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Real Mining. Real People. Real Difference.






ANNUAL FINANCIAL STATEMENTS 2015

DRIVING CHANGE, DEFINING OUR FUTURE

KUMBA IRON ORE LIMITED

OUR APPROACH TO REPORTING

NAVIGATING OUR 2015 REPORTS

Annual financial statements (AFS)

Detailed analysis of our financial results, with audited financial statements, prepared in accordance with the IFRS.

Integrated report (IR)

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

Sustainability report (SR)

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

Ore Reserves and Mineral Resources report (ORMR)

Reported in accordance with the South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves (SAMREC 2007; July 2009 amended).

Online (WEB)

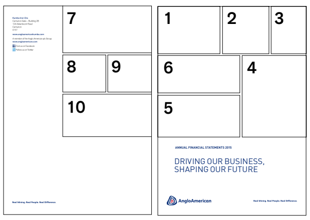
Each of these reports, with additional updated information, is available on our website: www.angloamericankumba.com

For more information, visit
http://www.angloamericankumba.com/

DRIVING CHANGE, DEFINING OUR FUTURE

The Annual Financial Statements 2015 were published on 8 April 2016. You can find this report and additional information about Kumba Iron Ore Limited on our corporate website.

Back cover **Front cover**



Front cover images

1. Dudley Fielding, process controller; Johannes Jacobs, foreman; Kelebogile Smok, plant operator; Kopano Kehltlkile, plant operator; Saul Mofammere, operator; Matthews Kiwidi, reclaim operator and Veronica Lepadisa, system administrator; all working at the Kolomela mine load out station conducting a pre-shift safety meeting.
2. Petrus Ludwick and Gideon le Roux, electrical technicians at Sishen mine working on the anti-rollback system circuit board developed for the Komatsu haul trucks at the mine.
3. A view of the stacker-reclaimer and ore stockpile at the Saldanha iron ore multi-purpose terminal.
4. Shadrack Seselo and Glen van Zyl, both mechanics at Sishen mine, working on a CAT16M grader in the heavy vehicle workshop.
5. Saul Klopper and Gerry Dorsen discussing the installation and testing of a remote operated drill rig which was implemented at Kolomela mine.
6. A view of the Saldanha iron ore multi-purpose terminal. The main stockpile conveyor lines run at a very high speed.

Back cover images

7. Tumisang Kaotsane, a foreman, and Mosimanithebe Gaosenkwe, a haul truck operator, at the haul truck refuel and wash bay at Sishen mine washing a Komatsu 860 truck.
8. A train at Kolomela mine in the Northern Cape. The mine produces direct-shipping ore for the export market.
9. The Northern Cape operations are serviced by a dedicated iron ore rail link, the Sishen/Kolomela-Saldanha iron ore export channel (IOEC).
10. A view of the Saldanha iron ore multi-purpose terminal. The main stockpile conveyor lines run at a very high speed.

KEY FEATURES

No loss of life

PRODUCTION OF 44.9Mt

down 7%

RECORD EXPORT SALES OF 43.5Mt

up 8%

CONTROLLABLE COSTS

down R4 billion

HEADLINE EARNINGS PER SHARE (HEPS) OF R11.82

down 66%

due to 42% reduction in iron ore prices

No dividends

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 2015. The board of directors confirm that they have collectively reviewed the content of this report and approved it at its meeting on 10 March 2016, for presentation to shareholders at the next annual general meeting on 13 May 2016. The Annual Financial Statements 2015 have been prepared under the supervision of FT Kotzee CA(SA), Chief financial officer.

CONTENTS

FINANCIAL REVIEW

Frikkie Kotzee
Chief financial officer

Kumba's full year results reflect the very challenging market conditions that we have been facing. The unprecedented 42% fall in the realised FOB iron ore price – averaging US$53/tonne in 2015 – contributed to a 24 % reduction in revenue to R36 billion. Operating profit was 86% lower than in 2014, a key contributor being the impairment of R6 billion that we recorded for Sishen. Excluding the impairment, the operating profit was 56% lower than 2014, at R8.6 billion. The impairment review of Sishen was impacted mostly by the medium-term outlook on iron ore prices and was based on the recently revised mine plan. Adjusting for tax and non-controlling interests, the impact on basic earnings was R3.4 billion. Headline earnings per share decreased by 66% to R11.82.

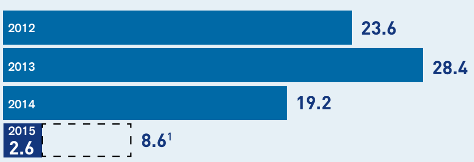
The initiatives put in place since early 2015 to lower the cost base have started to show significant results. Kumba ended the year with a net debt position of R4.6 billion, an improvement of 42%. Excluding impairments, operating expenses were 2% lower than last year as strong measures were taken to contain all costs, including improved labour productivity from headcount reductions and overhead cost savings from reduced support services and project related study costs. Capital expenditure was down 20% to R6.8 billion. Dividends were suspended in 2015.

FINANCIAL OVERVIEW

Rand million	31 Dec 2015	31 Dec 2014	% change	31 Dec 2013	31 Dec 2012
Revenue	**36,138**	47,597	(24)	54,461	45,446
Operating expenses (excluding impairments)	**(27,516)**	(27,966)	(2)	(26,076)	(21,800)
Operating expenses (excluding royalty and deferred stripping costs)	**(30,177)**	(28,628)	5	(24,742)	(21,191)
Mineral royalty	**(191)**	(1,176)	(84)	(2,157)	(1,127)
Deferred stripping capitalised	**2,852**	1,838	55	823	518
Operating profit excluding impairments	**8,622**	19,631	(56)	28,385	23,646
Impairments	**(5,978)**	(439)	–	–	–
Operating profit including impairments	**2,644**	19,192	(86)	28,385	23,646
Operating margin (%) (excluding impairments)	**24**	41		52	52
Profit attributable to:	**627**	14,148	(96)	20,300	16,455
Equity holders of Kumba	**469**	10,724	(96)	15,446	12,486
Non-controlling interest	**158**	3,424	(95)	4,854	3,969
Headline earnings	**3,792**	11,006	(66)	15,443	12,472
Effective tax rate (%)	**69**	25		28	25
Cash generated from operations	**13,841**	21,769	(36)	29,354	24,688
Capital expenditure	**6,752**	8,477	(20)	6,453	5,917
Net debt/(cash)	**4,604**	7,929	(42)	1,796	4,342
Equity	**25,167**	27,001	(7)	27,184	19,664

Operating profit including impairment
Rand billion

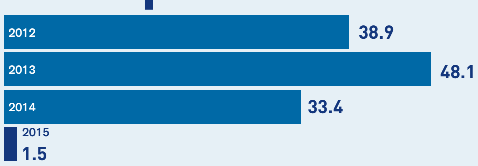
R2.6 billion



[1] Excluding Sishen impairment

Earnings per share
Rand per share

R1.5 per share



PERFORMANCE SUMMARY

Significantly lower average FOB **iron ore prices** achieved - US$53/tonne

Operating expenses rose by 18% to R33.5 billion from R28.4 billion principally as a result of a R6 billion impairment charge related to Sishen mine. Excluding the impairment, operating cost decreased by 2% as a result of the stringent cash preservation measures implemented. The main drivers of the movement in cost were:

- Higher non-cash depreciation and rehabilitation expenses of R1.2 billion
- Inflationary linked input cost pressure of R220 million
- Draw down of stock, which added R1.8 billion
- Lower mining volumes at Thabazimbi, which resulted in savings of R1.1 billion
- R1 billion higher waste stripping deferred to the balance sheet
- R958 million increase in selling and distribution costs caused by an 8% increase in shipped tonnes
- R544 million lower freight costs due to lower freight rates

Operating profit of R8.6 billion (excluding the impairment) decreased by 56% (2014: R19.6 billion). Kumba's operating profit margin decreased to 24% (2014: 41%), 27% from mining activities (2014: 46%). The fall in iron ore prices outlined previously impacted profitability.

- Deferred tax asset of R801 million derecognised
- Normalised earnings of R13.02 per share down 62%
- No dividends

Net debt position of R4.6 billion, R3.3 billion lower than 2014, due to cash cost savings, reduced capex and no dividends

Ensuring prudent **capital management**

- Significant capital reductions
- Driving operational efficiencies and targeting large operating expenditure savings
- Restructuring operations
- No dividends

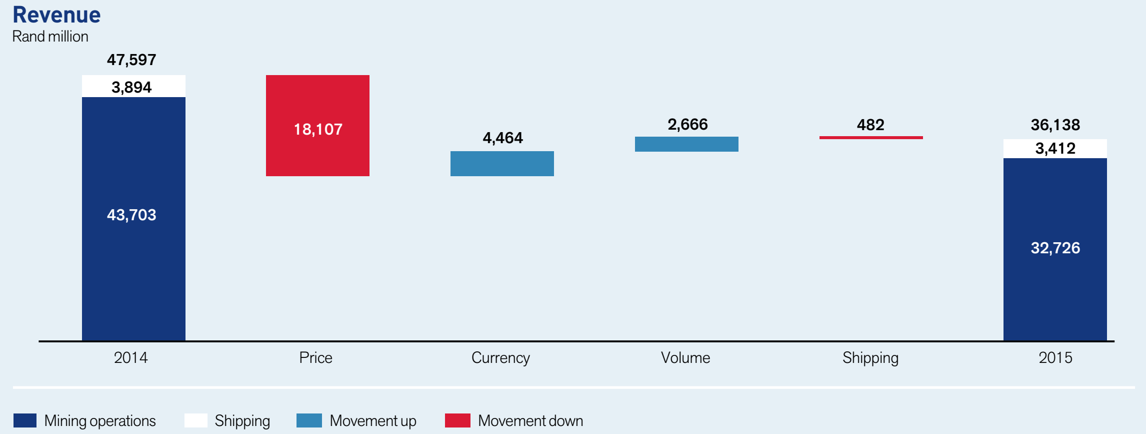
REVENUE

The group's total revenue of R36.1 billion (R33 billion from mining and R3 billion from shipping operations) was 24% down on 2014 revenue (R47.6 billion). This was mainly due to the 42% decline in average realised FOB export prices, which reduced revenue by R18 billion year-on-year. This was partially offset by an 18% weaker Rand against the US Dollar, raising revenue by R4.5 billion, and by the 2.5Mt increase in sales which lifted revenue by a further R2.7 billion.

Export sales of 43.5Mt were 3Mt higher than 2014, boosted by sales from stock and a good performance by Transnet. Export sales to China accounted for 63% of the Company's total exports, up from 57% in 2014. Exports to Japan and South Korea remained at around 20% of the total, while India and the rest of Asia dropped to 7%, down from 12% in 2014. Sales to Europe and MENA remained at 10% of total sales during the year.

Domestic sales of 4.3Mt were 0.5Mt lower than 2014, as a result of reduced ArcelorMittal off-take from Sishen, and at an average price of around R727/tonne. The two companies have reached agreement to amend the supply contract from that of cost based price to pricing based on export parity prices.

FINANCIAL REVIEW continued



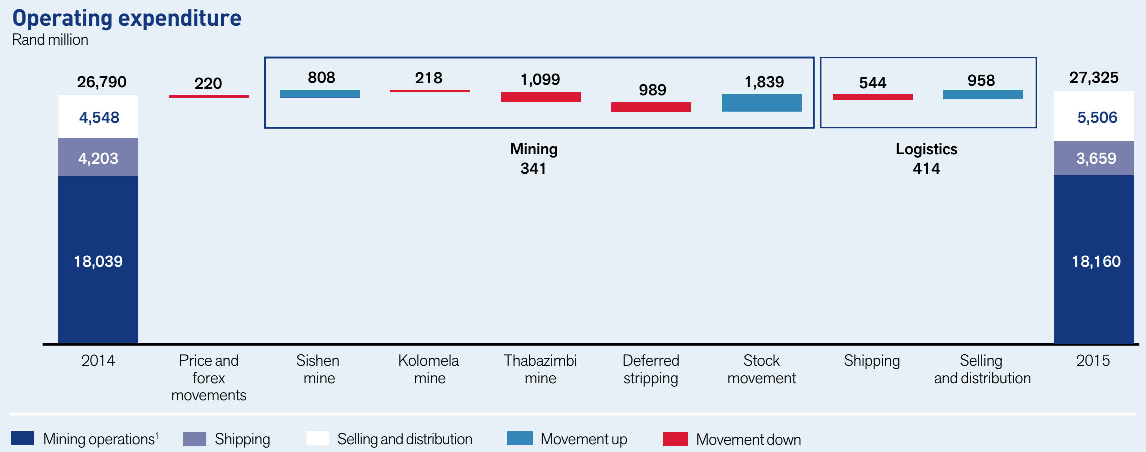
OPERATING EXPENDITURE

It is pleasing to report that the cost containment measures are continuing to show positive results. Mining costs were down 3% in real terms aided by lower fuel prices, headcount reductions and overhead cost savings.

Cost movements were driven principally by inflationary-linked input cost pressure of R220 million, higher non-cash cost items in the form of depreciation and rehabilitation costs of R1.2 billion, and the draw down on stock that added R1.8 billion. These were offset by R1 billion higher waste stripping costs deferred to the balance sheet, mainly at Sishen where the stripping ratio rose to 5.7 from 4.4 in 2014 (compared to the historic life of mine stripping ratio of 3.9). This was partially offset by Kolomela where the stripping ratio dropped to 3.1, down from 3.7 in 2014. R1.1 billion of the cost variance resulted from lower mining volumes at Thabazimbi.

An 8% increase in shipped tonnes, together with a normal contractual tariff increase, resulted in R958 million higher selling and distribution costs. The freight costs declined by R544 million, with falling demand and oversupply of vessels pushing main sea freight prices to all-time lows. No penalties were recorded in 2015 on contractual rail and port volumes.

On-mine and overhead costs are anticipated to reduce the cash breakeven price in 2016 by between US$2/tonne and US$4/tonne as a result of the restructuring at the operations, as the Operating Model is implemented at the mining and plant operations, and the workforce is reduced.



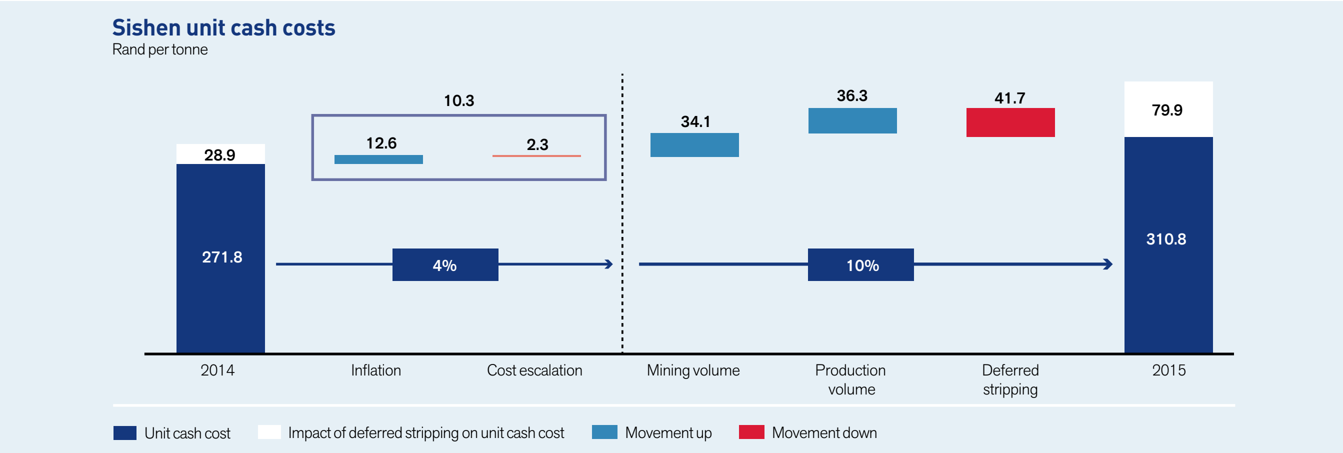
[1] Excluding mineral royalty and impairment charge.

UNIT CASH COSTS

Sishen mine

Despite the lower production, the cost escalation at Sishen mine was contained below inflation at 4%. Sishen's unit cash cost of R311/tonne was R39/tonne higher than in 2014, mostly as a result of 4.1Mt lower production volumes that added R36/tonne. Input cost pressures added R10/tonne, while higher mining volumes added R34/tonne. The impact of the higher stripping ratio on deferred stripping was R42/tonne. In 2015, the incremental cost per mining tonne declined to R28/tonne. This was 8% down year-on-year in real terms on the back of improved labour productivity, lower fuel prices and overhead cost savings. In US Dollar terms, mining cost per tonne decreased by 3% as productivity initiatives continue to pay off.

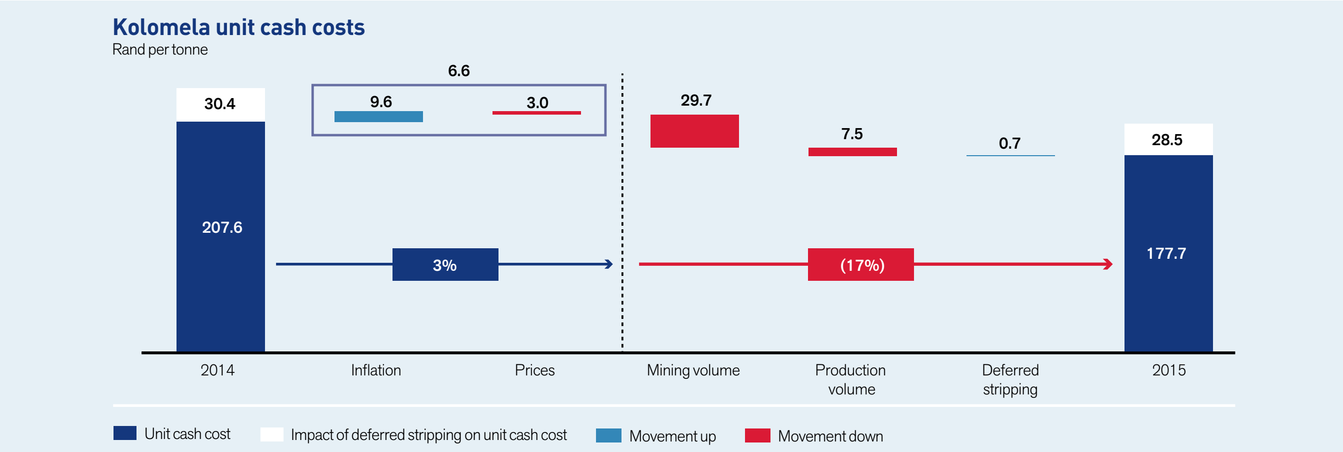
In 2016, Sishen's unit cash cost, net of capitalisation of deferred stripping cost, is anticipated to range between R300/tonne and R305/tonne. Looking to the year ahead, we expect to see a benefit from the reduction in oil prices, the weaker Rand/Dollar exchange rate, sustainable cost savings and the effects of the Operating Model.



