12,222

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

Subsidiaries with significant non-controlling interests

Sishen Iron Ore Company (Pty) Ltd is the only consolidated subsidiary with non-controlling interests. SIOC is incorporated in South Africa.

These non-controlling interests are significant to the group and are held as follows:

Exxaro Resources (Pty) Ltd	19.98%
SIOC Community Development Trust	3.00%
Envision Trust	3.09%

The Envision Trust is consolidated into the Kumba group as it is controlled in substance, and this shareholding is therefore not recognised as a non-controlling interest at a group level.

Rand million	2014	2013
Profit for the year allocated to non-controlling interest	3,424	4,854
Accumulated non-controlling interests at 31 December	6,237	6,353

32. RELATED PARTY TRANSACTIONS continued**Summarised financial information of SIOC:**

Rand million	2014	2013*
Income statement		
Revenue	39,730	47,264
Operating expenses	(23,044)	(21,404)
Operating profit	16,686	25,860
Net financing cost	(540)	(322)
Income from investments	2,860	3,161
Profit before taxation	19,006	28,699
Taxation	(5,212)	(7,257)
Profit for the year	13,794	21,442
Balance sheet		
Non-current assets	37,925	32,756
Current assets	12,024	10,864
Total assets	49,949	43,620
Shareholders' equity	26,627	27,530
Non-current liabilities	14,277	11,261
Current liabilities	9,045	4,829
Total equity and liabilities	49,949	43,620
Cash flow statement		
Cash flows from in operating activities	16,700	23,623
Cash flows utilised in investing activities	(8,404)	(7,077)
Cash flows utilised in financing activities	(8,434)	(16,394)
Net (decrease)/increase in cash and cash equivalents	(138)	152

* SIOC reassessed the nature of its intercompany loans. Previously these loans were presented as non-current. After the reassessment it was concluded that the transactions with group companies are operating in nature and therefore the intercompany loans were reclassified to current. The reclassification was applied retrospectively and as a result, the 2013 summarised financial information of SIOC was restated.

33. FINANCIAL RISK MANAGEMENT

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, monitoring and communication of the processes for managing risk across the group.

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

The risk assessment and reporting criteria are designed to provide the executive committee 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 within the combined assurance framework as well as from management. The board also takes into account material changes and trends in the risk profile and consider whether the control system, including reporting, adequately supports the board in achieving its risk management objectives.

SIOC in conjunction with Anglo American SA Finance Limited (a subsidiary of the ultimate holding company) provides 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.

33.1 Measurement basis of financial instruments

Rand million	Notes	Fair value through profit or loss (FVTPL)		Amortised cost	Total
		Held for trading	Designated as FVTPL	Loans and receivables	
2014					
Financial assets					
Investments held by the environmental trust	3	–	379	412	791
Trade receivables	6	–	–	3,011	3,011
Other receivables (excl. VAT and prepayments)	4, 6	–	–	584	584
Derivative financial instruments	6	1	–	–	1
Cash and cash equivalents	7	–	–	1,664	1,664
Financial liabilities					
Interest-bearing borrowings	8	–	–	(9,593)	(9,593)
Trade payables	11	–	–	(2,380)	(2,380)
Other payables	11	–	–	(1,113)	(1,113)
		1	379	(7,415)	(7,035)
2013					
Financial assets					
Investments held by the environmental trust	3	–	475	262	737
Trade receivables	6	–	–	5,024	5,024
Other receivables (excl. VAT and prepayments)	4, 6	–	–	642	642
Derivative financial instruments	6	1	–	–	1
Cash and cash equivalents	7	–	–	1,053	1,053
Financial liabilities					
Interest-bearing borrowings	8	–	–	(2,849)	(2,849)
Trade payables	11	–	–	(2,393)	(2,393)
Other payables	11	–	–	(1,495)	(1,495)
		1	475	244	720

33.2 Credit risk

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

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

The group's policy is to strictly limit exposure to individual counterparties by reference to published short-term and long-term credit ratings from recognised credit rating agencies.

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

Investments held by the environmental trust

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. No outside manager of the trust's funds may simultaneously act as custodian for the securities under its management.

33.2.2 Credit risk policy: Trade receivables

During 2013, the group developed its existing policy for the management of counterparty risk associated with trade receivables originating from export and domestic sales contracts. In 2014, there were no changes to the policy which were developed in 2013. This policy seeks to minimise the risk of financial loss should customers become unable to meet their obligations to the group. It defines the requirement for sanctions and compliance reviews, the application of secure payment terms, primarily letters of credit from acceptable banks, as well as credit risk assessments and the establishment of credit limits prior to contracting. Credit limits are reviewed and approved at least annually and the group's exposure to its counterparties is regularly monitored at the appropriate level.

33. FINANCIAL RISK MANAGEMENT continued**33.2 Credit risk** continued**33.2.3 Credit risk exposure**

Rand million	2014	2013
Trade receivables	3,011	5,024
Cash and cash equivalents	1,664	1,053
Investment made by the environmental trust	791	737
Other receivables*	584	642
Guarantees issued in favour of the group	438	331
Derivatives	1	1

* Other receivables include the long-term contractual liabilities of ArcelorMittal SA for the rehabilitation obligation of Thabazimbi mine, and is secured by the guarantees issued by ArcelorMittal SA in favour of SIOC.

33.2.4 Collateral

Other than the guarantees disclosed in note 28 in respect of a long-term receivable balance, the group does not hold any collateral in respect of its financial assets subject to credit risk.

33.3 Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its financial obligations as they become due. The objectives of the group's liquidity risk management processes are to maintain adequate cash and credit facilities to meet all short-term obligations and ensure that the group can meet all known and forecasted strategic commitments. The Kumba treasury function must maintain cash and committed facilities to meet at least 125% of all known and forecast commitments for the next 18 months using debt instruments as deemed appropriate. As a general rule, it is the group's policy that no security be provided, however exceptions are allowed on a case by case basis where it is required for a transaction to proceed. Facilities creating security or encumbrances over assets need the prior consent of the group's chief financial officer. The group's credit facilities are detailed under note 8. Kumba was not in breach of any of its financial covenants during the year. The group had undrawn committed long-term borrowing and uncommitted short-term facilities at 31 December 2014 of R9.7 billion (2013: R17.4 billion).

Financial guarantees issued to third parties need to be approved by the group Exco up to R500 million, and by the group board if the value exceeds R500 million.

Maturity profile of the group's financial liabilities:

Rand million	Notes	Within 1 year	1 to 2 years	3 or more years	Total
2014					
Financial liabilities					
Interest-bearing borrowings	8	5,593	–	4,000	9,593
Trade payables	11	2,380	–	–	2,380
Other payables	11	840	–	–	840
		8,813	–	4,000	12,813
2013					
Financial liabilities					
Interest-bearing borrowings	8	633	235	2,000	2,868
Trade payables	11	2,393	–	–	2,393
Other payables	11	1,495	–	–	1,495
		4,521	235	2,000	6,756

33.4 Market risk

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

The use of derivatives is only permitted for hedging purposes and not to engage in speculative transactions. Hedging is conducted in very limited circumstance and in strict compliance with the group's treasury risk policy.

33.4.1 Foreign exchange risk

The group's earnings are exposed to movements in exchange rates.

Kumba's iron ore export prices are determined in US\$ and the company negotiates iron ore prices in that currency with customers. Currency movements of the US\$ against the Rand therefore could have a significant effect on the financial position and results of Kumba. Certain operating costs and capital expenditure are also denominated in foreign currencies.

The group's functional currency for the preparation of financial accounts is the South African Rand. The group is therefore exposed to currency risk in respect of foreign currency cash flows for revenues, operating costs and capital expenditure.

The group aligned both its export and import hedging policies with that of the Anglo American plc Group. In line with the revised policy, hedging may only take place in exceptional circumstances which would require approval subject to the approval limit defined in the treasury policy. The hedging of foreign currency exposures on the group's behalf via suppliers and third parties is also prohibited.

It is the group's policy to be fully exposed to operating cost and revenue currency risk i.e. not to hedge foreign currency operating costs and revenues. The objective of managing currency risk on capital expenditure is to broadly offset foreign currency capital expenditure with the future streams of foreign currency denominated revenues, i.e. natural or economic hedging.

Net US\$ export proceeds are repatriated and sold in equal tranches on a weekly basis at the ruling spot price.

The average US Dollar/Rand exchange rate for 2014 of US\$1: R10.83 (2013: US\$1: R9.62) 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 US\$1: R11.57 (2013: US\$1: R10.46). The group's financial instrument exposure to currency risk, excluding derivatives, is summarised below:

Rand million	Notes	Rand	US Dollar	Euro	Other
2014					
Financial assets					
Investments held by the environmental trust	3	791	–	–	–
Trade receivables	6	284	2,727	–	–
Other receivables (excl. VAT and prepayments)	4, 6	584	–	–	–
Cash and cash equivalents	7	315	1,342	4	3
Financial liabilities					
Interest-bearing borrowings	8	(9,593)	–	–	–
Trade and other payables	11	(2,380)	(472)	(10)	(12)
Net exposure		(9,999)	3,597	(6)	(9)
2013					
Financial assets					
Investments held by the environmental trust	3	737	–	–	–
Trade receivables	6	410	4,614	–	–
Other receivables (excl. VAT and prepayments)	4, 6	642	–	–	–
Cash and cash equivalents	7	120	925	8	–
Financial liabilities					
Interest-bearing borrowings	8	(2,849)	–	–	–
Trade and other payables	11	(3,413)	(462)	(7)	(6)
Net exposure		(4,353)	5,077	1	(6)

Outstanding exposure at 31 December in respect of derivative financial instruments:

	Notional amount		Market value at 31 December	Recognised fair value in profit or loss
	FC million	Rand million	Rand million	Rand million
Derivative instruments – held for trading				
2014				
FECs related to future commitments for the import of capital equipment				
US Dollar	23	267	1	1
		267	1	1
2013				
FECs related to future commitments for the import of capital equipment				
US Dollar	2	19	18	1
		19	18	1

33. FINANCIAL RISK MANAGEMENT *continued***33.4 Market risk** *continued***33.4.1 Foreign exchange risk** *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, based on the net US Dollar denominated financial instrument balances at 31 December 2014. The analysis has been performed on the same basis for 2013.

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).

Rand million	Impact on comprehensive income and shareholders' equity	
	Increase	Decrease
2014		
US Dollar	171	(189)
2013		
US Dollar	242	(267)

33.4.2 Interest rate risk

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

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

Sensitivity analysis

Changes in market interest rates affect the interest income or expense of floating rate financial instruments. A change in the market interest rate of 50 basis points, with all other variables held constant, would have increased/(decreased) profit or loss and equity by the amounts shown below, based on the net floating rate financial instrument balances at 31 December 2014. The analysis has been performed on the same basis for 2013.

Rand million	Impact on comprehensive income and shareholders' equity	
	Increase	Decrease
2014		
Floating interest rate instruments	(31)	31
2013		
Floating interest rate instruments	(6)	6

33.4.3 Commodity price risk

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

The group is exposed to equity securities price risk from equity investments held by the environmental trust. Refer to note 3-'Investments held by environmental trust'.

Certain of the group's sales are provisionally priced, meaning that the final selling price is determined normally 30 to 180 days after delivery to the customer, based on quoted market prices stipulated in the contract, and as a result are susceptible to future price movements. As at 31 December 2014, R2,726 million (2013: R4,614 million) of the trade receivables balance are subject to price movements.