Kolomela mine

At Kolomela increased production and waste optimisation were responsible for an exceptional unit cost performance. The mine contained cost escalation at 3%, well below inflation, aided by lower fuel prices. Unit cash costs amounted to R178/tonne, a reduction of R30/tonne (14%) on 2014. While cost escalation added R6.6/tonne, lower waste mining decreased unit costs by R30/tonne as a consequence of mining ceased at the third pit. This was further aided by increased production volumes of around R8/tonne.

Looking to the year ahead, Kolomela cash unit cost, net of capitalisation of deferred stripping cost, is anticipated to range between R200/tonne and R210/tonne. This increase on 2015 is mainly a result of increased life cycle maintenance costs, as the fleet reaches six years in operation.



FINANCIAL REVIEW continued

TAXATION – LETTER OF FINDINGS

As at 30 June 2015, the group advised that the South African Revenue Services (SARS) were in the process of reviewing certain of the group's tax matters. After the half year, SARS issued the group with a letter of findings relating to its tax audit covering the period 2006 to 2010, indicating potential adjustments to the group's taxable income for the period. As at 31 December 2015 the group had responded to the letter of findings, strongly objecting to the basis for the proposed adjustments, including representations on why interest and penalties, if any, should not be raised.

On 29 February 2016, the group announced the receipt of a tax assessment from SARS in respect of the letter of findings referred to above, relating to SIOC's overseas sales and marketing businesses, covering the period 2006 to 2010, for the amount of R5.5 billion. This includes interest and penalties of R3.7 billion.

The group has considered these matters in consultation with specialist external tax and legal advisors and disagrees with SARS' audit findings. The group is therefore in the process of preparing an objection to the assessment, and has submitted an application to the Commissioner of SARS for a suspension of payment until the matter is resolved.

Furthermore, during 2015 SARS notified the group of its intention to conduct a field audit covering the 2011 to 2013 years of assessment, which is in progress.

The group believes that all the above matters have been appropriately treated in the financial statements for the year ended 31 December 2015.

CAPITAL EXPENDITURE

Kumba spent R6.8 billion on capital in 2015. This included expansion capex of R0.9 billion (mainly on the Dingleton relocation project), R3 billion on stay-in-business (SIB) activities such as heavy mining equipment and infrastructure, and R2.9 billion on deferred stripping.

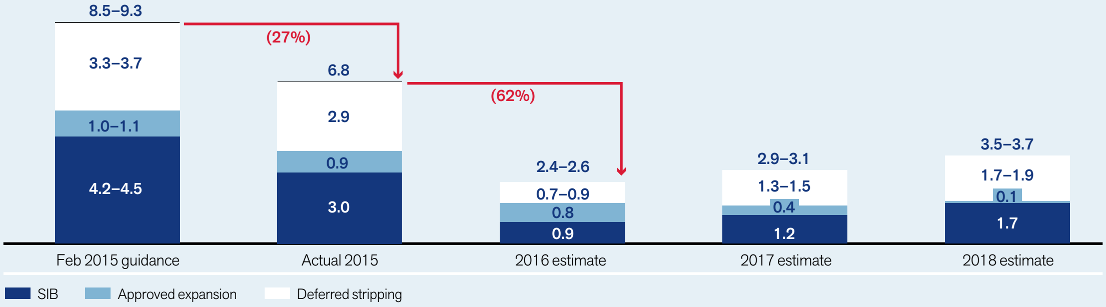
Given the current pricing environment, the group has reduced capital expenditure guidance (including deferred stripping) for 2016 and 2017 from what was previously guided. We have optimised our project portfolio resulting in the deferral of some of the capital spend to later years. We expect capital expenditure (including deferred stripping) for 2016 to be in the range of R2.4 billion to R2.6 billion, for 2017 to be between R2.9 billion and R3.1 billion, and for 2018 to be between R3.5 billion to R3.7 billion (excluding estimated unapproved expansion projects). The expansion capex for 2016 to 2018 is for approved projects and will include mainly the Dingleton relocation project. The relocation of residents is expected to be completed in 2016.

Deferred stripping capital expenditure per mine estimates are shown in the table below. The deferred stripping at Sishen will decrease materially from R2.5 billion in 2015 to around R470 million in 2016, as the new plan targets low strip areas, and optimisation of the pushback areas reduces the stripping ratio. After 2016 this will increase again as different areas of the pit will be mined. The capex guidance will be revised once pit layouts are optimised.

DEFERRED STRIPPING

		(unaudited)		
Rand million	**2015**	2016	2017	2018
Sishen	**2,508**	400 – 500	1,050 – 1,150	1,600 – 1,700
Kolomela	**344**	300 – 400	250 – 350	100 – 200
Total	**2,852**	**700 – 900**	**1,300 – 1,500**	**1,700 – 1,900**

Capital expenditure
Rand billion



Totals exclude unapproved capex of: 2016: R0.1 billion; 2017: R0.2 billion; 2018: R0.2 billion

CASH FLOW

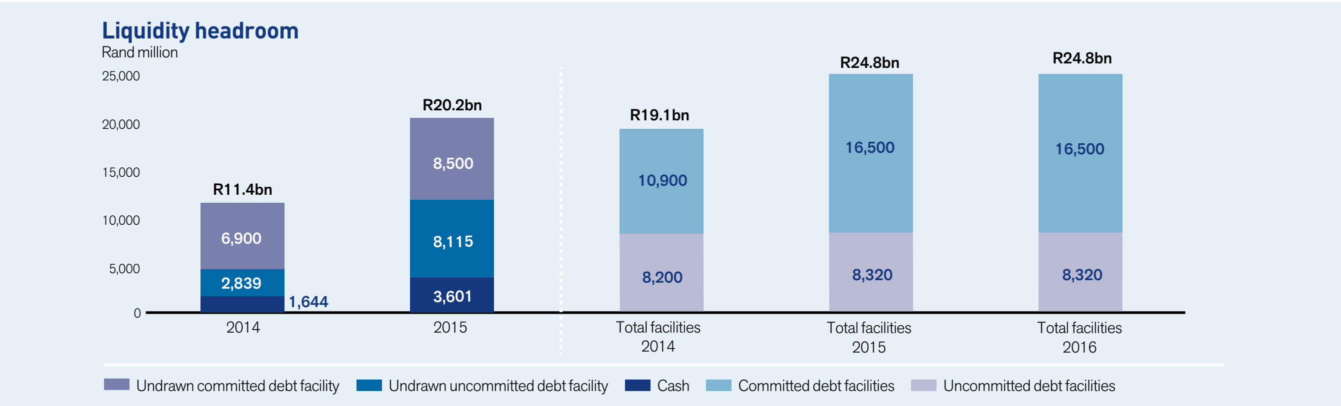
This year, cash generated amounted to R13.8 billion, 36% lower than in 2014 (R21.8 billion). The cash was used to pay the 2014 final dividend of R3.3 billion (2014: R15.2 billion), income tax of R0.6 billion (2014: R4.2 billion) and mineral royalties of R0.4 billion (2014: R1.3 billion).

NET DEBT AND LIQUIDITY

During the year Kumba continued to make significant progress in strengthening the balance sheet. The group ended 2015 with net debt of R4.6 billion, 42% down from 2014. Despite the lower profitability, the net debt to EBITDA ratio is stable. This is attributable to the stringent cost and capital management undertaken during the year. The balance sheet continues to strengthen, with net debt at the end of January 2016 under R4 billion. Total committed facilities are R16.5 billion and mature in 2020. Net financial guarantees issued in favour of the DMR in respect of environmental closure liabilities are R1.9 billion. As a result of the annual revision of closure costs a further shortfall of R861 million arose (of which R318 million is recoverable from ArcelorMittal SA). Guarantees will be issued in due course.

Kumba has met its debt facilities covenant requirements at 31 December 2015. Covenant headroom is being carefully monitored given the pressure on iron ore prices. Gearing is highly sensitive to certain uncontrollable market factors especially the iron ore price, exchange rates and freight rates. A R1 change to the ZAR/US$ exchange rate impacts the targeted breakeven price by US$3/tonne. At current favourable freight and exchange rates, in conjunction with the cash preservation strategy, the balance sheet should continue to strengthen.

SHAREHOLDER RETURNS



FINANCIAL REVIEW continued

Kumba's share price declined significantly during the year from R240 at 31 December 2014 to R41 at 31 December 2015. The share price history since listing is presented below. Given the operating context, dividends were suspended.

CHANGE IN ESTIMATES

The measurement of the environmental rehabilitation and decommissioning provisions are 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 these estimates.

The life of mine (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. Sishen's rehabilitation provision increased by R305 million and Kolomela's by R23 million in 2015. This increase relates mainly to changes in the LoM of Sishen and Kolomela, normal inflationary adjustments as well as the incorporation of waste dump and infrastructure growth. Thabazimbi's rehabilitation provision increased by R288 million in 2015. R114 million relates to a reduction in the LoM from 2023 to 2016 as a result of the closure decision.

The effect of the change in estimate, which was applied prospectively from 1 January 2015, is detailed below:

CHANGE IN ESTIMATES

Rand million	Audited 31 December 2015
Increase in environmental rehabilitation provision	616
Increase in decommissioning provision	66
Decrease in profit attributable to the owners of Kumba	342
Rand per share	
Decrease in earnings per share attributable to the owners of Kumba	1.06

The change in estimate in the decommissioning provision has been capitalised to the related property, plant and equipment and as a result had no effect on profit or earnings per share.

IMPAIRMENT OF ASSETS

Kumba produces iron ore at Sishen and Kolomela mines in the Northern Cape province. The two mines are treated as separate cash-generating units (CGUs). Each CGU consists of its respective mining assets located in the Northern Cape. Given the low iron ore price environment, as well as supply and demand pressure, an impairment test was performed. This was based on the fair value less costs of disposal of the CGU. The carrying value of Kolomela is recoverable and therefore no impairment charge was recorded. The valuation of Sishen at 31 December 2015, determined on a discounted cash flow (DCF) basis, is R20.5 billion. Consequently an impairment charge of R6 billion (before tax) was recorded against the carrying value of Sishen with an associated deferred tax credit of R1.7 billion. The post-tax impairment charge is R4.3 billion.

The valuation is sensitive to the iron ore price and further deterioration in the long-term price outlook, may result in additional impairment. The DCF model is most sensitive to forecasted iron ore prices and the ZAR/US$ exchange rate. The table below sets out the impact of an increase or decrease of 5% in the forecasted iron ore price and ZAR/US$ exchange rate assumptions on profit or loss.

IMPAIRMENT OF ASSETS

Rand billion	+5%	-5%
Assumption	Increase/(decrease) in operating profit or loss	Increase/(decrease) in operating profit or loss
Forecasted iron ore prices	5.5	(5.7)
ZAR/US$ exchange rate	5.8	(6.0)

THE OUTLOOK REMAINS CHALLENGING

Whilst significant progress has been made to protect the balance sheet, the group is undertaking further actions to conserve cash to ensure that Kumba is robust enough to withstand a longer period of low prices. For 2016, we are targeting a decrease in cash breakeven price to below US$40/tonne. We expect to reduce controllable costs by US$10/tonne from the 2015 average cash breakeven price of US$49/tonne, through a strong focus on operational delivery, and doing well at the things that we can control. There are of course uncontrollable items – such as the lump premium, freight rates, oil price and currency – each of which has a significant impact on our breakeven price. While we hope that these will be favourable in 2016, we cannot base our business on this being the case.

The successful reconfiguration of the operations and maintaining the integrity of our balance sheet are priorities and our focus is to ensure that we can deleverage the balance sheet even further, so that Kumba is robust enough to withstand a longer period of lower prices.

On 16 February 2016, Anglo American plc announced its intention to exit its 69.7% shareholding in Kumba, at the appropriate time and in an orderly and responsible manner. Anglo American plc and Kumba will work together to evaluate options for the exit and how the business can be set up as a standalone entity that will create sustainable value for its stakeholders.

I would like to conclude by thanking all my colleagues in the finance team for their support during this particularly difficult year. Now that we have taken the tough and painful decisions required to adapt our operations to the low-price operating environment, our task in 2016 is to ensure that these decisions and plans are implemented and well executed.

Frikkie Kotzee
Chief financial officer

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

for the year ended 31 December 2015

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 71 of 2008 South Africa and the Listings Requirements of the JSE Limited, which include amounts based on judgements and estimates made by management.

The annual financial statements, set out on pages 31 to 100, 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 financial statements comprise the balance sheets at 31 December 2015; 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 remuneration report.

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

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

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

The independent auditors are responsible for reporting on whether the group annual financial statements and the Company annual financial statements are fairly presented in accordance with the applicable financial reporting framework. The independent auditor's report to the shareholders of the group and Kumba is set out on page 30 of this report.

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

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

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

APPROVAL OF GROUP ANNUAL FINANCIAL STATEMENTS AND ANNUAL FINANCIAL STATEMENTS

The group annual financial statements on pages 31 to 83 and 91 to 100 and the Company annual financial statements on pages 84 to 90 of Kumba Iron Ore Limited were approved by the Kumba board of directors on 5 February 2016 and will be presented to the shareholders at the annual general meeting on 13 May 2016. The group and Company annual financial statements are signed on the directors' behalf by:

F Titi
Chairman
5 February 2016

NB Mbazima
Chief executive

CERTIFICATE OF THE COMPANY SECRETARY

for the year ended 31 December 2015

I, A Parboosing, in my capacity as Company secretary, confirm that, for the year ended 31 December 2015, 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 of South Africa, and that all such returns and notices are true, correct and up to date.

A Parboosing
Company secretary
5 February 2016

DIRECTORS' REPORT

for the year ended 31 December 2015

The directors have pleasure in presenting the annual financial statements of Kumba Iron Ore Limited and the group for the year ended 31 December 2015.

NATURE OF BUSINESS

Kumba was incorporated in South Africa on 16 May 2005 and commenced trading in November 2006 following the unbundling of Kumba from Exxaro Resources Limited (previously Kumba Resources Limited). Subsequent to unbundling Kumba listed on the JSE Limited (JSE) on 20 November 2006, and since then remain 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, 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. A decision was taken in 2015 to close Thabazimbi mine.

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 Listing Requirements throughout the year under review. The corporate governance report is set out on pages 79 to 87 of the Integrated Report 2015.

FINANCIAL RESULTS

The financial statements on pages 31 to 101 set out fully the financial position, results of operations and cash flows of the group and Company for the financial year ended 31 December 2015. 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	2015	2014	% Decrease
Revenue	**36,138**	47,597	24
Operating profit	**2,644**	19,192	86
Cash generated from operations (excluding mineral royalties paid)	**14,196**	23,028	38

The group's total revenue of R36.1 billion for the period decreased 24% from R47.6 billion in 2014, mainly as a result of the significant drop in average realised FOB iron ore prices (2015: US$53/tonne; 2014: US$91/tonne) offset to an extent by the weaker average ZAR/US$ exchange rate (2015: R12.76; 2014: R10.83), as well as 6% higher total sales volumes of 47.8Mt. Capesize freight rates from Saldanha to China averaged US$8/tonne for the year, down 45%, resulting in R482 million lower freight revenue.

Operating expenses, excluding impairments, were 2% lower as a result of the stringent cash preservation measures implemented. Inflation linked input cost pressure, higher non- cash cost items (depreciation and rehabilitation) and increased distribution costs from the multi-purpose terminal (MPT) at Saldanha throughput pushed operating expenses higher. This was offset by labour and overhead cost savings, lower fuel prices and freight rates, lower mineral royalties on the back of reduced profitability, and higher capitalisation of deferred stripping costs.

The reconfiguration of the Sishen pit to a lower cost shell, together with the significant impact of the weaker iron ore price outlook, has resulted in an impairment charge relating to Sishen mine of R6 billion (pre-tax).

Unit cash costs at Sishen mine were R311/tonne, 14% higher than the R272/tonne of 2014, mainly driven by the 19% increase in waste mined. Lower production volumes added R36/tonne. Input cost pressures (R10/tonne), higher mining volumes (R34/tonne) and buffer stock utilisation (R23/tonne) were partially offset by overhead cost savings (R11/tonne) and deferred stripping (R42/tonne). Cost escalation was contained below inflation principally as a result of lower fuel prices. Going forward, the revised mining plan is expected to benefit unit cost through the reduction in mining volumes. Further benefits are expected from the reduction in oil prices, increasing productivity and the benefits of the Operating Model.

Kolomela mine incurred unit cash costs of R178/tonne (2014: R208/tonne), a 14% decrease. Lower mining volumes (R30/tonne) and higher production (R7/tonne) were the main contributors. Cost escalation was contained well below inflation at 3% (R7/tonne) mainly as a result of lower diesel prices and cost of blasting material. This was partially offset by higher mining contractor rates as a result of increased travelling distances.

Operating profit of R8.6 billion (excluding the impairment of R6 billion) decreased by 56% (2014: R19.6 billion). Kumba's operating profit margin decreased to 24% (2014: 41%), with a mining margin of 27% (2014: 45%). The fall in iron ore prices outlined previously impacted profitability.

The group's cash generated from operations (excluding mineral royalties paid) was down 38% from R23 billion in 2014 to R14.2 billion. The cash was used to pay the 2014 final dividend of R3.3 billion (2014: R15.2 billion) and income tax of R0.6 billion (2014: R4.2 billion).

FINANCIAL POSITION

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

Rand million	2015	Restated 2014	% Increase/ (decrease)
Property, plant and equipment	**32,671**	35,170	(7)
Working capital (excluding cash and cash equivalents and non-current inventories)	**4,861**	6,271	(22)
Net debt	**4,604**	7,929	(42)
Net asset value per share (R)	**59.98**	64.47	(7)

Property, plant and equipment

Capital expenditure of R6.8 billion was incurred. Expansion capex of R0.9 billion focused on the Dingleton relocation project and R3 billion on stay-in-business (SIB) activities (including heavy mining equipment and infrastructure) and R2.9 billion deferred stripping. In light of the current pricing environment, the group has reduced capital expenditure guidance (including deferred stripping) for 2016 and 2017 from what was previously guided, and optimised the project portfolio resulting in the deferral of some of the capital spend to later years.

Working capital

The group's working capital position remains healthy, although impacted by a decrease of R2.2 billion in trade and other receivables on the back of lower realised prices.

Net debt

At 31 December 2015 the group had a net debt position of R4.6 billion (2014: R7.9 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 2015. None had a material impact on the group.

Inventory reclassification

The group reassessed the nature of its work-in-progress inventories. Previously all work-in-progress inventory balances were classified as current. After the reassessment, it was concluded that not all work-in-progress inventory will be processed within the next year. Work-in-progress inventory balances which will not be processed within the next year are reclassified to non-current. This reassessment was applied retrospectively and as a result, comparative figures were reclassified.

DIRECTORS' REPORT continued

for the year ended 31 December 2015

SHARE CAPITAL

Authorised capital

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

Share movements

Rand million	2015	2014
Balance at beginning of year net of treasury shares	(311)	(297)
Shares issued to employees under employee share incentive schemes	180	(14)
Share capital and share premium	**(131)**	(311)

The group acquired none (2014: 299 600) of its own shares through purchases on the JSE during the year.

Unissued shares

The directors are authorised to issue unissued shares until the next annual general meeting. Shareholders will be asked to extend the authority of the directors to control the unissued shares of the Company at the forthcoming annual general meeting, up to a maximum of 10% of the issued capital.

DIVIDENDS

In line with the group's cash preservation strategy, the board has decided to maintain its suspension of the dividend.

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 21 to 29, 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 2015.

HOLDING COMPANY AND RELATED PARTIES

Anglo American plc 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 (2014: 69.72%).

The analysis of ordinary shareholders is given on pages 101 to 103.

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 2015. 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 LIABILITIES AND GUARANTEES

Contingent liability

a) As at 30 June 2015, the group advised that the South African Revenue Services (SARS) were in the process of reviewing certain of the group's tax matters. After the half year SARS issued the group with a letter of findings relating to its tax audit covering the period 2006 to 2010, indicating potential adjustments to the group's taxable income for the period of R6.5 billion which would, if Kumba is finally assessed on this basis, result in additional tax of approximately R1.8 billion excluding any potential interest and penalties. As at 31 December 2015 the group has responded to the letter of findings, strongly objecting to the basis for the proposed adjustments, including representations on why interest and penalties, if any, should not be raised. The group is awaiting SARS' response. These matters have been considered in consultation with external tax and legal advisors, who support the group's position set out in its objection. Furthermore, during 2015 SARS notified the group of its intention to conduct a field audit covering the 2011 to 2013 years of assessment, which is in progress. The group believes that these matters have been appropriately treated in the results for the year ended 31 December 2015.

b) Rates and taxes levied by the municipality at Sishen effective from 1 June 2014 reflected a significant increase amounting to R437 million. Management objected to the higher valuation of the relevant land and the municipality appointed a valuator who is reviewing the objections lodged. Management is of the view that the municipal valuation is fundamentally flawed and acknowledges its obligation for rates and taxes based on a reasonable valuation.

Guarantees

The group has issued financial guarantees in favour of the Department of Mineral Resources (DMR) in respect of its environmental rehabilitation and decommissioning obligations to the value of R2,3 billion (2014: R2.3 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 (2014: R438 million). ArcelorMittal SA has guaranteed R429 million of this amount by means of bank guarantees issued in favour of Sishen Iron Ore Company Proprietary Limited (SIOC). As a result of the annual revision of closure costs a further shortfall of R861 million arose. Guarantees for the shortfall will be issued in due course.

REGULATORY UPDATE

21.4% undivided share of the Sishen mine mineral rights

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 Mineral and Petroleum Resources Development Act (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. SIOC applied for the residual right early in 2014.

SIOC received notice from the Department of Mineral Resources (DMR) that the Director General of the DMR had consented to the amendment of SIOC's existing mining right in respect of the Sishen mine, by the inclusion of the residual 21.4% undivided share of the mining right for the Sishen mine subject to certain conditions which are described by the DMR as "proposals". The conditions contained in the Letter of Grant relate substantively to domestic supply, support for skills development, research and development, and procurement.

SIOC believes that the MPRDA does not provide for the imposition of such conditions as contained in the consent letter, and further that certain of the conditions, described as "proposals", are not practically implementable and lack sufficient detail to provide the Company with legal certainty as to the requirements for compliance. SIOC therefore believes that the proposals are incapable of being unilaterally complied with. The most significant of these proposals include the reversion to the lapsed 2001 cost based supply agreement with ArcelorMittal SA, as well as the establishment of a supplier park to provide the mining industry with a significant portion of its capital goods in support of local procurement.

Until the legal and practical implications of the proposed conditions have been clarified with the DMR, SIOC is unable to accept the conditions.

Section 96 of the MPRDA allows for an internal appeal to the Minister of Mineral Resources. SIOC therefore submitted an internal appeal to the Minister, setting out the basis of its objections to the proposals, as required by the MPRDA. SIOC has not yet received a response to its appeal.

In the interim, SIOC continues to engage with the DMR in relation to the proposed conditions in order to achieve a mutually acceptable solution.

DIRECTORS' REPORT continued
for the year ended 31 December 2015

COMPANY SECRETARY

The Company secretary of Kumba is A Parboosing. The contact details of the Company secretary are set out on page 104. Refer to page 86 of the Integrated Report 2015 for further information.

DIRECTORS

The names of the directors in office during the year and at the date of this report are set out on pages 14 to 15 of the Integrated Report 2015. 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 21 to 29.

PRESCRIBED OFFICERS

The names of the prescribed officers during the year and at the date of this report are set out on pages 16 to 17 of the Integrated Report 2015. The remuneration and fees of the prescribed officers are set out in the detailed remuneration report on pages 21 to 29. Timo Smit is a prescribed officer of Kumba as a member of Exco, however he was employed by Anglo American Luxembourg SARL until 31 July 2015. From 1 August 2015 Timo is employed by Kumba Singapore Pte and emoluments are shown from 1 August 2015 and paid in Singapore Dollars.

AUDITORS

Deloitte & Touche continued in office as auditors of Kumba and its subsidiaries. At the annual general meeting on 13 May 2016, shareholders will be requested to re-appoint Deloitte & Touche as auditors of Kumba for the 2016 financial year.

SPECIAL RESOLUTION

On 8 May 2015 the shareholders of Kumba resolved the following:

(1) The Company and any of its subsidiaries may from time to time be authorised to acquire the Company's own shares subject to the articles of association of the Company, the provisions of the Companies Act 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 (MoI), the Companies Act, 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.

(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 eleventh annual general meeting of the Company in 2017.

(4) The directors are authorised by way of a general authority (limited to 10% of issued share capital), to issue the authorised but unissued ordinary shares of one cent each in the capital of the Company for cash, as and when suitable opportunities arise, subject to the MoI of the Company, 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 2015

INTRODUCTION

The Committee is pleased to present its report for the financial year ended 31 December 2015 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 shareholders, as well as a committee of the Board.

The Committee has terms of reference in place, which include both its statutory duties and those assigned to it by the board. The terms of reference were reviewed and updated in November 2015, taking into account material changes to the JSE Listings Requirements, during the year under review.

PURPOSE

The mandate of the committee is as follows:

- Reporting on the effectiveness of the system of internal controls
- Monitoring the integrity of the group's integrated reporting and taking regard of all factors and risks that may impact on the reporting
- Nominating external auditors annually for appointment by the shareholders
- Implementing and monitoring a policy on the engagement of the external auditors to supply non-audit services
- Monitoring and reviewing the effectiveness of the group's internal audit function
- Reviewing the expertise, appropriateness and experience of the finance function annually
- Annually satisfying itself of the appropriateness of expertise and experience of the Chief financial officer
- Ensuring that a combined assurance model is applied to ensure the completeness of assurance activities in addressing key risks and 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 2015, 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 14 to 15 of the Integrated Report 2015. 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 2015 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 manager, Compliance officer and heads 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.

REPORT OF THE AUDIT COMMITTEE continued

for the year ended 31 December 2015

FREQUENCY AND ATTENDANCE OF AUDIT COMMITTEE MEETINGS continued

During the year under review the Committee met five times. An additional special meeting was held to focus on material issues that required specific deliberation. Attendance at meetings held during the year is presented in the following table.

Member	4 February 2015	7 May 2015	15 July 2015	28 September 2015	6 November 2015	Number of meetings: 5
ZBM Bassa	√	√	√	√	√	5/5
DD Mokgatle	√	√	√	A	√	4/5
AJ Morgan	√	√	√	√	√	5/5
LM Nyhonyha	√	√	√	√	√	5/5

√ 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:

- 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
- Providing a written report on the assessment of the internal control environment
- Providing written, positive assurance on internal financial controls
- Evaluating ethics management including whistle-blowing via Tip-Offs Anonymous

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 2015

During the financial year ending 31 December 2015, 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 2016 AGM
- Considered and approved the terms of the engagement and the audit fee payable to the external auditors for the year ended 31 December 2015
- 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 2015. 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 2015 and is satisfied that the sustainability information is reliable and consistent with the information contained in the Annual Financial Statements 2015

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 judgements 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, the revised delegation of authority framework and the Committees' terms of reference
- Reviewed and recommended the group and Company liquidity and solvency analyses, funding strategies, compliance with debt covenants, going concern assessments, dividend policy and the interim and final dividends
- 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 risk

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.

REPORT OF THE AUDIT COMMITTEE continued

for the year ended 31 December 2015

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 16 of the Integrated Report 2015) 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 16 of their report.

ANNUAL FINANCIAL STATEMENTS

The Audit Committee has evaluated the group and Company Annual Financial Statements for the year ended 31 December 2015 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 REPORT

The Committee fulfils an oversight role regarding the group's integrated report and its reporting processes and, having regard to material factors that may impact on the integrity of the information, has recommended the Integrated Report 2015 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
5 February 2016

REMUNERATION REPORT

KEY FEATURES

During 2015, the following are some of the key developments and activities of the Human Resources and Remuneration Committee (Remco):

Changes to the membership of Remco:

- After serving as a non-executive director for nine years, Mr Gert Gouws ceased to be a member of Remco with effect from 8 May 2015
- Mr Litha Nyhonyha, who is chairperson of the Risk Committee and a member of the Audit Committee, was appointed as a member of Remco with effect from 17 July 2015
- Ms Zarina Bassa, who is chairperson of the Audit Committee and a member of the Risk Committee, was appointed as a member of Remco with effect from 17 July 2015

Key management changes during 2015 included:

- Mr Andrew Loots, Executive head of operations, left the employ of the Company on 30 September 2015 after 25 years of service with Anglo American plc.
- Mr Billy Mawasha, the Executive head of technical and projects was appointed as acting Executive head of operations with effect from 1 October 2015 until 31 January 2016 whilst a replacement was being sourced. Mr Mawasha was subsequently transferred to the position of Executive head of operations and integration with effect from 1 February 2016.
- Mr Glen Mc Gavigan was appointed as acting Executive head of technical and projects with effect from 1 October 2015. Mr Mc Gavigan also now serves on the Executive Committee of the Company

The volatile iron ore market and consequent deterioration of the Company's share price has had a significant negative impact on the Envision employee share ownership plan. Dividend payments totalling R37.4 million before tax were made during March 2015 from the final 2014 dividend received from SOIC. As a result of the fall in the Kumba share price, the unit value also fell to zero since March 2015 and has remained there until year-end.

The Remco also took the following key decisions during 2015:

- Approved changes for the Bonus Share Plan (BSP), in that employees in band 6 will be awarded cash in place of shares. Cash is deferred for one year while shares are deferred for three years (and five years for the Chief executive)
- Due to tough operating conditions, approved a 2016 salary freeze for executives and employees in senior management categories
- Reviewed and approved the 2014 performance assessments and performance incentive payments for the Chief executive and prescribed officers
- Approved the 2015 performance conditions for LTIP
- Approved 2015 performance contracts of the Chief executive, the Chief financial officer as well as all prescribed officers
- Reviewed and approved the 2015 share allocation awards under the BSP and long-term incentive plan (LTIP) for the Chief executive, the Chief financial officer and applicable employee categories
- Considered recommendations by management in relation to non-executive director remuneration for final recommendation by the board to shareholders
- Reviewed and approved the succession plan strategy for executive directors and other senior executives of the Company
- Reviewed the remuneration disclosure in the integrated report to ensure that it was accurate and transparent and provided sufficient forward looking information for the shareholders to assess the remuneration policy and for passing a resolution in terms of section 66(9) of the Companies Act 71 of 2008
- Oversaw and guided the Thabazimbi closure, specifically in relation to all human resource related issues
- Oversaw and guided the restructuring of the Company's head office and support service functions at Sishen and Kolomela

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

REMUNERATION REPORT continued

OUR REMUNERATION PHILOSOPHY UNDERPINS OUR STRATEGY continued

- 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:

- 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 2015
- 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

Membership of the Remco

The Remco comprises of the following non-executive directors:

- AJ Morgan (Chairman)
- F Titi
- LM Nyhonyha
- ZBM Bassa

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 2015	6 May 2015	14 July 2015	11 November 2015
AJ Morgan (Chairman)	√	√	√	√
GS Gouws	√	√	R	R
F Titi	√	√	√	√
LM Nyhonyha	NA	NA	NA	√
ZBM Bassa	NA	NA	NA	√

√ – Indicates attendance R – Resigned NA – Indicates not appointed

Abridged CVs for the members of the Remco are available on page 14 of the Integrated Report 2015 as well as on the Company website at: www.angloamericankumba.com/about-us/leadership-teams/our-board.

KUMBA'S APPROACH TO REWARD

Elements of remuneration

The table below describes the key elements of the remuneration packages paid to all employees, including executive directors and prescribed officers during the 2015 financial year.

	Strategic intent	Remuneration elements	Pay delivery	Eligibility
Base salary	Attract people with the necessary competencies (knowledge, skill, attitude) to add value to our business Retain competent, high-performing employees who are engaged and demonstrate Company values Ensure that pay is competitive and market related Comply with legislative provisions and negotiated contractual commitments Support high-performing individuals and teams by aligning reward with performance Reinforce and enhance the principle that employees are key assets of our Company	Salary	Monthly	All employees
		Benefits	• Employer contribution to selected retirement funds • Subsidised medical aid • Life and disability insurance • Housing allowances and five-year mortgage subsidy plan	
			• Other allowances	Job specific Scarce skills Transformation

REMUNERATION REPORT continued

KUMBA'S APPROACH TO REWARD continued

Elements of remuneration continued

	Strategic intent	Remuneration elements	Pay delivery	Eligibility
Performance incentives	Aim to align achievement of production, safety and cost targets at operational level Encourage the achievement of stretch targets at Company/ business unit/functional/individual level Align management and shareholder interest Long-term retention	Performance bonus	Cash paid on monthly, quarterly, bi-annual or annual basis, depending on circumstances at each mine	Bargaining unit employees
			(i) Annual cash incentive (ii) Deferred cash bonus with a holding period of one year before vesting	(i) Entry-level management (band 6/12)
			The incentive for managers is delivered in two parts: (i) Annual cash incentive (ii) Deferred bonus shares with a holding period of three to five years (for the Chief executive) before vesting	(i) Senior management and above
Long-term incentives	Retention of skills and achievement of direct alignment with shareholder interest Reward employees for contribution to long-term sustainable Company performance Attract and retain key employees	Long-term Incentive plan (LTIP)	Delivered in conditional shares with specified performance conditions attached	Executive directors
		Forfeitable shares	Delivered in forfeitable shares	Prescribed officers and selected senior managers, excluding executive directors
		Participation in employee share ownership plan (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 that is appropriate to their scope of responsibility and contribution to operating and financial performance, taking into account industry norms and external market and country benchmarks.

The remuneration of executive directors and prescribed officers 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 performance incentive elements 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 28 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; and long-term incentive plans that run over a three-year holding 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 BSP, long-term sustained performance is encouraged.
Eligible participants	Executive directors, prescribed officers and management employees
Elements	There are two elements to the incentive: • An annual cash incentive, linked to performance during the financial year, payable at the end of the relevant financial year • A deferred bonus arrangement in which a proportion of the cash incentive is matched and awarded as: (i) 140% (150% for the Chief executive) of the cash incentive in bonus shares, 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 (only for the Chief executive) holding period before vesting, during which it remains restricted. This is applicable to executive directors, prescribed officers and senior management (ii) 70% of the cash incentive in deferred cash, which is awarded after the end of the relevant financial year. The deferred cash is linked to performance during the financial year in the same manner as the annual cash incentive, and is subject to a one-year holding period before vesting, during which it remains restricted. This is only applicable to entry level management. The deferred bonus shares as well as deferred cash will be forfeited if the participant leaves employment during the restricted period (except if the participant is a 'good leaver' under the BSP scheme rules). Participants earn dividends on the deferred bonus shares.
Performance measures	Managers within Kumba are measured on business-specific strategic value drivers aligned to operational and/or mine-specific strategic priorities as approved by the board. In 2015 emphasis was placed on the following: • Leading and lagging **safety** indicators including safety leadership • Total **production** and compliance to **mine plan** • Cost optimisation (unit cost) • **Financial** performance – EBIT, operating free cash flow, earnings per share (Kumba and Anglo American plc Group)
Maximum value of annual performance incentive	The values of the annual performance incentive for executive directors and prescribed officers are: **Chief executive** 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 (BEC). **Chief financial officer** The Chief financial officer participates in the Anglo American plc Group performance management standard. This is based on a maximum on-target cash 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. **Prescribed officers** As with the case of the Chief financial officer, prescribed officers participate in the Anglo American plc Group performance management standard. This is based on a maximum on-target cash bonus percentage of 25% or 30% of BEC, 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.