33.5 Fair value estimation

The carrying value of financial instruments not carried at fair value approximates fair value because of the short period to maturity of these instruments. The table below presents the group's assets and liabilities that are measured at fair value:

Rand million	Level 1 ¹	Level 2 ²	Level 3 ³
2014			
Equity investments held by the environmental trust	379	–	–
Derivative financial assets	1	–	–
	380	–	–
2013			
Equity investments held by the environmental trust	475	–	–
Derivative financial assets	1	–	–
	476	–	–

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 financial years disclosed.

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

33.6 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 debt position at balance sheet dates was as follows:

Rand million	2014	2013
Long-term interest-bearing borrowings	4,000	2,234
Short-term interest-bearing borrowings	5,593	615
Total	9,593	2,849
Cash and cash equivalents	(1,664)	(1,053)
Net debt	7,929	1,796
Total equity	27,001	27,184

BALANCE SHEET

for the year ended 31 December

Rand million	Notes	2014	2013
Assets			
Available-for-sale financial asset		2	–
Investments in subsidiaries	1	1,854	1,361
Deferred tax assets	2	1	1
Non-current assets		1,857	1,362
Cash and cash equivalents	3	267	177
Current assets		267	177
Total assets		2,124	1,539
Equity and liabilities			
Share capital and premium	4	368	368
Reserves		1,576	1,025
Total equity		1,944	1,393
Loans from subsidiary companies	1	23	21
Other payables		146	119
Current tax liabilities		11	6
Current liabilities		180	146
Total liabilities		180	146
Total equity and liabilities		2,124	1,539

INCOME STATEMENT

for the year ended 31 December

Rand million	Notes	2014	2013
Net operating expenses	5	(16)	(9)
Operating loss		(16)	(9)
Finance income		39	39
Income from investments	6	11,516	9,856
Profit before taxation		11,539	9,886
Taxation	7	(18)	(17)
Profit for the year		11,521	9,869
Total comprehensive income for the year		11,521	9,869

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 2014 and 2013.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December

Rand million	Share capital (note 4)	Share premium (note 4)	Equity-settled share-based payment reserve	Retained earnings	Total
Balance at 31 December 2012	3	363	817	370	1,553
Shares issued during the period	–	2	–	–	2
Equity-settled share-based payments	–	–	479	–	479
Vesting of shares under employee share incentive schemes	–	–	(12)	2	(10)
Total comprehensive income for the year	–	–	–	9,869	9,869
Dividends paid	–	–	–	(10,500)	(10,500)
Balance at 31 December 2013	3	365	1,284	(259)	1 393
Equity-settled share-based payments	–	–	492	–	492
Vesting of shares under employee share incentive schemes	–	–	(9)	(3)	(12)
Total comprehensive income for the year	–	–	–	11,521	11,521
Dividends paid	–	–	–	(11,450)	(11,450)
Balance at 31 December 2014	3	365	1,767	(191)	1,944

CASH FLOW STATEMENT

for the year ended 31 December

Rand million	Notes	2014	2013
Cash flows from operating activities			
Cash generated by operations	8	21	24
Finance income		39	39
Income from investments	6	11,516	9,856
Taxation paid	9	(13)	(9)
Dividends paid		(11,450)	(10,500)
		113	(590)
Cash flows from investing activities			
Acquisition of subsidiary		(4)	–
Net (increase)/decrease in loans to subsidiaries		(21)	667
		(25)	667
Cash flows from financing activities			
Share capital issued	4	–	2
Increase/(decrease) in loans from subsidiaries	1	2	(11)
Vesting of shares under employee share incentive schemes		–	(14)
		2	(23)
Net increase in cash and cash equivalents		90	54
Cash and cash equivalents at beginning of year		177	123
Cash and cash equivalents at end of year	3	267	177

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December

1. INVESTMENTS IN SUBSIDIARIES

Rand million	2014	2013
Reflected as non-current assets		
Shares at cost	7	3
Share-based payment expenditure*	1,724	1,244
Long-term loans to subsidiaries	123	114
Short-term loans from subsidiaries	(23)	(21)
Net investments in subsidiaries	1,831	1,340

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

Investments in subsidiaries are accounted for at cost.

The loans to and from the subsidiaries are interest bearing and do not have any repayment terms.

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

2. DEFERRED TAX ASSET

Rand million	2014	2013
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	2014	2013
Cash	267	177
Currency analysis of cash and cash equivalents		
Rand	267	177

Credit risk

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

Fair value of cash and cash equivalents

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

4. SHARE CAPITAL AND SHARE PREMIUM

Number of shares	2014	2013
Authorised		
500,000,000 ordinary shares of R0.01 each	500,000,000	500,000,000
Issued		
Ordinary shares of R0.01 each	322,085,974	322,085,974
Reconciliation of issued shares		
Number of shares at beginning of year	322,085,974	322,058,624
Number of ordinary shares issued	–	27,350
Number of shares at end of year	322,085,974	322,085,974

For further detail refer to the group annual financial statements, note 20.

4. SHARE CAPITAL AND SHARE PREMIUM continued

Rand million	2014	2013
Reconciliation of share capital and premium		
Share capital	3	3
Share premium	365	365
	368	368

5. OPERATING (EXPENSES) / INCOME

Rand million	2014	2013
Cost by nature		
Salaries and wages	(22)	(16)
Equity-settled share-based payments	(11)	(12)
Pension, medical and termination costs	(1)	(2)
General charges	(2)	(1)
Cost recoveries	20	22
	(16)	(9)
The above costs are stated after including:		
Directors' remuneration (Refer to remuneration report on page 26)	23	22
Executive directors		
Emoluments received as directors of the company	13	12
Bonuses and cash incentives	5	5
Non-executive directors – emoluments as directors of the company	5	5

6. INCOME FROM INVESTMENTS

Rand million	2014	2013
Dividends received from subsidiaries	11,516	9,856

7. TAXATION

Rand million	2014	2013
Charge to income		
SA normal tax		
Current year	18	17
Total	18	17
Reconciliation of taxation rates	%	%
Taxation as a percentage of profit before taxation	0.2	0.2
Taxation effect of:		
Disallowable expenditure	(0.1)	(0.1)
Exempt income	27.9	27.9
Standard tax rate	28.0	28.0

8. CASH GENERATED BY OPERATIONS

Rand million	2014	2013
Operating loss	(16)	(9)
Adjusted for:		
Share-based payment expense	11	12
Working capital movements:		
(Increase) in financial assets	(2)	–
Increase in other payables	28	21
Cash flows from operating activities	21	24

9. NORMAL TAXATION PAID

Rand million	2014	2013
Current tax liability/(asset) at beginning of year	6	(2)
Amounts charged to the income statement	18	17
Amount paid during the year	(13)	(9)
Current tax liability at end of year	11	6

10. RELATED PARTY TRANSACTIONS

During the year Kumba, in the ordinary course of business, entered into various sales and purchases of goods and services with its subsidiaries, SIOC and Main Street 576 Proprietary Limited, as well as its holding company, Anglo American plc Group. Certain deposits and borrowings are also placed with the holding company. The holding company also acts as an agent for the company in respect of all foreign exchange transactions and performs a back office treasury function for the group. The effect of these transactions is included in the results of the group. These transactions occurred under terms that are no less favourable than those arranged with third parties.

Holding company

Anglo American plc Group is Kumba's ultimate holding company. The interest in the group is held through a 69.72% holding by Anglo South Africa Capital Proprietary Limited (2013: 69.72%).

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 98.

Material related party transactions:

Rand million	2014	2013
Purchase of goods and services and finance charges		
Holding company ¹	*	*
Purchase of goods and services		
SIOC ²	24	23
Sale of goods and services and finance income		
SIOC ²	53	55
Amounts owing from/(to) related parties		
SIOC	(23)	(21)
Main Street 576 (Pty) Ltd	62	62
KIO Investment Holdings (Pty) Ltd	61	52
Dividends paid to/(by) Kumba		
SIOC	11,516	9,855
Holding company	(7,982)	(7,318)

* Value is less than R1 million.

¹ Goods and services comprise directors' fees paid directly to Anglo Operations Limited for Mr AM O'Neill and Ms Khanyisile Kweyama.

² Goods and services comprise a management fee charged by Kumba to SIOC and finance income earned on dividends payable by SIOC to Kumba.

11. POST-BALANCE SHEET EVENTS

A final dividend of R7.73 per share was declared on 6 February 2015 from profits accrued during the financial year ended 31 December 2014. The total dividend for the year amounted to R23.34 per share. The estimated total cash flow of the final Kumba dividend of R7.73 per share, payable on 16 March 2015, is R2.5 billion.

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

ANNEXURE 1: INVESTMENTS IN SUBSIDIARIES

for the year ended 31 December

Rand '000	Country of incorporation ¹	Principal place of business ¹	Nature of business ²	Percentage holding	Nominal issued capital	Investments at cost		Loans to/(from) subsidiaries	
						2014	2013	2014	2013
Direct investments									
Sishen Iron Ore Company Proprietary Limited									
	RSA	RSA	A	74	100	3,009	3,009	(22,978)	(21,351)
Main Street 576 Proprietary Limited									
	RSA	RSA	E	100	100	*	*	62,027	62,027
KIO Investment Holdings Proprietary Limited									
	RSA	RSA	E	100	1,000	–	–	60,912	51,913
Kumba International BV ⁴									
	NE	NE	B	100	30,409	3,652	–	–	–
Total investments in subsidiaries									
						6,661	3,009	99,961	92,589

* Value is less than R1.00.

Indirect subsidiaries

	Country of incorporation ¹	Principal place of business ¹	Nature of business ²	Percentage holding
Kumba Hong Kong Limited	HK	HK	B	100
Kumba Hong Kong Shipping Limited	HK	HK	C	100
Kumba International Trading SA	LUX	LUX	B	100
Kumba Iron Ore Holdings SARL	NE	LUX	E	100
KIO Exploration Liberia SARL	LUX	LUX	E	100
Kumba Singapore Pte Ltd	SNG	SNG	B	100
Sibelo Resources Development Proprietary Limited	RSA	RSA	D	50
Sishen South Mining Proprietary Limited	RSA	RSA	F	100
Kathu Solar Park Proprietary Limited	MAU	MAU	F	#

* Investments sold during the year.

Special purpose entities³

	Country of incorporation ¹	Principle place of business ¹	Nature of business ²	Percentage holding
SIOC Employee Share Participation Scheme (Envision)	RSA	RSA	E	100
Kumba Iron Ore Rehabilitation Trust	RSA	RSA	G	100
Kumba BSP Trust	RSA	RSA	H	100
Kumba Iron Ore Management Share Trust	RSA	RSA	H	100

¹ RSA – South Africa, NE – Netherlands, SWL – Switzerland, HK – Hong Kong, LUX – Luxembourg, SNG – Singapore, MAU – Mauritius.

² A – Mining, B – Iron ore marketing and sales, C – Shipping charter, D – Exploration, E – Investment holding, F – Dormant, G – Mine closure fund, H – Share incentive scheme administrator.

³ Controlled by Kumba.

⁴ Kumba acquired the shareholding of Kumba International BV from KITSA during the year, previously shown as an indirect subsidiary.

ANNEXURE 2: INVESTMENTS IN ASSOCIATES, JOINT VENTURES AND OTHER INVESTMENTS

for the year ended 31 December

Rand '000	Country of incorporation ¹	Principal place of business ¹	Nature of business ²	Number of shares held	Percentage holding	Investment at cost	Group loan balance		Company loan balance	
							2014	2013	2014	2013
ASSOCIATES										
Unlisted										
Manganore Iron Mining Limited	RSA	RSA	B	25,000	50	50	–	–	–	–
INCORPORATED JOINT VENTURES										
Unlisted										
Polokwane Iron Ore Company Proprietary Limited	RSA	RSA	A	4,000	50	3,740	59,921	55,389	–	–
Safore Proprietary Limited	RSA	RSA	B	400	40	–	–	–	–	–
Sishen Shipping Proprietary Limited	RSA	RSA	B	400	40	–	–	–	–	–
Anglo American Kumba Exploration Liberia Limited	LIB	LIB	A	25,000	50	26	71,144	27,832	–	–
						3,766	131,065	83,221	–	–

Rand '000	Group loan balance		Company loan balance	
	2014	2013	2014	2013
Directors' valuation of investments at 31 December				
Unlisted investments in associates	–	–	–	–
Unlisted investments in joint ventures	131,065	83,221	–	–

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

¹ RSA – South Africa, LIB – Liberia.