REMUNERATION REPORT continued

EXECUTIVE DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION continued

Annual performance incentives continued

Business multiplier (BM)	The BM is determined and approved by the group management Committee (GMC) of Anglo American plc at the end of the year taking into account Kumba's business performance against the targets set for the year. The business multiplier has ranged between 0.5 and 1.3 over the past six years.
Individual performance modifier (IPM)	An IPM is based on individual performance ratings 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 bonus shares award is 150% for the Chief executive and 140% for prescribed officers of the annual cash performance incentive.
Changes in 2015	All employees in band 6 are awarded cash in place of shares. Cash is deferred for one year before vesting. The Bonus Share Plan will be referred to as the Deferred Bonus Arrangement (DBA). The changes are aligned to market best practice.

Long-term incentives

Long-term incentives are offered to executive directors, 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 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 allocation:

Performance indicator	Weighting	Threshold target	Stretch target
Return on capital employed (ROCE)	50%	55%	70%
Total shareholder return (TSR)	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 Limited (Australia).

Targets are approved by Remco for each allocation and no re-testing of performance conditions is allowed. Shares that do not vest after three years in terms of the performance conditions will lapse.

Changes in 2015	The threshold and stretched targets on the ROCE achieved performance indicator, of respectively 12% and 18%, was agreed by the Remco in July 2015. The targets were previously 55% and 70% for the threshold and stretch respectively.
Company limits	The aggregate limit for the BSP and LTIP 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 <1% as a percentage 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 change 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.

Based on proposals by management, Remco recommends the level of 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 were paid for the year under review.

Annual fees payable to non-executive directors were approved by shareholders at the AGM on 8 May 2015. The fees are as follows:

	2015/2016 fees per annum (Rand)	
Capacity	Chairman	Member
Board of directors	1,242,150	209,265
Audit Committee	297,300	138,915
Risk Committee	297,300	138,915
Social, Ethics and Transformation Committee	297,300	138,915
Human Resources and Remuneration Committee	297,300	138,915
Nominations and Governance Committee	N/A*	138,915

*The Nominations and Governance committee is chaired by the Chairman of the board and there are no additional fees paid for this responsibility.

REMUNERATION REPORT continued

2015 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 2015 performance (paid March 2016)	Face value of BSP shares awarded in respect of 2015 performance (awarded March 2016)	Directors' fees	Committee fees	LTIP – Value earned in respect of performance period 2013-2015 (vesting 2016)	Total emoluments 2015	Total emoluments 2014
Executive directors									
NB Mbazima [1]	8,942	1,285	4,027	6,041			719	**21,014**	19,765
FT Kotzee [2]	4,255	412	1,460	2,044			217	**8,388**	7,914
Sub-total	**13,197**	**1,697**	**5,487**	**8,085**			**936**	**29,402**	**27,679**
Non-executive directors									
F Titi					1,227	–		**1,227**	1,166
ZBM Bassa					207	550		**757**	578
GS Gouws [3]					116	–		**116**	447
KT Kweyama [4]					50	–		**50**	196
DD Mokgatle					207	686		**893**	709
AJ Morgan					207	823		**1,030**	839
LM Nyhonyha					207	550		**757**	568
AM O'Neill					207	–		**207**	196
BP Sonjica					207	275		**482**	447
AH Sangqu [5]					105	139		**244**	–
Sub-total					**2,740**	**3,023**		**5,763**	**5,146**
Prescribed officers									
AC Loots [6]	6,808	296	–	–				**7,104**	5,467
FM Louw [7]	–	–	–	–				**–**	3,972
VF Malie [8]	–	–	–	–				**–**	328
B Mawasha [9]	4,081	541	1,251	1,751				**7,624**	8,304
GM Mc Gavigan [10]	451	61	162	227				**901**	–
Y Mfolo	2,061	296	669	937				**3,963**	3,691
LLA Mgadzah	1,944	278	333	466				**3,021**	3,217
A Parboosing	1,845	269	562	787				**3,463**	2,795
TS Smit [11]	2,845	517	999	1,399			1,130	**6,890**	–
SV Tyobeka	2,202	319	767	1,074				**4,362**	4,231
Sub-total	**22,237**	**2,577**	**4,743**	**6,641**			**1,130**	**37,328**	**32,005**
Total	**35,434**	**4,274**	**10.230**	**14,726**	**2,740**	**3,023**	**2,066**	**72,493**	**63,284**

1 Emolument includes base salary of R1,066,413 (EUR63,345) and retirement benefits of R266,603 (EUR15,836) (25% of base salary) paid by KITSA in respect of services rendered offshore during 2015, and a base salary from Anglo American SA of R256,690.
2 Emolument includes base salary of R1,300,504 (EUR77,250) paid by KITSA in respect of services rendered offshore during 2015.
3 Resigned 8 May 2015.
4 Resigned 29 April 2015.
5 Appointed 29 June 2015.
6 Resigned 30 September 2015. Base salary includes all termination benefits.
7 Restructuring of the Executive head of projects role during 2014, resulted in FM Louw ceasing to be a prescribed officer with effect from 1 November 2014.
8 Resigned 1 March 2014.
9 Emoluments include acting allowance in base salary for additional responsibilities as acting Executive head of operations from October 2015.
10 Emoluments include acting allowance in base salary for additional responsibilities as acting Executive head of technical and projects from October 2015.
11 TS Smit is a prescribed officer of the Company as a member of Exco, however he was employed by Anglo American Luxembourg SARL up until 31 July 2015. From 1 August 2015 TS Smit is employed by Kumba Singapore PTE and emoluments are shown from 1 August 2015 and paid in Singapore Dollars. The LTIP value earned relates to an award made while employed by Anglo American Luxembourg SARL

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.

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

		Granted awards			Vested awards			Outstanding awards		
Capacity and name	Number of awards at 1 January 2015	**Granted during 2015**	**Date of grant**	**Market value on grant date R'000**	Number of shares vested during 2015	Vesting date	Notional value at date of vesting R'000	**Number of awards at 31 December 2015**	**Notional value of outstanding awards R'000**	**Earliest date of vesting of outstanding awards**
Executive directors										
Bonus Share Plan										
NB Mbazima	19,162	23,315	01-Mar-15	5,339	–			42,477	1,750	01-Mar-16
FT Kotzee	7,332	9,342	01-Mar-15	2,139	–			16,674	687	16-Feb-16
LTIP										
NB Mbazima	51,396	54,409	01-Mar-15	4,237	–			105,805	1,252	01-Mar-16
FT Kotzee	15,843	16,819	01-Mar-15	1,310	–			32,662	386	01-Mar-16
Sub-total	**93,733**	**103,885**		**13,025**	**–**		**–**	**197,618**	**4,075**	
Prescribed officers										
Bonus Share Plan										
AC Loots	12,349	12,484	01-Mar-15	2,859	24,833	01-Oct-15	1,934	–	–	
FM Louw	15,073	–		–	15,073	01-Apr-15	2,241	–	–	
VF Malie	8,302	–		–	2,776	01-Mar-15	636	5,526	228	01-Mar-16
B Mawasha	11,473	19,189	01-Mar-15	4,394	–			30,662	1,263	01-Mar-16
GM Mc Gavigan	5,195	7,478	01-Mar-15	1,712	–			12,673	522	01-Mar-16
Y Mfolo	8,670	7,420	01-Mar-15	1,699	–			16,090	663	16-Feb-16
LLA Mgadzah	8,180	6,336	01-Mar-15	1,451	–			14,516	598	16-Feb-16
A Parboosing	4,076	1,217	01-Mar-15	279	–			5,293	218	16-Feb-16
SV Tyobeka	10,326	8,667	01-Mar-15	1,985	–			18,993	783	16-Feb-16
Sub-total	**83,644**	**62,791**		**14,379**	**42,682**		**4,811**	**103,753**	**4,275**	
Total	**177,377**	**166,676**		**27,404**	**42,682**		**4,811**	**301,371**	**8,350**	

Shares with vesting date in 2015, refers to vested shares still subject to closed period.

Directors' beneficial interest in Kumba

The aggregate beneficial interest in Kumba at 31 December 2015 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 2015 and the date of approval of the annual financial statements.

	2015			2014		
Capacity and name	**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	**–**	**148,282**	**148,282**	–	70,558	70,558
F Kotzee	**–**	**49,336**	**49,336**	–	23,175	23,175
	–	**197,618**	**197,618**	–	93,733	93,733
Non-executive directors						
DD Mokgatle[2]	**428**	**–**	**428**	428	–	428
GS Gouws[3]	**N/A**	**–**	**N/A**	213	–	213
	428	**–**	**–**	641	–	641
	428	**197,618**	**198,046**	641	93,733	94,374

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

[2] Total indirect interest held by spouse.

[3] Total indirect interest held by spouse. GS Gouws resigned on 8 May 2015.

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 31 to 100, which comprise the balance sheets as at 31 December 2015, 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 2015, 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 2015, we have read the Directors' Report, the Audit Committee's Report, the Remuneration 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the Independent Regulatory Board for Auditors (IRBA) Rule published in Government Gazette Number 39475 dated 04 December 2015, we report that Deloitte & Touche has been the auditor of Kumba Iron Ore Limited for 10 years. We are independent of the group in accordance with the IRBA Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B).

Deloitte & Touche
Registered Auditor
Per: SBF Carter
Partner

5 February 2016

National Executive: *LL Bam Chief Executive *AE Swiegers Chief Operating Officer *GM Pinnock Audit *N Sing Risk Advisory *NB Kader Tax TP Pillay Consulting *S Gwala B PaaS *K Black Clients & Industries *JK Mazzocco Talent & Transformation *MJ Jarvis Finance *M Jordan Strategy *MJ Comber Reputation & Risk *TJ Brown 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 2015

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. The closure of the Thabazimbi mine is in progress.

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 IFRIC interpretations, the South African Companies Act 71 of 2008 (as amended), the Listings Requirements of the JSE Limited, and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee.

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 standalone financial statements for the financial year ended 31 December 2015. 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 2015 were adopted by the group:

Amendment to IAS 19 Employee Benefits: Defined Benefit Plans (effective date: 1 July 2014)
Where employee contributions are made to defined benefit schemes their accounting is now dependent on whether they are a) voluntary or mandatory, b) linked to service and c) dependent on years of service.

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

Annual improvements to IFRSs 2010-2012 cycle

Amendment to IFRS 2 Share-based Payment (effective date: grants made on/after 1 July 2014)
The amendment clarifies the definition of a 'vesting condition' and separately defines 'performance condition' and 'service condition'.

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

Amendment to IFRS 3 Business Combinations (effective date: business combinations entered into on/after 1 July 2014)
The standard is amended to clarify that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, *Financial instruments: Presentation.* The standard is further amended to clarify that all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Consequential changes are also made to IFRS 9, IAS 37 and IAS 39.

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

Amendments to IFRS 8 Operating Segments (effective date: 1 July 2014)
The standard is amended to require disclosure of the judgements made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. The standard is further amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported.

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

Amendment to IAS 16 Property, Plant and Equipment; and IAS 38 Intangible Assets (effective date: 1 July 2014)
Both standards are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. The carrying amount of the asset is restated to the revalued amount. The split between gross carrying amount and accumulated depreciation is treated in one of the following ways:

PRINCIPAL ACCOUNTING POLICIES continued

for the year ended 31 December 2015

2. BASIS OF PREPARATION continued

2.2 Statement of compliance continued

2.2.1 New accounting standards, amendments to published standards and interpretations continued

- Either the gross carrying amount is restated in a manner consistent with the revaluation of the carrying amount, and the accumulated depreciation is adjusted to equal the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses; or
- The accumulated depreciation is eliminated against the gross carrying amount of the asset.

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

Amendment to IAS 24 Related Party Disclosures (effective date: 1 July 2014)
The standard is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'). The reporting entity is not required to disclose the compensation paid by the management entity to the management entity's employees or directors, but it is required to disclose the amounts charged to the reporting entity by the management entity for services provided.

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

Amendment to IFRS 13 Fair Value Measurement (effective date: 1 July 2014)
When IFRS 13 was published, paragraphs B5.4.12 of IFRS 9 and AG79 of IAS 39 were deleted as consequential amendments. This led to a concern that entities no longer had the ability to measure short-term receivables and payables at invoice amounts where the impact of not discounting is immaterial. The IASB has amended the basis for conclusions of IFRS 13 to clarify that it did not intend to remove the ability to measure short-term receivables and payables at invoice amounts in such cases.

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

Annual improvements to IFRSs 2011–2013 cycle

Amendment to IFRS 3 Business Combinations (effective date: 1 July 2014)
The standard is amended to clarify that IFRS 3 does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

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

Amendment to IFRS 13 Fair Value Measurement (effective date: 1 July 2014)
The amendment clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9.

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

Amendment to IAS 40 Investment Property (effective date: 1 July 2014)
The standard is amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

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 2015 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 2015, are being evaluated for the impact of these pronouncements. These accounting standards are listed in annexure 4.

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 unless indicated otherwise.

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 reclassified 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 is re-attributed to non-controlling interests and is 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
Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements were authorised for issue, i.e. 5 February 2016. Any events between the date when the financial statements are authorised for issue and when they are published, i.e. 8 April 2016, are not considered to be events after the reporting period in terms of IFRS. 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 date 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 or reclassification of line items in the balance sheet. The inventory balance was reclassified in the current year, please refer to note 5 for more information.

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.

PRINCIPAL ACCOUNTING POLICIES continued

for the year ended 31 December 2015

4. CONSOLIDATED FINANCIAL STATEMENTS continued

4.1 Basis of consolidation continued

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

Associates

Associates are 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.

Joint arrangements

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

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. When subsequent profits are made, previously unrecognised losses are first fully eliminated before the profits are recognised as part of the investment.

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.

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

The 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 component differs 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 – 16 years
Residential buildings	5 – 16 years
Buildings and infrastructure	5 – 16 years
Mobile equipment, built-in process computers and reconditionable spares	2 – 16 years
Fixed plant and equipment	4 – 16 years
Loose tools and computer equipment	5 years
Mineral exploration, site preparation and development	5 – 16 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.

PRINCIPAL ACCOUNTING POLICIES continued

for the year ended 31 December 2015

4. CONSOLIDATED FINANCIAL STATEMENTS continued

4.2 Property, plant and equipment continued

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

4.3 Impairment of non-financial assets

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

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

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 (cost)/income' in the period in which they arise.

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.

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 or financial assets held for trading. 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. Derivatives are categorised as held for trading.

Financial assets at fair value through profit or loss consist of derivative financial assets as well as the investments held by the environmental trust.

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.

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, 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.

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.

Financial liabilities
A financial liability is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity. 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.

PRINCIPAL ACCOUNTING POLICIES continued

for the year ended 31 December 2015

4. CONSOLIDATED FINANCIAL STATEMENTS continued

4.4 Financial liabilities continued

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 others 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.

Derivative financial instruments

Derivative instruments are categorised as at FVTPL, financial instruments held for trading, and are classified as current assets or liabilities. All derivative instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at fair value at balance sheet date. Resulting gains or losses on derivative instruments are recognised in the income statement.

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.

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.

Inventories are included in current assets unless the inventory will not be realised within 12 months after the end of the reporting period.

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.

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.

PRINCIPAL ACCOUNTING POLICIES continued

for the year ended 31 December 2015

4. CONSOLIDATED FINANCIAL STATEMENTS continued

4.10 Deferred tax continued

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.

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.

Sales of goods – iron ore

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

Shipping services

Revenue arising from shipping services rendered is recognised 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.

PRINCIPAL ACCOUNTING POLICIES continued

for the year ended 31 December 2015

4. CONSOLIDATED FINANCIAL STATEMENTS continued

4.18 Taxation continued

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 remeasurements, for example gains and losses arising on disposal of assets, net of related tax (both current and deferred) and related non-controlling interest, other than remeasurements specifically included in headline earnings. The result is divided by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS and HEPS 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.

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 as well as what constitutes segment results.

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

Fair value is determined based on observable market data (in the case of listed subsidiaries, market share price at 31 December of the respective entity) or discounted cash flow models (and other valuation techniques) using assumptions considered to be reasonable and consistent with those that would be applied by a market participant. Where discounted cash flows are used, the resulting fair value measurements are considered to be at level 3 in the fair value hierarchy as defined in IFRS 13 *Fair Value Measurement* as they depend to a significant extent on unobservable valuation inputs. The determination of assumptions used in assessing the fair value of identifiable assets and liabilities is subjective and the use of different valuation assumptions could have a significant impact on financial results.

In particular, expected future cash flows, which are used in discounted cash flow models, are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including ore reserves and resources, together with economic factors such as commodity prices, exchange rates, discount rates and estimates of production costs and future capital expenditure.

Cash flow projections
Cash flow projections are based on financial budgets and life of mine plans, incorporating key assumptions as detailed below:

- Reserves and resources

  Ore reserves and, where considered appropriate, mineral resources are incorporated in projected cash flows, based on ore reserves and mineral resource statements and exploration and evaluation work undertaken by appropriately qualified persons. Mineral resources are included where management has a high degree of confidence in their economic extraction, despite additional evaluation still being required prior to meeting the requirements of reserve classification.

PRINCIPAL ACCOUNTING POLICIES continued

for the year ended 31 December 2015

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

5.5 Assessment of fair value continued

Cash flow projections continued

- Commodity and product prices

  Commodity and product prices are based on latest internal forecasts, benchmarked with external sources of information, to ensure they are within the range of available analyst forecasts. Where existing sales contracts are in place, the effects of such contracts are taken into account in determining future cash flows.

- Foreign exchange rates

  Foreign exchange rates are based on the latest internal forecasts, benchmarked with external sources of information. Foreign exchange rates are kept constant (on a real basis) from 2025 onwards.

- Discount rates

  Cash flow projections used in fair value less costs of disposal impairment models are discounted based on a real post-tax discount rate of 6.5% (2014: 6.5%). To the extent that specific risk factors were not incorporated into the discount rate, adjustments were made to the cash flow projections.

- Operating costs, capital expenditure and other operating factors

  Operating costs and capital expenditure are based on financial budgets covering a five year period. Cash flow projections beyond five years are based on life of mine plans as applicable, and internal management forecasts. Cost assumptions incorporate management experience and expectations.

5.6 Impairment of assets

In light of declining iron ore prices, the group reviewed whether the carrying value of its property, plant and equipment carrying values are recoverable. In making assessments for impairment, management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate cash-generating units (CGUs), and also in estimating the timing and value of underlying cash flows within the calculation of recoverable amount.

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

5.7 Equity-settled share-based payment reserve

Management makes certain judgements in respect of selecting appropriate fair value option pricing models to be used in estimating the fair value of the various share-based payment arrangements in respect of employees and special purpose entities. Judgements and assumptions are also made in calculating the variable elements used as inputs in these models. The inputs that are used in the models include, but are not limited to, the expected vesting period and related conditions, share price, dividend yield, share option life, risk free interest rate and annualised share price volatility (refer to note 21).

5.8 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.

5.9 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.

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

In terms of the Mineral and Petroleum Resources Royalty Act 28 of 2008 and the Mineral and Petroleum Resources Royalty Administration Act, 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.

5.11 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 are 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.

5.12 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 2015, the net investment in the lease had a zero carrying value as it was fully settled.

BALANCE SHEET

as at

Rand million	Notes	31 December 2015	Restated 31 December 2014	Restated 31 December 2013
Assets				
Property, plant and equipment	2	**32,671**	35,170	29,922
Biological assets		**11**	6	6
Investments held by environmental trust	3	**818**	791	737
Long-term prepayments and other receivables	4	**581**	555	605
Inventories	5	**2,560**	2,078	1,292
Deferred tax assets	10	**1**	871	920
Non-current assets		**36,642**	**39,471**	**33,482**
Inventories	5	**5,056**	5,288	3,879
Trade and other receivables	6	**3,212**	4,476	6,124
Cash and cash equivalents	7	**3,601**	1,664	1,053
Current assets		**11,869**	**11,428**	**11,056**
Total assets		**48,511**	**50,899**	**44,538**
Equity and liabilities				
Shareholders' equity		**19,320**	20,764	20,831
Non-controlling interest	22	**5,847**	6,237	6,353
Total equity		**25,167**	**27,001**	**27,184**
Liabilities				
Interest-bearing borrowings	8	**8,000**	4,000	2,234
Provisions	9	**2,717**	1,964	1,809
Deferred tax liabilities	10	**7,680**	8,201	7,888
Non-current liabilities		**18,397**	**14,165**	**11,931**
Interest-bearing borrowings	8	**205**	5,593	615
Provisions	9	**349**	92	355
Trade and other payables	11	**3,407**	3,493	3,888
Current tax liabilities		**986**	555	565
Current liabilities		**4,947**	**9,733**	**5,423**
Total liabilities		**23,344**	**23,898**	**17,354**
Total equity and liabilities		**48,511**	**50,899**	**44,538**

BALANCE SHEET – US$ CONVENIENCE TRANSLATION

(unaudited supplementary information)

as at

US Dollar million	31 December 2015	Restated 31 December 2014	Restated 31 December 2013
Assets			
Property, plant and equipment	**2,112**	3,362	2,861
Biological assets	**1**	1	1
Investments held by environmental trust	**53**	76	70
Long-term prepayments and other receivables	**38**	53	58
Inventories	**165**	198	123
Deferred tax assets	**–**	83	88
Non-current assets	**2,369**	**3,773**	**3,201**
Inventories	**327**	506	371
Trade and other receivables	**208**	428	585
Cash and cash equivalents	**233**	159	101
Current assets	**768**	**1,093**	**1,057**
Total assets	**3,137**	**4,866**	**4,258**
Equity and liabilities			
Shareholders' equity	**1,249**	1,985	1,992
Non-controlling interest	**378**	596	607
Total equity	**1,627**	**2,581**	**2,599**
Liabilities			
Interest-bearing borrowings	**517**	382	214
Provisions	**176**	188	173
Deferred tax liabilities	**497**	784	754
Non-current liabilities	**1,190**	**1,354**	**1,141**
Interest-bearing borrowings	**13**	535	59
Provisions	**23**	9	34
Trade and other payables	**220**	334	371
Current tax liabilities	**64**	53	54
Current liabilities	**320**	**931**	**518**
Total liabilities	**1,510**	**2,285**	**1,659**
Total equity and liabilities	**3,137**	**4,866**	**4,258**
Exchange rate			
Translated at closing Rand/US Dollar exchange rate	**15.47**	11.57	10.46

INCOME STATEMENT

for the year ended 31 December

Rand million	Notes	2015	2014
Revenue	12	36,138	47 597
Operating expenses	13	(33,494)	(28,405)
Operating profit	14	2,644	19,192
Finance income	17	265	84
Finance costs	17	(876)	(519)
Gain/(loss) from equity-accounted joint venture		6	(5)
Profit before taxation		2,039	18,752
Taxation	18	(1,412)	(4,604)
Profit for the year		627	14,148
Attributable to:			
Owners of Kumba		469	10,724
Non-controlling interest		158	3,424
		627	14,148
Earnings per share for profit attributable to the owners of Kumba	19		
(Rand per share)			
Basic		1.46	33.44
Diluted		1.46	33.38

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December

Rand million	2015	2014
Profit for the year	627	14,148
Other comprehensive income for the year [1]	255	318
Exchange differences on translation of foreign operations	255	352
Reclassification of gain relating to exchange differences on translation of foreign operations	–	(34)
Total comprehensive income for the year	882	14,466
Attributable to:		
Owners of Kumba	592	11,036
Non-controlling interest	290	3,430
	882	14,466

[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	2015	2014
Revenue	2,832	4,948
Operating expenses	(2,625)	(2,953)
Operating profit	**207**	**1,995**
Finance income	21	9
Finance costs	(69)	(54)
Gain/(loss) from equity-accounted joint venture	–	(1)
Profit before taxation	**159**	**1,949**
Taxation	(111)	(479)
Profit for the year	**48**	**1,470**
Attributable to:		
Owners of Kumba	37	1,115
Non-controlling interest	11	355
	48	**1,470**
Earnings per share for profit attributable to the owners of Kumba (US Dollar per share)		
Basic	0.11	3.48
Diluted	0.11	3.47
Exchange rate		
Translated at average Rand/US Dollar exchange rate	12.76	10.83

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December

Rand million	Notes	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	Total equity
	Notes	20	20	21					22	
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**
Equity-settled share-based payments expense		–	–	469	–	–	–	469	116	585
Vesting of shares under employee share incentive schemes		(6)	186	(133)	–	–	(47)	–	–	–
Total comprehensive income for the year		–	–	–	197	(74)	469	592	290	882
Dividends paid		–	–	–	–	–	(2,505)	(2,505)	(796)	(3,301)
Balance at 31 December 2015		**367**	**(498)**	**2,021**	**1,453**	**–**	**15,977**	**19,320**	**5,847**	**25,167**

Dividend per share *

Rand	2015	2014
Interim	–	15.61
Final	–	7.73
Total	**–**	**23.34**

* The group did not declare any dividends during 2015.

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	2015	2014
Cash flows from operating activities			
Cash receipts from customers		**38,352**	49,084
Cash paid to suppliers and employees		**(24,511)**	(27,315)
Cash generated from operations	23	**13,841**	**21,769**
Net finance costs paid	24	**(578)**	(285)
Taxation paid	25	**(594)**	(4,165)
		12,669	**17,319**
Cash flows from investing activities			
Additions to property, plant and equipment	27	**(6,752)**	(8,477)
Loan repaid by/(granted to) joint venture		**5**	(5)
Proceeds from disposal of non-current assets		**120**	78
		(6,627)	**(8 404)**
Cash flows from financing activities			
Purchase of treasury shares		**–**	(107)
Dividends paid to owners of Kumba	26	**(2,490)**	(11,450)
Dividends paid to non-controlling shareholders	26	**(811)**	(3,728)
Interest-bearing borrowings raised		**10,400**	14,891
Interest-bearing borrowings repaid		**(11,788)**	(8,147)
		(4,689)	**(8,541)**
Net increase in cash and cash equivalents		**1,353**	374
Cash and cash equivalents at beginning of year	7	**1,664**	1,053
Exchange differences on translation of cash and cash equivalents		**584**	237
Cash and cash equivalents at end of year	7	**3,601**	**1,664**

NOTES TO THE ANNUAL 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
2015							
Income statement:							
Revenue (from external customers)	23,869	7,980	877	–	3,412	–	36,138
EBIT [3]	4,273	4,423	(52)	(5,506)	(247)	(247)	2,644
The following significant items are included in EBIT:							
Depreciation	2,428	732	–	6	–	157	3,323
Impairment loss	5,978	–	–	–	–	–	5,978
Staff costs	3,048	642	429	30	–	517	4,666
Balance sheet:							
Total segment assets	651	198	224	510	–	269	1 852
Cash flow statement:							
Additions to property, plant and equipment							
Expansion capex	857	–	–	–	–	13	870
Stay-in-business capex	2,350	498	–	4	–	178	3,030
Deferred stripping	2,508	344	–	–	–	–	2,852

1. SEGMENT REPORTING continued

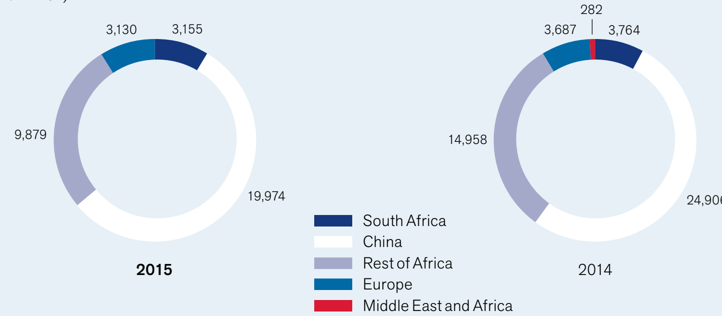
Rand million	Products[1]				Services		
	Sishen mine	Kolomela mine	Thabazimbi mine	Logistics[2]	Shipping operations	Other	Total
2014							
Income statement:							
Revenue (from external customers)	33,094	9,437	1,172	–	3,894	–	**47,597**
EBIT[3]	20,423	5,906	(706)	(4,548)	(309)	(1,574)	**19,192**
The following significant items are included in EBIT:							
Depreciation	1,858	643	36	6	–	93	**2,636**
Impairment loss	–	–	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	826	370	–	–	–	237	**1,433**
Stay-in-business capex	4,281	915	–	10	–	–	**5,206**
Deferred stripping	1,025	351	462	–	–	–	**1,838**

[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] After impairment charge of R6 billion at the Sishen mine (2014: after an impairment of R439 million at Thabazimbi mine).

Rand million	Notes	2015	2014
Reconciliation of reportable segments' assets to inventories			
Segment assets for reportable segments		1,852	2,410
WIP inventory, plant spares and stores		5,764	4,956
Inventories per balance sheet	5	**7,616**	**7,366**

GEOGRAPHICAL ANALYSIS

Revenue from external customers
(Rand million)



Non-current assets
All non-current assets are located in South Africa, with the exception of R32 million located in Singapore (2014: R40 million), which relates to prepayments.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December

2. PROPERTY, PLANT AND EQUIPMENT

Rand million	Land	Mineral properties	Residential buildings	Buildings and infrastructure	Machinery, plant and equipment	Mineral exploration, site preparation and development	Assets under construction	Total
2015								
Cost								
Balance at beginning of year	319	621	3,335	4,989	28,392	3,985	4,218	45,859
Additions (refer to note 27)								
Capital acquisitions	10	–	23	–	330	–	3,537	3,900
Deferred stripping	–	–	–	–	–	2,852	–	2,852
Borrowing costs capitalised	–	–	–	17	–	–	96	113
Changes in decommissioning provision (refer to note 9)	–	–	–	21	21	–	24	66
Disposals and scrapping	(34)	–	(11)	–	(495)	(128)	–	(668)
Transfers between asset classes	–	–	87	285	3,047	–	(3,419)	–
Exchange differences on translation	–	–	–	–	1	–	–	1
Balance at 31 December 2015	295	621	3,434	5,312	31,296	6,709	4,456	52,123
Accumulated depreciation								
Balance at beginning of year	–	290	239	674	8,705	342	–	10,250
Depreciation	–	21	151	250	2,631	270	–	3,323
Disposals and scrapping	–	–	(1)	–	(410)	(128)	–	(539)
Exchange differences on translation	–	–	–	–	1	–	–	1
Balance at 31 December 2015	–	311	389	924	10,927	484	–	13,035
Impairment charge								
Balance at beginning of year	–	–	9	1	–	429	–	439
Impairment charge	30	70	387	410	3,224	947	910	5,978
Balance at 31 December 2015	30	70	396	411	3,224	1,376	910	6,417
Carrying amount at 31 December 2015	265	240	2,649	3,977	17,145	4,849	3,546	32,671

2. PROPERTY, PLANT AND EQUIPMENT continued

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 charge								
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**

* Value is less than R1 million.

Impairment of Sishen

Kumba produces iron ore at Sishen and Kolomela mines in the Northern Cape province. The two mines are treated as separate cash-generating units (CGUs). Each CGU consists of its respective mining assets located in the Northern Cape. Given the low iron ore price environment, as well as supply and demand pressure, an impairment test was performed. This was based on the fair value less costs of disposal of the CGU. The carrying value of Kolomela is recoverable and therefore no impairment charge was recorded. The valuation of Sishen, at 31 December 2015 determined on a discounted cash flow (DCF) basis, is R20.5 billion. The carrying amount of R26.5 billion exceeded the valuation, consequently an impairment charge of R6 billion (before tax) was recorded against the carrying value of Sishen. Of this charge, R417 million has been recorded against land and buildings, R410 million against buildings and infrastructure, R3.2 billion against machinery, plant and equipment, R947 million against site preparation and development, R910 million against assets under construction and R70 million against mineral properties. An associated deferred tax credit was recognised in profit or loss of R1.7 billion on the basis that all mining and production-related property, plant and equipment are equally impacted by the impairment. The post-tax impairment charge is R4.3 billion.

The valuation is sensitive to the iron ore price and further deterioration in the outlook on long-term prices may result in additional impairment. The DCF model is most sensitive to forecasted iron ore prices, the ZAR/US$ exchange rate and the discount rate applied. A decrease of 5% in forecasted iron ore prices will result in the impairment charge increasing by R5.7 billion. An increase of 5% in forecasted iron ore prices will result in the impairment charge decreasing by R5.5 billion. A weakening of 5% in forecasted ZAR/US$ exchange rates will result in the impairment charge reducing by R5.8 billion whereas a strengthening of 5% will increase the impairment charge by R6 billion. An increase of 1.5% in the discount rate will result in the impairment charge increasing by R2.8 billion.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December

2. PROPERTY, PLANT AND EQUIPMENT continued

Borrowing costs

During the year, R113 million was capitalised to property, plant and equipment (2014:RNil). A weighted average capitalisation rate of 7.78% was applied.

Additional disclosures

In the prior period, an impairment charge of R439 million was recorded relating to Thabazimbi mine's deferred stripping asset. The carrying value of Thabazimbi mine's deferred stripping asset of R439 million was impaired to RNil.

The group generated proceeds from the disposal of items of property, plant and equipment of R120 million (2014: R78.2 million).

The estimated replacement value of assets for insurance purposes and assets under construction at cost amounts to R58.8 billion (2014: R50.4 billion).

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

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

Rand million	2015	2014
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 are excluded.		
Capital expenditure contracted for plant and equipment	1,115	3,430
Capital expenditure authorised for plant and equipment but not contracted	1,553	3,040
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
Assets held under finance lease arrangement		
Cost	–	280
Accumulated depreciation	–	(82)
Carrying amount	–	**198**

3. INVESTMENTS HELD BY ENVIRONMENTAL TRUST

Rand million	2015	2014
Balance at beginning of year	791	737
Growth in environmental trusts	27	54
Balance at end of year	818	**791**
Comprising:		
Equity	444	379
Cash	168	206
Bonds	206	206

The trust's investment activities are managed by Old Mutual Investment Group (South Africa) Proprietary Limited. It aims to achieve its objectives by investing in a diversified portfolio of equity and debt securities of predominantly South African listed companies as well as South African sovereign and corporate debt. Each mine's portfolio is managed separately according to each individual mine's risk and life of mine profile.

The growth in the environmental trust includes fair value movements as well as dividend and interest income where applicable. This movement is recognised in 'net finance gains' (refer to note 16).

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

4. LONG-TERM PREPAYMENTS AND OTHER RECEIVABLES

Rand million	2015	2014
Long-term receivable*	471	429
Prepayments	110	126
	581	555

* This receivable relates to the long-term contractual liabilities of ArcelorMittal SA in respect of the rehabilitation obligation of Thabazimbi mine, and is partly secured by the financial guarantees set out in note 28.1. During the year, R99 million of the long-term receivable was reclassified to current as rehabilitation of the Thabazimbi mine will commence in 2016.