² A – Mining, B – Dormant.

ANNEXURE 3: EQUITY-SETTLED SHARE-BASED PAYMENTS SCHEMES

for the year ended 31 December

EMPLOYEE SHARE INCENTIVE SCHEMES

Employees of the group participate in the following share incentive schemes:

- Envision
- Bonus Share Plan
- Long-Term Incentive Plan (executive directors)
- Share Appreciation Rights Scheme (no longer in use)

1) ENVISION

Description of scheme:

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. 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, 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.

Movement in the number of share awards granted:

	Number of share options (Phase 2)	Weighted average option price (Rand)
Balance at beginning of year	24,669,155	22.84
Share options issued	1,763,455	22.84
Share options forfeited	(757,817)	22.84
Balance at 31 December 2014	25,674,793	22.84
Balance at beginning of year	23,478,401	22.84
Share options issued	2,278,970	22.84
Share options forfeited	(1,088,216)	22.84
Balance at 31 December 2013	24,669,155	22.84
	Number of share options	Expiry date
Vesting period of share options granted		
Within 5 years	25,674,793	2016

Valuation of scheme:

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
Fair value assumptions	
SIOC share price on date of grant (Rand)	170.29
Weighted average exercise price – SIOC share (Rand)	170.11
Annualised expected volatility – awards before 31 May 2012 (%)	45.00
Annualised expected volatility – awards after 31 May 2012 (%)	41.00
Expected share option life (years)	5.00
Expected dividend yield (%)	5.25
Risk-free interest rate (%)	7.07

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

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

2) BONUS SHARE PLAN (BSP)

Description of scheme:

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 Kumba's overall strategic objectives. The BSP has two components

- A payment of an annual cash bonus
- 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.

Movement in the number of share awards granted:

	Special awards 2014	2014 award	2013 award	2012 award	2011 award
Balance at beginning of year	–	–	264,810	230,157	188,156
Bonus shares awarded	121,380	355,719		–	–
Awards exercised ¹	–	(2,807)	(6,967)	(8,229)	–
Awards exercised on vesting	(18,602)	–		–	(178,207)
Awards forfeited	–	(8,225)	(18,139)	(12,772)	(9,949)
Balance at 31 December 2014	102,778	344,687	239,704	209,156	–
Balance at beginning of year			–	254,711	206,677
Bonus shares awarded			286,887	–	–
Awards exercised ¹			(8,564)	(10,601)	(9,627)
Awards exercised on vesting			–	–	(532)
Awards forfeited			(13,513)	(13,953)	(8,362)
Balance at 31 December 2013			264,810	230,157	188,156

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

	Number of awards	Expiry date
Vesting period of awards granted		
Less than 1 year	231,977	2015
1 to 2 years	268,198	2016
2 to 5 years	396,150	2017

Valuation of scheme:

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.

	Special 2014 awards	2014 award	2013 award	2012 award	2011 award
Fair value assumptions					
Share price on date of grant (Rand)	420.00	420.00	550.68	452.45	439.82
Expected share option life (years)	3	3	3	3	3
Expected dividend yield (%)	5.25	5.25	5.25	5.25	5.25

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

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

3) LONG-TERM INCENTIVE PLAN (LTIP)**Description of scheme:**

Executive directors 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.

Movement in the number of conditional awards granted:

	Number of conditional awards			
	2014 award	2013 award	2012 award	2011 award
Balance at beginning of year	–	25,875	16,214	17,960
Conditional awards issued	41,364	–	–	–
Conditional awards forfeited	–	–	–	(8,980)
Conditional awards vested	–	–	–	(8,980)
Balance at 31 December 2014	41,364	25,875	16,214	–
Balance at beginning of year	–	–	16,214	17,960
Conditional awards issued	–	25,875	–	–
Balance at 31 December 2013	–	25,875	16,214	17,960

	Number of conditional awards	Expiry date
Vesting period of conditional awards granted		
Less than 1 year	16,214	2015
1 to 2 years	25,875	2016
2 to 5 years	41,364	2017

Valuation of scheme:

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

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

	2014 award	2013 award	2012 award	2011 award
Fair value assumptions				
Share price on date of grant (Rand)	420.00	550.68	527.00	439.82
Annualised expected volatility (%)	30.37	30.60	34.21	46.55
Expected share option life (years)	3	3	3	3
Expected dividend yield (%)	5.25	5.25	5.25	5.25
Risk-free interest rate (%)	7.40	6.16	6.39	7.08

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

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

4) SHARE APPRECIATION RIGHTS SCHEME (SARS)**Description of 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.

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.

Movement in the number of rights granted:

	Number of rights		Exercise price range
	2008 award	2007 award	(Rand)
Balance at beginning of year	34,704	25,320	124.27 – 332.06
Rights exercised ¹	(3,190)	(25,320)	124.27 – 332.06
Balance at 31 December 2014	31,514	–	124.27 – 332.06
Balance at beginning of year	46,054	32,090	124.27 – 332.06
Rights exercised ¹	(11,350)	(6,770)	124.27 – 332.06
Balance at 31 December 2013	34,704	25,320	124.27 – 332.06

¹ 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	247.30 – 332.06	31,514	2015

Valuation of scheme:

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.

	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 awards is based on South African government bonds.

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

ANNEXURE 4: ACCOUNTING POLICIES ADOPTED BY THE GROUP WHICH ARE NOT SIGNIFICANT TO THE REPORTED RESULTS FOR THE CURRENT AND COMPARATIVE YEAR

The accounting policies included below relate to items and/or transactions that did not have a significant impact on the group's reported results for the current and comparative financial year. It also includes the group's accounting policy choices in respect of transactions which could potentially have a significant impact on the reported results but that did not occur during the years presented.

5.1 CONSOLIDATED FINANCIAL STATEMENTS

5.1.1 Disposal of subsidiaries

When the group ceases to have control, any retained interest in the entity is re-measured 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.

5.1.2 Associates

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

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

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 other comprehensive income is recognised in the statement of other comprehensive income. 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.

5.1.3 Joint arrangements

The group has applied IFRS 11 to all joint arrangements as of 1 January 2012. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Kumba has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

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

Unrealised gains on transactions between the group and its joint ventures are eliminated to the extent of the group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the group.

5.1.4 Business combinations

The group applies the acquisition method to account for business combinations.

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

5.1 CONSOLIDATED FINANCIAL STATEMENTS *continued***5.1.4 Business combinations** *continued*

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability are recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

5.1.5 Goodwill

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 measured at cost less accumulated impairment, if any.

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 than 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.

5.2 IMPAIRMENT OF FINANCIAL ASSETS

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 the 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.

5.3 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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
- 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 cash-flow 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.

5.4 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.

5.5 POST-EMPLOYMENT BENEFITS

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.

ANNEXURE 5: NEW AND AMENDED ACCOUNTING STANDARDS

A number of new standards and amendments to standards and interpretations are in issue but are not effective for annual periods beginning on 1 January 2014 and have not been applied in preparing these consolidated financial statements. The group is in the process of assessing the potential impact.

AMENDMENTS TO IAS 19 – *Defined benefit plans: Employee contributions*

Defined Benefit Plans: Employee Contributions (Amendments to IAS 19), issued in November 2013, amended paragraphs 93–94. These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

An entity shall apply those amendments for annual periods beginning on or after 1 July 2014 retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted.

ANNUAL IMPROVEMENTS TO IFRSs 2010-2012 CYCLE

Amendment to IFRS 2 *Share-based Payment*

Annual Improvements to IFRSs 2010–2012 Cycle, issued in December 2013, amended paragraphs 15 and 19. In Appendix A, the definitions of 'vesting conditions' and 'market condition' were amended and the definitions of 'performance condition' and 'service condition' were added. An entity shall prospectively apply that amendment to share-based payment transactions for which the grant date is on or after 1 July 2014. Earlier application is permitted.

Amendment to IFRS 3 *Business Combinations*

Annual Improvements to IFRSs 2010–2012 Cycle, issued in December 2013, amended paras 40 and 58 and added paragraph 67A and its related heading. Para 5.4.4 of IFRS 9, para 5 of IAS 37, paras 4.2.1 and 5.7.5 of IAS 39 was also amended as a consequential amendment derived from the amendment to IFRS 3.

An entity shall apply that amendment prospectively to business combinations for which the acquisition date is on or after 1 July 2014. Earlier application is permitted. An entity may apply the amendment earlier provided that IFRS 9 and IAS 37 (both as amended by Annual Improvements to IFRSs 2010–2012 Cycle) have also been applied.

Amendments to IFRS 8 *Operating Segments*

Annual Improvements to IFRSs 2010–2012 Cycle, issued in December 2013, amended paragraphs 22 and 28. An entity shall apply those amendments for annual periods beginning on or after 1 July 2014. Earlier application is permitted.

Amendment to IAS 16 *Property, Plant and Equipment*

Annual Improvements to IFRSs 2010–2012 Cycle, issued in December 2013, amended paragraph 35 and added paragraph 80A. An entity shall apply that amendment for annual periods beginning on or after 1 July 2014. Earlier application is permitted.

Amendment to IAS 24 *Related Party Disclosures*

Annual Improvements to IFRSs 2010–2012 Cycle, issued in December 2013, amended paragraph 9 and added paragraphs 17A and 18A. An entity shall apply that amendment for annual periods beginning on or after 1 July 2014. Earlier application is permitted. If an entity obtains key management personnel services from another entity (the 'management entity'), the entity is not required to apply the requirements in paragraph 17 to the compensation paid or payable by the management entity to the management entity's employees or directors.

Amendment to IAS 38 *Intangible Assets*

Annual Improvements to IFRSs 2010–2012 Cycle, issued in December 2013, amended paragraph 80. An entity shall apply that amendment for annual periods beginning on or after 1 July 2014. Earlier application is permitted.

An entity shall apply the amendment made by Annual Improvements to IFRSs 2010–2012 Cycle to all revaluations recognised in annual periods beginning on or after the date of initial application of that amendment and in the immediately preceding annual period. An entity may also present adjusted comparative information for any earlier periods presented, but it is not required to do so.

ANNUAL IMPROVEMENTS TO IFRSs 2011–2013 CYCLE

Amendment to IFRS 3 – *Business Combinations*

Annual Improvements Cycle 2011–2013 issued in December 2013 amended paragraph 2(a). An entity shall apply that amendment prospectively for annual periods beginning on or after 1 July 2014. Earlier application is permitted. IFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

Amendment to IFRS 13 – *Fair Value Measurement*

Annual Improvements Cycle 2011–2013 issued in December 2013 amended para 52. An entity shall apply that amendment for annual periods beginning on or after 1 July 2014. An entity shall apply that amendment prospectively from the beginning of the annual period in which IFRS 13 was initially applied. Earlier application is permitted. IFRS 13 paragraph 52 was amended to clarify that the portfolio exception applies to all contracts within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32.