Maturity profile of long-term prepayments and other receivables

Rand million	2015	2014
1 to 2 years	250	18
2 to 5 years	272	24
More than 5 years	59	513
	581	555

5. INVENTORIES

Rand million	2015	2014	2013
Finished products	1,852	2,410	1,194
Work-in-progress	4,156	3,770	3,104
Plant spares and stores	1,608	1,186	873
Total inventories	7,616	7,366	5,171
Non-current portion of work-in progress inventories	2,560	2,078	1,292
Total current inventories	5,056	5,288	3,879
Total inventories	7,616	7,366	5,171

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

As a result of the revision of the group's mine plans, the group reassessed the nature of its work-in-progress inventories. Previously all work-in-progress inventory balances were classified as current. After the reassessment, it was concluded that not all work-in-progress inventory will be processed within the next year. Work-in-progress inventory balances which will not be processed within the next year were reclassified to non-current. This reassessment was applied retrospectively and as a result, comparative figures were reclassified.

6. TRADE AND OTHER RECEIVABLES

Rand million	2015	2014
Trade receivables	1,370	3,011
Allowance for doubtful debts	(11)	–
	1,359	3,011
Prepayments	141	210
Other receivables	1,674	1,254
Derivative financial instruments (refer to note 33)	38	1
	3,212	4,476

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December

6. TRADE AND OTHER RECEIVABLES continued

Significant concentrations of credit risk:

R1,104 million (2014: R2,181 million) or 81% (2014: 72%) of the total outstanding trade receivables balance of R1,359 million (2014: R3,011 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 2015.

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	2015	2014
Trade receivables credit risk exposure by geographical area		
South Africa	**285**	284
Europe	**91**	96
Asia	**994**	2,631
China	**691**	1,001
Rest of Asia	**303**	1,630
	1,370	**3,011**
Trade receivables credit risk exposure by currency		
Rand	**285**	284
US Dollar	**1,085**	2,727
	1,370	**3,011**
Ageing of trade receivables		
Not past due	**1,276**	3,011
Past due 31 to 60 days but not impaired	**61**	–
Past due more than 90 days but not impaired	**22**	–
	1,359	**3,011**

A specific trade receivable of R11 million was provided for in 2015 and was more than 90 days past due at 31 December 2015. The trade receivables past due but not impaired relate to customers for whom there is no recent history of default.

Other receivables

Other receivables mainly comprise a VAT receivable of R1,124 million (2014: R1,099 million) and a receivable of R169 million (2014: RNil) relating to the recovery of the retrenchment costs of Thabazimbi mine from ArcelorMittal SA.

7. CASH AND CASH EQUIVALENTS

Rand million	2015	2014
Bank balance and cash	**3,601**	1,664

Rand million		
Currency analysis of cash and cash equivalents		
Rand	**1,063**	315
US Dollar	**2,335**	1,342
Euro	**8**	4
Other	**195**	3
	3,601	**1,664**

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

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

8. INTEREST-BEARING BORROWINGS

Rand million	2015	2014
Long-term interest-bearing borrowings	**8,000**	4,000
Current interest-bearing borrowings	**205**	5,593
	8,205	**9,593**
Reconciliation		
Balance at beginning of year	**9,593**	2,849
Interest-bearing borrowings raised	**10,400**	14,891
Finance lease repaid during the year	**(232)**	(49)
Interest-bearing borrowings repaid	**(11,556)**	(8,098)
	8,205	**9,593**
Maturity profile of interest-bearing borrowings		
Within 1 year	**205**	5,593
2 to 5 years	**8,000**	4,000
	8,205	**9,593**

Rand million	Maturity date	Interest rate at 31 December	Facility	Outstanding balance 2015	Outstanding balance 2014
Unsecured loans					
Revolving syndicated facility at a variable interest rate of Jibar plus a margin which varies based on the period of the borrowings.	**2020**	2015: 8.35% 2014: 7.93%	12,000	**3,500**	4,000
Term facility	**2020**	2015: 8.10%	4,500	**4,500**	–
Call loan facility at floating call rates[1]	**Open**	2015: 7.05% 2014: 6.70%	8,320	**205**	5,361
Fair value at end of year			24,820	**8,205**	**9,361**
Carrying value at end of year			24,820	**8,205**	**9,361**

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

The group's committed debt facilities of R16.5 billion (R4.5 billion term facility and R12 billion revolving facility) mature in 2020. At 31 December 2015, R8.0 billion of the committed facility had been drawn down. The group also had undrawn uncommitted facilities of R8.3 billion at 31 December 2015.

The three-month Jibar rate at 31 December 2015 was 6.625% (2014 : 6.125%).

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 2014.

Currency analysis of interest-bearing borrowings

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December

9. PROVISIONS

Rand million	Employee benefits cash-settled share-based payments	Environmental rehabilitation	Decommis-sioning	Other	Total
Non-current provisions	31	2,228	436	22	2,717
Current portion of provisions	2	99	–	248	349
Total provisions	**33**	**2,327**	**436**	**270**	**3,066**
2015					
Balance at beginning of the year	25	1,608	345	78	2,056
Unwinding of discount (refer to note 17)	–	103	25	–	128
Increase in provision charged to income statement	14	616	–	250	880
Capitalised to property, plant and equipment (refer to note 2)	–	–	66	–	66
Utilised during the year	(6)	–	–	(58)	(64)
Balance at 31 December 2015	**33**	**2,327**	**436**	**270**	**3,066**
Expected timing of future cash flows					
Within 1 year	2	99	–	248	349
2 to 5 years	31	376	–	22	429
More than 5 years	–	1,852	436	–	2,288
	33	2,327	436	270	3,066
Estimated undiscounted obligation	33	3,290	649	270	4,242
2014					
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**
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	–	1,953
	25	**1,608**	**345**	**78**	**2,056**
Estimated undiscounted obligation	**25**	**2,499**	**589**	**78**	**3,191**

9. PROVISIONS continued

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 R818 million at 31 December 2015 (2014: R791 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 reserves as disclosed in Kumba's annual ore reserves and mineral resources statement. Sishen's rehabilitation provision increased by R305 million and Kolomela by R23 million in 2015. This increase relates to changes in the LoM at Sishen and Kolomela, normal inflationary adjustments as well as the incorporation of waste dump and infrastructure growth. Thabazimbi's rehabilitation provision increased by R288 million in 2015. R114 million relates to a reduction in the LoM from 2023 to 2016 as a result of the closure decision.

The resultant changes in the provisions are summarised as follows:

Rand million	Environmental rehabilitation	Decommis-sioning	Total
Change in provision	616	66	**682**
Revised estimates of closure costs	402	35	**437**
Expected timing of future cash flows	214	31	**245**

The change in expected timing of future cash flows, which increased the closure provisions by R245 million, is the result of the revision of the LoM plan for Sishen, Kolomela and Thabazimbi. The R66 million increase in the decommissioning provision was capitalised to property, plant and equipment whereas the R616 million increase was recognised to the income statement decreasing the profits attributable to the owners of Kumba by R342 million and headline earnings per share attributable to the owners of Kumba by R1.06.

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 R330 million (2014: R236 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 R244 million (2014: R280 million). A change of one year in the expected timing of the commencement of environmental rehabilitation and decommissioning would result in an increase of R80 million (2014: R70 million) or a decrease of R90 million (2014: R67 million) in the carrying value of the provision.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December

10. DEFERRED TAX

Rand million	2015	2014
Deferred tax assets		
Reconciliation		
Balance at beginning of year	871	920
Foreign exchange translation differences	50	88
Current year utilisation	(119)	(137)
Derecognition of deferred tax asset	(801)	–
	1	**871**
Expected timing		
Deferred tax assets to be recovered after 12 months	–	770
Deferred tax assets to be recovered within 12 months	1	101
	1	**871**
Deferred tax assets attributable to the following temporary differences:		
Estimated tax losses	–	871
Total deferred tax assets	–	**871**

There is R4.7 billion of unused tax losses for which no deferred tax asset was recognised at 31 December 2015 (2014: R1 billion).

Rand million	2015	2014
Deferred tax liabilities		
Reconciliation		
Balance at beginning of year	8,201	7,888
Prior year adjustment	108	(697)
Current year charge per the income statement	(629)	1,010
	7,680	**8,201**
Expected timing		
Deferred tax liabilities to be recovered after 12 months	6,963	7,435
Deferred tax liabilities to be recovered within 12 months	717	766
	7,680	**8,201**
Deferred tax liabilities attributable to the following temporary differences:		
Property, plant and equipment	8,169	8,303
Environmental rehabilitation provision	(624)	(450)
Decommissioning provision	(50)	(37)
Environmental rehabilitation trust asset	229	221
Leave pay accrual	(75)	(76)
Other	31	240
Total deferred tax liabilities	7,680	**8,201**

11. TRADE AND OTHER PAYABLES

Rand million	2015	2014
Trade payables	2,264	2,380
Other payables	875	840
Leave pay accrual	267	273
Derivative financial instruments (refer to note 33)	1	–
	3,407	3,493
Currency analysis of trade and other payables		
Rand	2,597	2,999
US Dollar	800	472
Euro	9	10
Other	1	12
	3,407	3,493

12. REVENUE

Rand million	2015	2014
Sale of iron ore	32,726	43,703
Services rendered – shipping	3,412	3,894
	36,138	47,597
Sales by destination		
Domestic – South Africa	3,155	3,764
Export	32,983	43,833
China	19,974	24,906
Rest of Asia	9,879	14,958
Europe	3,130	3,687
Middle East and Africa	–	282
	36,138	47,597

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December

13. OPERATING EXPENSES

Rand million	Notes	2015	2014
Operating expenditure by function			
Production costs		18,097	19,250
Movement in work-in-progress inventories		(386)	(667)
Cost of goods produced		**17,711**	**18,583**
Movement in finished product inventories		1,322	(237)
Net finance gains	16	(822)	(443)
Other		(15)	172
Cost of goods sold		**18,196**	**18,075**
Impairment charge	2	5,978	439
Mineral royalty[1]		191	1,176
Selling and distribution costs		5,506	4,548
Distribution costs		5,290	4,329
Selling costs		216	219
Cost of services rendered - shipping		3,657	4,203
Sub-lease rentals received		(34)	(36)
Operating expenses		**33,494**	**28,405**

[1] The decrease is mainly as a result of the lower profitability.

Rand million	Notes	2015	2014
Cost of goods sold comprises:			
Staff costs		4,666	4,580
Salaries and wages		3,584	3,522
Equity-settled share-based payments		585	636
Cash-settled share-based payments		8	7
Termination benefits		34	3
Pension and medicial aid contributions	15	455	412
Outside services		4,481	4,549
Raw materials and consumables		4,022	4,693
Deferred stripping costs capitalised		(2,852)	(1,838)
Depreciation of property, plant and equipment	2	3,323	2,636
Mineral properties		21	18
Residential buildings		151	108
Buildings and infrastructure		250	226
Machinery, plant and equipment		2,631	2,123
Mineral exploration, site preparation and development		270	161
Repairs and maintenance		2,109	1,864
Legal		30	23
Professional fees		188	384
Technical services and project studies		229	740
General expenses		1,522	1,453
Net finance gains	16	(822)	(443)
Energy costs		363	338
Own work capitalised		1	–
Net movement in finished product and work-in-progress inventories		936	(904)
Cost of goods sold		**18,196**	**18,075**

14. SIGNIFICANT ITEMS INCLUDED IN OPERATING PROFIT

Rand million	2015	2014
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	3,997	3,821
Net restructuring costs	34	68
Restructuring costs	384	68
Reimbursement from third party	(350)	–
Share-based payments expenses	593	643
Directors' emoluments (refer to remuneration report on page 28)	26	23
Executive directors		
– Emoluments received as directors of the Company	15	13
– Bonuses and cash incentives	5	5
Non-executive directors - emoluments received as directors of the Company	6	5
Prescribed officers' remuneration (excluding executive directors – refer to remuneration report on page 28)	29	24
Depreciation of property, plant and equipment (refer to note 2)	3,323	2,636
Operating lease rental expenses		
Equipment	129	168
Property	103	103
Auditors' remuneration		
Audit fees	8	8
Other services	–	2
Research and development cost	3	1
(Gain)/loss on lease receivable	(476)	86
Net loss on disposal or scrapping of property, plant and equipment	9	91
Operating sub-lease rentals received		
Property	(33)	(30)
Equipment	(1)	(6)
Insurance proceeds received on items of property, plant and equipment written off in prior periods	(29)	–

15. EMPLOYEE BENEFITS: DEFINED CONTRIBUTION FUNDS

15.1 Retirement fund

At the end of 2015 and 2014 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:

	2015		2014	
Rand million	Working members (number)	Employer contributions	Working members (number)	Employer contributions
Kumba Iron Ore Selector Pension and Provident Funds	2,661	151	2,979	148
Iscor Employees Umbrella Provident Fund	4,854	127	5,140	106
Total	7,515	278	**8,119**	**254**

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December

15. EMPLOYEE BENEFITS: DEFINED CONTRIBUTION FUNDS continued

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 R177 million (2014: R158 million). The group has no obligation to fund post-retirement medical aid contributions for current or retired employees.

16. NET FINANCE GAINS

Rand million	2015	2014
Finance gains recognised in operating profit		
Net gains/(losses) on derivative financial instruments		
Realised	(133)	(96)
Unrealised	35	–
Net foreign currency gains/(losses)		
Realised	907	785
Unrealised	(14)	(302)
Fair value gains on investments held by the environmental trust	27	56
	822	**443**

17. NET FINANCE COSTS

Rand million	Notes	2015	2014
Interest expense – borrowings		857	360
Finance leases		4	18
Provisions: Unwinding of discount	9	128	141
Capitalisation of borrowing costs	2	(113)	–
Finance costs		876	519
Interest received on cash and cash equivalents		(265)	(84)
Net finance costs		**611**	**435**

18. TAXATION

Rand million	2015	2014
Taxation expense		
Current taxation	1,013	4,154
Deferred taxation	399	450
	1,412	**4,604**
Charges/(release) to the income statement		
South African normal taxation		
Current year	791	3,657
Prior year	185	464
Foreign taxation		
Current year	37	33
Income taxation	1,013	4,154
Deferred taxation		
Current year	291	1,147
Prior year	108	(697)
	1 412	**4,604**

18. TAXATION continued

Rand million	2015	2014
Reconciliation of taxation rates	%	%
Taxation as a percentage of profit before taxation	69.3	24.6
Taxation effect of:		
Disallowable expenditure	(12.8)	(0.1)
Exempt income	9.0	0.3
Rate difference between South African and foreign subsidiaries' tax rates	(0.9)	2.2
Prior year (over)/under provision	(14.5)	1.3
Equity-settled share-based payments	1.6	0.1
Recoupment from debt forgiveness	–	(0.4)
Foreign exchange translation differences	13.3	–
Derecognition of deferred tax asset	(37.0)	–
Standard taxation rate	**28.0**	**28.0**

19. EARNINGS AND HEADLINE EARNINGS PER SHARE

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

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

Rand million	2015	2014
Profit attributable to equity holders of Kumba	469	10,724
Number of shares		
Weighted average number of ordinary shares in issue	320,817,364	320,662,676
Potential dilutive effect of outstanding share options *	–	579,935
Diluted weighted average number of ordinary shares in issue	**320,817,364**	**321,242,611**

* There is no dilution adjustment at 31 December 2015 (2014: 597,935). 1,075,676 share options previously granted under the various employee share incentive schemes had no dilutive impact.

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:

	2015		2014	
Rand million	Gross adjustment	Net attributable	Gross adjustment	Net attributable
Profit attributable to equity holders of Kumba	469	469	10,724	10,724
Impairment charge	5,978	3,337	439	243
Net loss on disposal or scrapping of property, plant and equipment	9	2	91	58
Reclassification of exchange differences on translation of foreign operations	–	–	(34)	(19)
Insurance proceeds received on items of property, plant and equipment written off in prior periods.	(29)	(16)	–	–
	6,427	3,792	11,220	11,006
Taxation effect of adjustments	(1,644)		(128)	
Non-controlling interest in adjustments	(991)		(86)	
Headline earnings	**3,792**	**3,792**	**11,006**	**11,006**

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19. EARNINGS AND HEADLINE EARNINGS PER SHARE continued

Rand million	2015	2014
Attributable earnings per share		
Basic	**1.46**	33.44
Diluted	**1.46**	33.38
Headline earnings per share		
Basic	**11.82**	34.32
Diluted	**11.82**	34.26
Dividend per share	**–**	23.34
Interim	**–**	15.61
Final	**–**	7.73

Normalised earnings (unaudited)

Rand million	2015	2014
Reconciliation of normalised earnings		
Headline earnings attributable to owners of Kumba	**3,792**	11,006
Gain on lease receivable	**(418)**	–
Derecognition of deferred tax asset	**801**	–
	4,175	**11,006**
Taxation effect of adjustments	**117**	–
Non-controlling interest in adjustments	**(115)**	–
Normalised earnings	**4,177**	**11,006**
Normalised earnings (Rand per share)		
Basic	**13.02**	34.32
Diluted	**13.02**	34.26
The calculation of basic and diluted normalised earnings per share is based on the weighted average number of ordinary shares in issue as follows:		
Weighted average number of ordinary shares	**320,817,364**	320,662,676
Diluted weighted average number of ordinary shares	**320,817,364**	321,242,611

This measure of earnings is specific to Kumba and is not required in terms of International Financial Reporting Standards or the JSE Listings Requirements. Normalised earnings represents earnings from the recurring activities of the group.

This is determined by adjusting the headline earnings attributable to the owners of Kumba for non-recurring expense or income items incurred during the year. The derecognition of the deferred tax asset and a once-off gain realised on a lease receivable are non-recurring items and have therefore been adjusted in determining normalised earnings.