Amendment to IAS 40 – *Investment Property*

Annual Improvements Cycle 2011–2013 issued in December 2013 added paragraph 14A and a heading before paragraph 6. An entity shall apply that amendment prospectively for acquisitions of investment property from the beginning of the first period for which it adopts that amendment. Consequently, accounting for acquisitions of investment property in prior periods shall not be adjusted. However, an entity may choose to apply the amendment to individual acquisitions of investment property that occurred prior to the beginning of the first annual period occurring on or after the effective date if, and only if, information needed to apply the amendment to those earlier transactions is available to the entity.

An entity shall apply those amendments for annual periods beginning on or after 1 July 2014. Earlier application is permitted.

AMENDMENTS TO IAS 16 AND IAS 38 – *Clarification of Acceptable Methods of Depreciation and Amortisation*

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38), issued in May 2014, amended IAS 16 para 56 and added para 62A. IAS 38 paras 92 and 98 were amended and paras 98A–98C were added.

In this amendment the IASB has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.

Apply those amendments prospectively for annual periods beginning on or after 1 January 2016. Earlier application is permitted.

AMENDMENTS TO IAS 16 AND IAS 41 – *Agriculture: Bearer Plants*

Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41), issued in June 2014, amended IAS 16 paras 3, 6 and 37 and added paras 22A and 81L–81M. IAS 41 paras 1–5, 8, 24 and 44 were amended and paras 5A–5C and 63 were added.

These amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. The IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. Apply those amendments for annual periods beginning on or after 1 January 2016. Earlier application is permitted.

AMENDMENTS TO IAS 27 *Separate Financial Statements* – *Equity Method in Separate Financial Statements*

Equity Method in Separate Financial Statements (Amendments to IAS 27), issued in August 2014, amended paras 4–7, 10, 11B and 12. These amendments to IAS 27, *Separate financial statements* on the equity method in separate financial statements, allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

An entity shall apply those amendments for annual periods beginning on or after 1 January 2016 retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted.

AMENDMENTS TO IFRS 10 AND IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28), issued in September 2014, amended IFRS 10 paragraphs 25–26 and added paragraph B99A. IAS 28 paras 28 and 30 were amended and paras 31A–31B were added. These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

Apply those amendments prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. Earlier application is permitted.

AMENDMENTS TO IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11), issued in May 2014, amended the heading after paragraph B33 and added paragraphs 21A, B33A– B33D, C1AA and their related headings. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.

An entity shall apply those amendments prospectively in annual periods beginning on or after 1 January 2016. Earlier application is permitted.

IFRS 14 – Regulatory deferral accounts

An entity shall apply this Standard if its first annual IFRS financial statements are for a period beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies this Standard in its first annual IFRS financial statements for an earlier period, it shall disclose that fact. The objective of this Standard is to specify the financial reporting requirements for regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation.

ANNUAL IMPROVEMENTS TO IFRSs 2012–2014 CYCLE**Amendments to IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations**

Annual Improvements to IFRSs 2012–2014 Cycle, issued in September 2014, amended paragraphs 26–29 and added paragraph 26A. An entity shall apply those amendments prospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to changes in a method of disposal that occur in annual periods beginning on or after 1 January 2016. Earlier application is permitted.

The amendment clarifies that, when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution', or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. This means that the asset (or disposal group) does not need to be reinstated in the financial statements as if it had never been classified as 'held for sale' or 'held for distribution' simply because the manner of disposal has changed.

The amendment also rectifies an omission in the standard by explaining that the guidance on changes in a plan of sale should be applied to an asset (or disposal group) which ceases to be held for distribution but is not reclassified as 'held for sale'.

Amendments to IFRS 7 Financial Instruments: Disclosures – Application of the disclosure requirements to a servicing contract

Paragraphs 42C and B30 of IFRS 7 are considered to determine whether a servicing contract gives rise to continuing involvement for the purposes of the transfer disclosure requirements. The board decided to add guidance to the Application Guidance of IFRS 7 to clarify how the guidance in paragraph 42C of IFRS 7 is applied to servicing contracts.

An entity shall apply those amendments retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors for annual periods beginning on or after 1 January 2016, except that an entity need not apply the amendments to paragraphs B30 and B30A for any period presented that begins before the annual period for which the entity first applies those amendments. Earlier application of the amendments to paragraphs 44R, B30 and B30A is permitted.

Amendments to IAS 19 Employee Benefits – discount rates

The amendment clarifies that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, and not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country.

Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used. The amendment is retrospective but limited to the beginning of the earliest period presented.

Annual Improvements to IFRSs 2012–2014 Cycle, issued in September 2014, amended paragraph 83 and added paragraph 177. An entity shall apply that amendment for annual periods beginning on or after 1 January 2016. Earlier application is permitted.

IFRS 15 – Revenue from contracts with customers

IFRS 15 specifies how and when an entity will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2017. Earlier application is permitted.

IFRS 9 – Financial instruments 2010

This IFRS supersedes IFRS 9 issued in 2009. However, for annual periods beginning before 1 January 2015, an entity may elect to apply IFRS 9 issued in 2009 instead of applying this IFRS.

IFRS 9 – Financial instruments 2009

IFRS 9 (2010) supersedes IFRS 9 issued in 2009. However, for annual periods beginning before 1 January 2015, an entity may elect to apply IFRS 9 issued in 2009 instead of applying IFRS 9 (2010).

IFRS 9 – Financial instruments 2014 (complete)

This Standard supersedes IFRS 9 (2009), IFRS 9 (2010) and IFRS 9 (2013). However, for annual periods beginning before 1 January 2018, an entity may elect to apply those earlier versions of IFRS 9 instead of applying this Standard if, and only if, the entity's relevant date of initial application is before 1 February 2015.

SHAREHOLDER ANALYSIS

Register date: 31 December 2014

Issued share capital: 322,085,974

	Number of shareholdings	%	Number of shares	%
Shareholder spread				
1 – 1,000 shares	18,566	89.48	4,046,128	1.26
1,001 – 10,000 shares	1,835	8.84	5,277,608	1.64
10,001 – 100,000 shares	281	1.35	8,681,189	2.70
100,001 – 1,000,000 shares	55	0.27	15,972,131	4.96
1,000,001 shares and over	12	0.06	288,108,918	89.44
	20,749	100.00	322,085,974	100.00

Distribution of shareholders

Banks/Brokers	243	1.17	24,113,115	7.49
Close Corporations	180	0.87	157,307	0.05
Endowment Funds	44	0.21	33,249	0.01
Individuals	17,163	82.72	7,084,004	2.20
Insurance Companies	35	0.17	987,310	0.31
Investment Companies	19	0.09	394,046	0.12
Medical Schemes	11	0.05	18,488	0.01
Mutual Funds	234	1.13	6,972,797	2.16
Other Corporations	42	0.20	24,863	0.01
Private Companies	418	2.01	226,570,768	70.34
Public Companies	16	0.08	42,191,118	13.10
Retirement Funds	122	0.59	9,842,547	3.06
Share Trust	2	0.01	496,252	0.15
Trusts	2,220	10.70	3,200,110	0.99
	20,749	100.00	322,085,974	100.00

Public/Non-public shareholders

Non-public shareholders	13	0.06	268,798,571	83.46
Directors of the company (indirect)	2	0.01	641	0.00
Strategic Holdings	2	0.01	266,034,530	82.60
Related Holdings	9	0.04	2,763,400	0.86
Public Shareholders	20,736	99.94	53,287,403	16.54
	20,749	100.00	322,085,974	100.00

	Number of shares	%
Beneficial shareholders holding 2% or more		
Anglo American plc Group	224,535,915	69.71
Industrial Development Corporation	41,498,615	12.88
Government Employees Pension Fund	8,275,506	2.57
BlackRock	6,498,873	2.02
	280,808,909	87.18

BREAKDOWN OF NON-PUBLIC HOLDINGS

	Number of shares	%
Directors of the company (indirect)		
GS Gouws	213	0.00
LA Mokgatlhe	428	0.00
	641	0.00
Strategic Holdings		
Anglo South Africa Capital (Pty) Ltd	224,535,915	69.71
Industrial Development Corporation of South Africa Ltd	41,498,615	12.88
	266,034,530	82.60
Related Holdings		
Mercantile Shareholder Nominees – Exxaro	1,383,758	0.43
Mercantile Shareholder Nominees – Exxaro	1,383,758	0.43
Kumba Bonus Share Plan Trust	496,252	0.15
Kumba Bonus Share Plan Trust	483,183	0.15
Kumba Bonus Share Plan Trust	13,069	0.00
Exxaro Resources Limited (No 8)	88,985	0.03
Exxaro Resources Limited (No 8)	88,985	0.03
Sishen Iron Ore Company (Pty) Ltd	794,405	0.25
Sishen Iron Ore Company (Pty) Ltd BSP	516,145	0.16
Sishen Iron Ore Company (Pty) Ltd FSP	197,641	0.06
Sishen Iron Ore Company (Pty) Ltd RES	64,140	0.02
Sishen Iron Ore Company (Pty) Ltd LTI	15,859	0.00
Sishen Iron Ore Company (Pty) Ltd	620	0.00
	2,763,400	0.86

BREAKDOWN OF BENEFICIAL SHAREHOLDERS HOLDING 2% OR MORE

	Number of shares	%
Beneficial Shareholders		
Anglo American plc Group	224,535,915	69.71
Anglo South Africa Capital (Pty) Ltd	224,535,915	69.71
Industrial Development Corporation of South Africa Ltd	41,498,615	12.88
Industrial Development Corporation of South Africa Ltd	41,498,615	12.88
Government Employees Pension Fund	8,275,506	2.57
Government Employees Pension Fund	8,197,211	2.55
Government Employees Pension Fund	66,495	0.02
Government Employees Pension Fund - JM Busha Asset Managers	11,800	0.00
BlackRock Inc	6,498,873	2.02
BlackRock Inc	6,498,873	2.02
	280,808,909	87.18

ADMINISTRATION

COMPANY REGISTRATION NUMBER:

2005/015852/06

JSE share code: KIO

ISIN code: ZAE000085346

COMPANY SECRETARY AND REGISTERED OFFICE

Avanthi Parboosing
Centurion Gate – Building 2B
124 Akkerboom Road
Centurion, Pretoria, 0157
South Africa
Tel: +27 (0) 12 683 7000
Fax: +27 (0) 12 683 7009
avanthi.parboosing@angloamerican.com

AUDITORS

Deloitte & Touche
Chartered Accountants (SA)
Registered Auditors
Deloitte Place, The Woodlands Office Park
20 Woodlands Drive, Woodmead, 2146
South Africa
Private Bag X46, Gallo Manor, 2052

SPONSOR

RAND MERCHANT BANK
(A division of FirstRand Bank Limited)
Registration number: 1929/001225/06
1 Merchant Place
Corner Rivonia Road and Fredman Drive
Sandton, 2146
South Africa
PO Box 786273, Sandton, 2146

CORPORATE LAW ADVISORS

Norton Rose
15 Alice Lane
Sandton, 2196
South Africa

UNITED STATES ADR DEPOSITORY

BNY Mellon
Depository Receipts Division
101 Barclay Street, 22nd Floor
New York, New York, 10286
Tel: +1 (0) 212 815 2293
Fax: +1 (0) 212 571 3050/1/2
www.adrbny.com

TRANSFER SECRETARIES

Computershare Investor Services
Proprietary Limited
70 Marshall Street
Johannesburg, 2001
South Africa
PO Box 61051, Marshalltown, 2107

INVESTOR RELATIONS

Nerina Bodasing
Investor relations manager
Tel: +27 (0) 12 683 7000
nerina.bodasing@angloamerican.com

FORWARD-LOOKING STATEMENTS

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

Kumba Iron Ore

Centurion Gate – Building 2B
124 Akkerboom Road
Centurion
0157

www.angloamericankumba.com

A member of the Anglo American plc Group

www.angloamerican.com



Find us on Facebook



Follow us on Twitter