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

Number of shares	2015	2014
Authorised		
Ordinary shares of R0.01 each	500,000,000	500,000,000
Issued		
Ordinary shares of R0.01 each	322,085,974	322,085,974
Reconciliation of issued shares		
Number of shares at beginning of year	322,085,974	322,085,974
Number of shares at end of year	322,085,974	322,085,974
Shares held in reserve reconciliation (unissued shares)		
Authorised shares at the beginning of year not issued	177,914,026	177,914,026
Unissued shares	177,914,026	177,914,026

No shares were issued during 2015 and 2014.

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	2015	2014
Reconciliation of treasury shares held		
Number of treasury shares at beginning of year	1,533,346	1,444,526
Number of shares purchased	–	299,600
Shares issued to employees under the Long-Term Incentive Plan, Kumba Bonus Share Plan and Share Appreciation Rights Scheme	(423,614)	(210,780)
Number of treasury shares at end of year	1,109,732	1,533,346

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. At 31 December 2015, all treasury shares are held as conditional share awards under the Kumba Bonus Share Plan.

Rand million	2015	2014
Reconciliation of share capital and premium (net of treasury shares)		
Balance at beginning of year	(311)	(297)
Net movement in treasury shares under employee share incentive schemes	180	(14)
Purchase of treasury shares employee share incentive schemes*	–	(107)
Shares issued to employees under employee share incentive schemes	180	93
	(131)	(311)
Comprises:		
Share capital	3	3
Share premium	364	364
Treasury shares	(498)	(678)

* The average price paid for the purchase of the shares in 2014 was R356 per share.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

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21. EQUITY-SETTLED SHARE-BASED PAYMENTS RESERVE

	Unrecognised		Recognised	
Rand million	**2015**	2014	**2015**	2014
Balance at beginning of year			**1,685**	1,236
Equity-settled share-based payments expense	**740**	1,110	**469**	525
Employee share incentive schemes:				
– Envision phase 2	**598**	920	**505**	481
– Bonus Share Plan (BSP)	**136**	178	**80**	152
– Long-Term Incentive Plan (LTIP)	**6**	12	**–**	3
Non-controlling interest	**–**	–	**(116)**	(111)
Vesting of shares under employee share incentive schemes			**(133)**	(76)
Balance at end of year			**2,021**	**1,685**

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	**2015**	2014
Balance at beginning of year	**6,237**	6,353
Profit for the year	**158**	3,424
Exxaro	**105**	2,830
SIOC Community Development SPV	**16**	425
Envision	**37**	169
Dividends paid	**(796)**	(3,657)
Exxaro	**(673)**	(3,095)
SIOC Community Development SPV	**(101)**	(464)
Envision	**(37)**	(169)
Recoupment of Envision dividend *	**15**	71
Interest in movement in equity reserves	**248**	117
Equity-settled share-based payments reserve	**116**	111
Foreign currency translation reserve	**58**	72
Fair value reserve	**74**	(66)
Balance at end of year	**5,847**	**6,237**

* The recoupment of the Envision dividend of R15 million (2014: R71 million) arises from SIOC's participation as an income beneficiary in Envision.

23. CASH GENERATED FROM OPERATIONS

Rand million	2015	2014
Operating profit	**2,644**	19,192
Adjusted for		
Depreciation of property, plant and equipment	**3,323**	2,636
Movement in provisions	**462**	(273)
Unrealised foreign currency revaluations and fair value adjustments	**(916)**	17
Loss on disposal or scrapping of property, plant and equipment	**9**	91
Loss on lease receivable	**–**	86
Impairment loss	**5,978**	439
Movement in non-current financial assets and prepayments	**(16)**	56
Equity-settled share-based payments expenses	**585**	636
Cash-settled share-based payments provision	**–**	8
Cash flows from operations	**12,069**	**22,888**
Working capital movements		
Increase in inventories	**(168)**	(2,174)
Decrease in trade and other receivables	**2,214**	1,487
Decrease in trade and other payables	**(274)**	(432)
	13,841	**21,769**

24. NET FINANCE COSTS PAID

Rand million	Note	2015	2014
Net financing costs as per income statement		**611**	435
Capitalisation of borrowing costs		**113**	–
Adjusted for:			
Notional interest on provisions	9	**(128)**	(141)
Movement in interest payable and other non-cash movements		**(29)**	(9)
Movement in interest receivable		**11**	–
		578	**285**
Finance cost received		**(254)**	(84)
Finance cost paid		**832**	369
		578	**285**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

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25. TAXATION PAID

Rand million	2015	2014
Taxation liabilities at beginning of year	555	565
Income taxation per the income statement (refer to note 18)	1,013	4,154
Translation of taxation for foreign operations	12	1
Taxation liabilities per end of the year	(986)	(555)
Taxation paid per the cash flow statement	**594**	**4,165**
Comprising normal taxation:		
South Africa	594	4,165
	594	**4,165**

26. DIVIDENDS PAID

Rand million	Notes	2015	2014
Dividends paid to owners of Kumba		2,490	11,450
Recoupment of Envision dividend	22	15	71
Dividends per the statement of changes in equity		**2,505**	**11,521**
Dividends paid to non-controlling shareholders		811	3,728
Recoupment of Envision dividend	22	(15)	(71)
Dividends per the statement of changes in equity		**796**	**3,657**

27. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

Rand million	2015	2014
Investment to expand operations	870	1,433
Investments to maintain operations	3,030	5,206
Deferred stripping costs capitalised	2,852	1,838
Additions per the cash flow statement	**6,752**	**8,477**

28. GUARANTEES AND REGULATORY UPDATE

Rand million	2015	2014
Guarantees		
Environmental trust closure liability guarantees to the DMR	2,260	2,260
Operational guarantees to the DMR	21	21
	2,281	**2,281**

28.1 Environmental obligations

The group has issued financial guarantees in favour of the DMR in respect of its environmental rehabilitation and decommissioning obligations to the value of R2.3 billion (2014: R2.3 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 (2014: R438 million). ArcelorMittal SA has guaranteed R429 million of this amount by means of bank guarantees issued in favour of SIOC. As a result of the annual revision of closure costs a further shortfall of R861 million arose (of which R318 million relates to ArcelorMittal SA). Guarantees for the shortfall will be issued in due course.

28. GUARANTEES AND REGULATORY UPDATE continued

28.2 Regulatory update

21.4% undivided share of the Sishen mine mineral rights

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. SIOC applied for the residual right early in 2014.

SIOC received notice from the DMR that the Director General of the DMR had consented to the amendment of SIOC's existing mining right in respect of the Sishen mine, by the inclusion of the residual 21.4% undivided share of the mining right for the Sishen mine, subject to certain conditions (which are described by the DMR as "proposals"). The conditions contained in the Letter of Grant relate substantively to domestic supply, support for skills development, research and development, and procurement.

SIOC believes that the MPRDA does not provide for the imposition of such conditions as contained in the consent letter, and further that certain of the conditions, described as "proposals", are not practically implementable and lack sufficient detail to provide the Company with legal certainty as to the requirements for compliance. SIOC therefore believes that the proposals are incapable of being unilaterally complied with. The most significant of these proposals include the reversion to the lapsed 2001 cost based supply agreement with ArcelorMittal SA, as well as the establishment of a supplier park to provide the mining industry with a significant portion of its capital goods in support of local procurement.

Until the legal and practical implications of the proposed conditions have been clarified with the DMR, SIOC is unable to accept the conditions.

Section 96 of the MPRDA allows for an internal appeal to the Minister of Mineral Resources. SIOC therefore submitted an internal appeal to the Minister, setting out the basis of its objections to the proposals, as required by the MPRDA. SIOC has not yet received a response to its appeal.

In the interim, SIOC continues to engage with the DMR in relation to the proposed conditions in order to achieve a mutually acceptable solution.

29. COMMITMENTS

Rand million	2015	2014
Operating lease commitments		
The future minimum lease payments under non-cancellable operating leases are as follows:		
Property		
Within 1 year	**27**	30
Between 1 and 2 years	**52**	52
2 to 5 years	**30**	56
	109	**138**
Plant and equipment		
Within 1 year	**4**	8
Between 1 and 2 years	**–**	2
2 to 5 years	**–**	1
	4	11
Total operating lease commitments	**113**	**149**

Shipping commitments

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

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30. CONTINGENT LIABILITY

30.1 Tax matters

As at 30 June 2015, the group advised that the South African Revenue Services (SARS) were in the process of reviewing certain of the group's tax matters. Following the half year SARS issued the group with a letter of findings relating to its tax audit covering the period 2006 to 2010, indicating potential adjustments to the group's taxable income for the period of R6.5 billion which would, if the Company is finally assessed on this basis, result in additional tax of approximately R1.8 billion, excluding any potential interest and penalties. As at 31 December 2015 the group has responded to the letter of findings, strongly objecting to the basis for the proposed adjustments, including representations on why interest and penalties, if any, should not be raised. The group is awaiting SARS' response. These matters have been considered in consultation with external tax and legal advisors, who support the group's position. Furthermore, during 2015 SARS notified the group of its intention to conduct a field audit covering the 2011 to 2013 years of assessment, which is in progress. The group believes that these matters have been appropriately treated in the results for the year ended 31 December 2015.

30.2 Rates and taxes

Rates and taxes levied by the municipality at Sishen effective from 1 June 2014 reflected a significant increase amounting to R437 million. Management objected to the higher valuation of the relevant land and the municipality appointed a valuator who is reviewing the objections lodged. Management is of the view that the municipal valuation is fundamentally flawed and acknowledges its obligation for rates and taxes based on a reasonable valuation.

31. EVENTS AFTER THE REPORTING PERIOD

31.1 Dividends

No interim or final dividend was declared for the period under review.

31.2 Sishen

On 28 January 2016 SIOC commenced with a consultation process in terms of section 189 of the Labour Relations Act at its Sishen mine in the Northern Cape. SIOC's decision to commence a section 189 process follows the reconfiguration of the Sishen pit to a lower cost shell due to the continued low iron ore price environment.

The new configuration reduced the waste and production profiles of the mine to ~135 Mt and 26-28 Mt respectively. The reduction in planned mining and production activities resulted in a re-evaluation of the on-mine equipment and the workforce required to support this reduced profile. Subject to consultation, it is currently estimated that approximately 2,633 employees and 1,300 contractors may be affected.

The group is in the process of determining the impact of this decision on the ore reserves and mineral resources as declared in the 2014 Kumba Integrated Report. Early indications are that the Sishen mine ore reserves will decrease by an estimated 23% (±150 Mt) without reducing the life of the mine. These figures are preliminary in nature and exclude 2016 depletion and other movements that may realise due to annual geological model updates and revised long-term economic parameter forecasts. A complete life of mine will be finalised in 2016 for both operations to determine the impact on resources and reserves in accordance with SAMREC Code requirements.

31.3 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 sales and purchases of goods and services with the group's related parties, as detailed below. The effect of these transactions is included in the results of the group. 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 analysis' on page 101.

Ultimate holding company

Anglo American plc 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 corporate office re-charges for services performed.

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

Holding company

ASAC holds a 69.72% interest in the Company (2014: 69.72%).

Fellow subsidiaries

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

Subsidiaries of the Company

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

Associates and joint ventures

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

Entities with significant influence over SIOC

Exxaro is SIOC's 19.98% (2014: 19.98%) Black Economic Empowerment shareholder. Details of dividends paid to Exxaro as well as its proportionate share of earnings for the year are disclosed 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

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 28 to 29.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

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32. RELATED PARTY TRANSACTIONS continued

Material related party transactions:

Rand million	2015	2014
Purchase of goods and services and finance charges		
Subsidiaries of ultimate holding company[1]	3,709	4,286
Shipping services	3,642	4,152
Finance cost	67	134
Fellow subsidiaries	465	586
Corporate operations (including shared services)	325	306
Aircraft services	47	80
Research	93	200
Entities with significant influence over SIOC[2]	95	107
	4,269	4,979
Sale of goods and services and finance income		
Subsidiaries of ultimate holding company[3]		
Finance income	120	28
Services	47	25
	167	53
Amounts owing to related parties (after eliminating intercompany balances)		
Subsidiaries of ultimate holding company	766	5,786
Interest-bearing borrowings	205	5,361
Interest payable	1	20
Trade payables	560	405
Fellow subsidiaries		
Trade payables	32	114
	1,564	5,900
Amounts owing by related parties (after eliminating intercompany balances)		
Subsidiaries of ultimate holding company	2,909	1,105
Interest receivable	11	–
Cash and cash equivalents	2,898	1,092
Associates and joint ventures		
Loans	111	131
	3,020	1,236

1 Interest was accrued at an average rate of 7.05% (2014: 6.70%) 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 between 5.96% and 6.48% (2014: 5.37%) on cash deposits held with AASAF.

Rand million	2015	2014
Shipping services commitments		
The future commitments under contracts of affreightment are as follows:		
Within 1 year	1,773	1,932
Between 1 and 2 years	1,702	1,750
2 to 5 years	4,670	4,965
More than 5 years	2,285	2,706
	10,430	11,353

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.

32. RELATED PARTY TRANSACTIONS continued

Subsidiaries with significant non-controlling interests

Sishen Iron Ore Company Proprietary Limited 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 Proprietary Limited	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	2015	2014
Profit for the year allocated to non-controlling interest	158	3,424
Accumulated non-controlling interests at 31 December	5,847	6,237

Summarised financial information of SIOC:

Rand million	2015	Restated 2014
Income statement		
Revenue	29,728	39,730
Operating expenses	(29,059)	(23,044)
Operating profit	669	16,686
Net financing (expense)/income	(638)	540
Income from investments	2,234	2,860
Profit before taxation	2,266	19,006
Taxation	(445)	(5,212)
Profit for the year	**1,820**	**13,794**
Balance sheet		
Non-current assets	38,107	40,003
Current assets	9,869	9,946
Total assets	**47,976**	**49,949**
Shareholders' equity	25,651	26,627
Non-current liabilities	18,374	14,277
Current liabilities	3,951	9,045
Total equity and liabilities	**47,976**	**49,949**
Cash flow statement		
Cash flows utilised in operating activities	12,154	16,700
Cash flows from investing activities	(6,690)	(8,404)
Cash flows from financing activities	(4,689)	(8,434)
Net increase/(decrease) in cash and cash equivalents	**775**	**(138)**

33. FINANCIAL RISK MANAGEMENT

The group is exposed to credit risk, liquidity risk and market risk (currency, interest rate and commodity price risk) from the use of financial instruments. Overall responsibility for establishment and oversight of the risk management framework rests with the board of directors. The 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.

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33. FINANCIAL RISK MANAGEMENT continued

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 Exco 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.

In 2015, the group started entering into iron ore swap contracts and iron ore futures contracts to manage market risk (more specifically, commodity price risk). These derivatives allow the group to more closely align prices achieved from sales transactions with reference prices set by the group. No hedge accounting is applied. The iron ore derivatives are entered into by the marketing team. Each derivative is linked to either a sale made to a European customer, or a sale made to a Chinese customer. Margin accounts are used to manage the risk related to the derivatives. These margin deposits serve as collateral for the open iron ore derivative position.

The iron ore swaps and futures are included in trade and other receivables to the extent that an open position is recognised as an asset, and included in trade and other payables to the extent that an open position is in a liability position. Asset and liability open positions are not offset in the financial statements.

33.1 Measurement basis of financial instruments

		Fair value through profit or loss (FVTPL)		Amortised cost	
Rand million	Notes	Held for trading	Designated as FVTPL	Loans and receivables	Total
2015					
Financial assets					
Investments held by the environmental trust	3	–	818	–	818
Trade receivables	6	–	–	1,370	1,370
Other receivables (excluding VAT and prepayments)	4, 6	–	–	1,021	1,021
Derivative financial instruments	6	38		–	38
Cash and cash equivalents	7	–	–	3,601	3,601
Financial liabilities					
Interest-bearing borrowings	8	–	–	(8,205)	(8,205)
Trade payables	11	–	–	(2,264)	(2,264)
Derivative financial instruments	11	(1)		–	(1)
Other payables	11	–	–	(875)	(875)
		37	818	(5,352)	(4,497)
2014					
Financial assets					
Investments held by the environmental trust	3		791	–	**791**
Trade receivables	6	–		3,011	**3,011**
Other receivables (excluding 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	–	–	(840)	**(840)**
		1	**791**	**(7,554)**	**(6,762)**

33. FINANCIAL RISK MANAGEMENT continued

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 invests in high quality investments with reputable service providers.

The group's exposure and the credit ratings of its counterparties are continuously monitored. The policy requires diversification of credit exposures amongst these financial institutions and defines acceptable daily settlement limits. Individual limits for counterparties whose 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.

33.2.2 Credit risk policy: Trade receivables

During 2013, the group developed its existing policy, which is still used, for the management of counterparty risk associated with trade receivables originating from export and domestic sales contracts. 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.

33.2.3 Credit risk exposure

Rand million	2015	2014
Trade receivables	1,370	3,011
Cash and cash equivalents	3,601	1,664
Investment made by the environmental trust	818	791
Other receivables	1,021	584
Guarantees issued in favour of the group	598	429
Derivatives	38	1

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

33.2.4 Collateral

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

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 2015 of R8.5 billion and R8.3 billion respectively (2014: R9.7 billion).

Financial guarantees issued to third parties need to be approved by the Exco up to R500 million, and by the board if the value exceeds R500 million. The group has not issued any financial guarantees in the current year. (2014: RNil).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December

33. FINANCIAL RISK MANAGEMENT continued

33.3 Liquidity risk continued

Maturity profile of the group's financial liabilities:

Rand million	Notes	Within 1 year	3 or more years	Total
2015				
Financial liabilities				
Interest-bearing borrowings	8	**205**	**8,000**	**8,205**
Trade payables	11	**2,264**	**–**	**2,264**
Other payables	11	**875**	**–**	**875**
Derivative financial instruments	11	**1**	**–**	**1**
		3,345	**8,000**	**11,345**
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**

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 South African Rands. The group is therefore exposed to currency risk in respect of non-Rand cash flows for revenues, operating costs and capital expenditure. The group aligned both its export and import hedging policies with that of the Anglo American group. In line with the 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$/ZAR exchange rate for 2015 of US$1: R12.76 (2014: US$1: R10.83) 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: R15.47 (2014: US$1: R11.57). The group's financial instrument exposure to currency risk, excluding derivatives, is summarised below:

Rand million	Notes	Rand	US Dollar	Euro	Other
2015					
Financial assets					
Investments held by the environmental trust	3	**818**	**–**	**–**	**–**
Trade receivables	6	**285**	**1,085**	**–**	**–**
Other receivables (excluding VAT and prepayments)	4, 6	**1,021**	**–**	**–**	**–**
Cash and cash equivalents	7	**1,063**	**2,335**	**8**	**195**
Financial liabilities					
Interest-bearing borrowings	8	**(8,205)**	**–**	**–**	**–**
Trade and other payables	11	**(2,329)**	**(800)**	**(9)**	**(1)**
Net exposure		**(7,347)**	**2,620**	**(1)**	**194**

33. FINANCIAL RISK MANAGEMENT continued

33.4 Market risk continued

33.4.1 Foreign exchange risk continued

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 (excluding 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)**

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 2015. The analysis has been performed on the same basis for 2014.

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
2015		
US dollar	**130**	**(130)**
2014		
US dollar	171	(189)

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 require 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December

33. FINANCIAL RISK MANAGEMENT continued

33.4 Market risk continued

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 2015. The analysis has been performed on the same basis for 2014.

	Impact on comprehensive income and shareholders' equity	
Rand million	**Increase**	**Decrease**
2015		
Floating interest rate instruments	**(44)**	**44**
2014		
Floating interest rate instruments	(31)	31

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.

Certain of the group's sales are provisionally priced, meaning that the selling price is determined normally 30 to 180 days after delivery to the customer, based on quoted market prices stipulated in the contract, and as a result are susceptible to future price movements. As at 31 December 2015, R 1,073 million (2014: R2,726 million) of the trade receivables balance is 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 or as a result of market-related variable interest rates. The table below presents the group's assets and liabilities that are measured at fair value:

Rand million	Level 1 [1]	Level 2 [2]	Level 3 [3]
2015			
Investments held by the environmental trust	**818**	**–**	**–**
Derivative financial assets	**–**	**38**	**–**
Derivative financial liabilities	**–**	**(1)**	**–**
	818	**37**	**–**
2014			
Investments held by the environmental trust	791	–	–
Derivative financial assets	1	–	–
	792	**–**	**–**

[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.

33. FINANCIAL RISK MANAGEMENT continued

33.5 Fair value estimation continued

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

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

If the closing iron ore price was 10% higher or lower at year-end, the impact on profit or loss would be as follows (if all other variables were kept constant):

	Impact on comprehensive income and shareholders' equity	
Rand million	Increase	Decrease
2015		
Derivatives related to Chinese customers:	7	(7)
Derivatives related to European customers:	24	(24)

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	2015	2014
Long-term interest-bearing borrowings	8,000	4,000
Short-term interest-bearing borrowings	205	5,593
Total	8,205	**9,593**
Cash and cash equivalents	(3,601)	(1,664)
Net debt	4,604	**7,929**
Total equity	25,167	**26,817**

BALANCE SHEET

for the year ended 31 December

Rand million	Notes	2015	2014
Assets			
Available-for-sale financial asset		**5**	2
Investments in subsidiaries	1	**2,235**	1,854
Deferred tax assets	2	**1**	1
Non-current assets		**2,241**	**1,857**
Other receivables		**1**	–
Cash and cash equivalents	3	**370**	267
Current assets		**371**	**267**
Total assets		**2,612**	**2,124**
Equity and liabilities			
Share capital and premium	4	**368**	368
Reserves		**2,078**	1,576
Total equity		**2,446**	**1,944**
Loans from subsidiary companies	1	**–**	23
Other payables		**148**	146
Current tax liabilities		**18**	11
Current liabilities		**166**	**180**
Total liabilities		**166**	**180**
Total equity and liabilities		**2,612**	**2,124**

INCOME STATEMENT

for the year ended 31 December

Rand million	Notes	2015	2014
Net operating expenses	5	(78)	(16)
Operating loss		(78)	**(16)**
Finance income		21	39
Income from investments	6	2,571	11,516
Profit before taxation		2,514	**11,539**
Taxation	7	(12)	(18)
Profit for the year		2,502	**11,521**
Total comprehensive income for the year		2,502	**11,521**

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 2015 and 2014.

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 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
Equity-settled share-based payments	–	–	500	–	500
Vesting of shares under employee share incentive schemes	–	–	(11)	1	(10)
Total comprehensive income for the year	–	–	–	2 502	2,502
Dividends paid	–	–	–	(2 490)	(2,490)
Balance at 31 December 2015	3	365	2,256	(178)	2,446

CASH FLOW STATEMENT

for the year ended 31 December

Rand million	Notes	2015	2014
Cash flows from operating activities			
Cash generated by operations	8	18	21
Finance income		21	39
Income from investments	6	2,571	11,516
Taxation paid	9	(5)	(13)
Dividends paid		(2,490)	(11,450)
		115	**113**
Cash flows from investing activities			
Acquisition of subsidiary		–	(4)
Repayment of equity invested in subsidiary		3	–
Loans granted to subsidiaries		(42)	(21)
		(39)	**(25)**
Cash flows from financing activities			
Increase in loans from subsidiaries	1	37	2
Vesting of shares under employee share incentive schemes		(10)	–
		27	**2**
Net increase in cash and cash equivalents		103	90
Cash and cash equivalents at beginning of year		267	177
Cash and cash equivalents at end of year	3	370	**267**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December

1. INVESTMENTS IN SUBSIDIARIES

Rand million	2015	2014
Reflected as non-current assets		
Shares at cost	7	7
Share-based payment expenditure*	2,226	1,724
Long-term loans to subsidiaries	2	123
Short-term loans from subsidiaries	–	(23)
Net investments in subsidiaries	**2,235**	**1,831**

* 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 to annexure 1.

2. DEFERRED TAX ASSET

Rand million	2015	2014
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	2015	2014
Cash	370	267
Currency analysis of cash and cash equivalents		
Rand	**370**	**267**

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December

4. SHARE CAPITAL AND SHARE PREMIUM

Number of shares	2015	2014
Authorised		
500,000,000 ordinary shares of R0.01 each	**500,000,000**	500,000,000
Issued		
Ordinary shares of R0.01 each	**322,085,974**	322,085,974
Reconciliation of issued shares		
Number of shares at beginning of year	**322,085,974**	322,085,974
Number of shares at end of year	**322,085,974**	**322,085,974**

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

Rand million	2015	2014
Reconciliation of share capital and premium		
Share capital	**3**	5
Share premium	**365**	365
	368	**368**

5. OPERATING (EXPENSES)/INCOME

Rand million	2015	2014
Cost by nature		
Salaries and wages	**(20)**	(22)
Equity-settled share-based payments	**5**	(11)
Pension, medical and termination costs	**(1)**	(1)
Sundry receipts/(general charges)	**21**	(3)
Cost recoveries	**20**	20
Impairment of loans to KIO Exploration Liberia SARL	**(103)**	–
	(78)	**(17)**
The above costs are stated after including:		
Directors' remuneration (Refer to remuneration report on page 28)	**26**	23
Executive directors		
Emoluments received as directors of the Company	**15**	13
Bonuses and cash incentives	**5**	5
Non-executive directors – emoluments as directors of the Company	**6**	5

6. INCOME FROM INVESTMENTS

Rand million	2015	2014
Dividends received from subsidiaries	2,571	11,516

7. TAXATION

Rand million	2015	2014
Charge to income		
SA normal tax		
Current year	12	18
Total	12	18

Reconciliation of taxation rates	%	%
Taxation as a percentage of profit before taxation	0.5	0.2
Taxation effect of:		
Disallowable expenditure	(1.1)	(0.1)
Exempt income	28.6	27.9
Standard tax rate	28.0	28.0

8. CASH GENERATED BY OPERATIONS

Rand million	2015	2014
Operating loss	(78)	(16)
Adjusted for:		
Impairment charges	103	–
Share-based payment expense	(5)	11
Working capital movements:		
Increase in financial assets	(3)	(2)
Increase in other receivables	(1)	–
Increase in other payables	2	28
Cash flows from operating activities	18	21

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December

9. NORMAL TAXATION PAID

Rand million	2015	2014
Current tax liability at beginning of year	11	6
Amounts charged to the income statement	12	18
Amount paid during the year	(5)	(13)
Current tax liability at end of year	**18**	**11**

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. Certain deposits and borrowings are also placed with the holding company. The holding company also acts as an agent for the company in respect of all foreign exchange transactions and performs a back office treasury function for the group. The effect of these transactions is included in the results of the group. These transactions occurred under terms that are no less favourable than those arranged with third parties.

Holding company
Anglo American plc is Kumba's ultimate holding company. The interest in the group is held through a 69.72% holding by Anglo South Africa Capital Proprietary Limited (2014: 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 analysis' on page 101.

Material related party transactions:

Rand million	2015	2014
Purchase of goods and services and finance charges		
Holding company [1]	*	*
Purchase of goods and services		
SIOC [2]	24	24
Sale of goods and services and finance income		
SIOC [2]	28	53
Interest on short-term deposit held with Anglo American SA Finance Limited (AASAF)	1	–
Amounts owing from/(to) related parties		
Short-term deposit held with Anglo American SA Finance Limited (AASAF) [3]	205	–
SIOC	2	(23)
Main Street 576 Proprietary Limited	–	62
Kumba Investment Holdings Proprietary Limited	–	61
Dividends paid to/(by) Kumba		
SIOC	2,571	11,516
Holding company	(1,736)	(7,982)

* Value is less than R1 million.
1 Goods and services comprise directors' fess 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.
3 The AASAF deposit bears interest at 6.48% (2014: n/a).

11. POST-BALANCE SHEET EVENTS

No dividend was declared in the period.

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 2015	Investments at cost 2014	Loans to/(from) subsidiaries 2015	Loans to/(from) subsidiaries 2014
Direct investments									
Sishen Iron Ore Company Proprietary Limited	RSA	RSA	A	74%	100	**3,009**	3,009	**2,465**	(22,978)
Main Street 576 Proprietary Limited	RSA	RSA	E	100%	100	*****	*	**–**	62,027
KIO Investment Holdings Proprietary Limited **	RSA	RSA	E	100%	1,000	**–**	–	**–**	60,912
Kumba International BV	NE	NE	B	100%	132,680	**276**	3,652	**–**	–
Total investments in subsidiaries						**3,285**	**6,661**	**2,465**	**99,961**

* Value is less than R1,000.
** Loan impaired during financial year.

Indirect subsidiaries

	Country of incorporation[1]	Principal place of business[1]	Nature of business[2]	Percentage holding
Kumba Hong Kong Limited	HK	HK	F	#
Kumba Hong Kong Shipping Limited	HK	HK	F	#
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 Limited	SNG	SNG	B	100
Sibelo Resources Development Proprietary Limited	RSA	RSA	D	50
Sishen South Mining Proprietary Limited	RSA	RSA	F	#

[#] Deregistered during financial year

Special purpose entities[3]

	Country of incorporation[1]	Principal place of business[1]	Nature of business[2]	Percentage holding
SIOC Employee Share Participation Scheme (Envision)	RSA	RSA	H	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

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 2015	Group loan balance 2014	Company loan balance 2015	Company loan balance 2014
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	110,848	116,253	–	–
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	–	–
						3,766	**110,848**	**187,397**	**–**	**–**

* Loan impaired during financial year.

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 – Exploration, B – Dormant

ANNEXURE 3:
EQUITY-SETTLED SHARE-BASED PAYMENT SCHEMES
for the year ended 31 December

EMPLOYEE SHARE INCENTIVE SCHEMES

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

- Envision
- Bonus Share Plan
- Long-Term Incentive Plan (executive directors)
- Share Appreciation Rights Scheme (No longer in use)
- Management Share Option 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 second 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 second term, based on the vesting formula contained in the scheme agreements.

Movement in the number of share awards granted:

	Number of share options (Phase 2)	Weighted average option price (Rand)
Balance at beginning of year	**25,674,793**	**22.84**
Share options issued	**361,463**	**22.84**
Share options forfeited	**(1,332,554)**	**22.84**
Balance at 31 December 2015	**24,703,702**	**22.84**
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**

	Number of share options	Expiry date
Vesting period of share options granted		
Within 1 year	24,703,702	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.

ANNEXURE 3: continued

EQUITY-SETTLED SHARE-BASED PAYMENT SCHEMES

for the year ended 31 December

1) ENVISION continued

	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:

	2015 award	2014 award	2013 award	2012 award
Balance at beginning of year		447,465	239,704	209,156
Bonus shares awarded	**432,511**	–	–	–
Awards exercised [1]	**(20,160)**	(114,332)	(47,979)	–
Awards exercised on vesting	**–**	–	–	(181,333)
Balance at 31 December 2015	**412,351**	**333,133**	**191,725**	**27,823**
Balance at beginning of year		–	264,810	230,157
Bonus shares awarded		477,099	–	–
Awards exercised [1]		(2,807)	(6,967)	(8,229)
Awards exercised on vesting		(18,602)	–	–
Awards forfeited		(8,225)	(18,139)	(12,772)
Balance at 31 December 2014		**447,465**	**239,704**	**209,156**

[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.

2) BONUS SHARE PLAN (BSP) continued

Movement in the number of share awards granted: continued

	Number of awards	Expiry date
Vesting period of awards granted		
Less than 1 year	251,008	2016
1 to 2 years	307,919	2017
2 to 5 years	406,105	2020

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.

	2015 award	2014 award	2013 award	2012 award
Fair value assumptions				
Share price on date of grant (Rand)	**227.26**	420.00	550.68	452.45
Expected share option life (years)	**3**	3	3	3
Expected dividend yield (%)	**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:

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

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

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

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

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

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

ANNEXURE 3: continued

EQUITY-SETTLED SHARE-BASED PAYMENT SCHEMES

for the year ended 31 December

3) LONG-TERM INCENTIVE PLAN (LTIP) continued

Movement in the number of conditional awards granted:

	Number of conditional awards			
	2015 award	2014 award	2013 award	2012 award
Balance at beginning of year	–	41,364	25,875	16,214
Conditional awards issued	71,228	–	–	–
Conditional awards forfeited	–	–	–	(16,214)
Balance at 31 December 2015	**71,228**	**41,364**	**25,875**	**–**
Balance at beginning of year	–	41,364	25,875	16,214
Balance at 31 December 2014	**–**	**41,364**	**25,875**	**16,214**

	Number of conditional awards	Expiry date
Vesting period of conditional awards granted		
Less than 1 year	25,875	2016
1 to 2 years	41,364	2017
2 to 5 years	71,228	2018

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.

	2015 award	2014 award	2013 award	2012 award
Fair value assumptions				
Share price on date of grant (Rand)	227.26	420.00	550.68	527.00
Annualised expected volatility (%)	50.00	30.37	30.60	34.21
Expected share option life (years)	3.00	3.00	3.00	3.00
Expected dividend yield (%)	–	5.25	5.25	5.25
Risk-free interest rate (%)	7.48	7.40	6.16	6.39

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	**31,514**		**247.30 - 332.06**
Rights exercised	**(31,514)**		**247.30 - 332.06**
Balance at 31 December 2015	**–**	**–**	**247.30 - 332.06**
Balance at beginning of year	34,704	25,320	124.27 - 332.06
Rights exercised	(3,190)	(25,320)	124.27 - 332.06
Balance at 31 December 2014	31,514	–	247.30 - 332.06

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:
NEW AND AMENDED STANDARDS NOT YET ADOPTED BY THE GROUP

A number of new standards and amendments to standards and interpretations are in issue but are not effective for annual periods beginning on 1 January 2016 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 1 *DISCLOSURE INITIATIVE*

This amendment aims to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments form a part of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved.

The amendments are effective for annual periods beginning on or after 1 January 2016. The transition provisions state that the disclosures in paragraphs 28-30 of IAS 8, that is, those regarding adoption of a new standard/policy, are not required. Early application is permitted.

The group is assessing the impact of this amendment on the financial statements. The full impact is uncertain at year-end.

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.

It is not expected that this amendment will have any impact on the financial statements.

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 paras1–5, 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.

It is not expected that this amendment will have any impact on the financial statements.

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.

It is not expected that this amendment will have any impact on the financial statements.

AMENDMENTS TO IFRS 10, IFRS 12 AND IAS 28 *INVESTMENT ENTITIES – APPLYING THE CONSOLIDATION EXCEPTION*

These amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.

The amendments to IFRS 10 and IAS 28 are effective from 1 January 2016. Earlier application is permitted.

It is not expected that this amendment will have any impact on the financial statements.

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.

It is not expected that this amendment will have any impact on the financial statements.

ANNUAL IMPROVEMENTS TO IFRSs 2012–2014

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'.

It is not expected that this amendment will have any impact on the financial statements.

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.

It is not expected that this amendment will have any impact on the financial statements.

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 in which the liabilities are denominated 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.

It is not expected that this amendment will have any impact on the financial statements.

ANNEXURE 4: continued

NEW AND AMENDED STANDARDS NOT YET ADOPTED BY THE GROUP

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.

The group is assessing the impact of IFRS 9 on the financial statements. The full impact is uncertain at year-end.

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.

It is not expected that this amendment will have any impact on the financial statements.

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.

The group is assessing the impact of IFRS 9 on the financial statements. The full impact is uncertain at year-end.

SHAREHOLDER ANALYSIS

Register date: 2 January 2016
Issued share capital: 322,085,974

	Number of shareholdings	%	Number of shares	%
Shareholder spread				
1 – 1,000 shares	15,281	87.68	3,321,860	1.03
1,001 – 10,000 shares	1,829	10.49	5,277,198	1.64
10,001 – 100,000 shares	245	1.41	6,573,513	2.04
100,001 – 1,000,000 shares	63	0.36	20,871,897	6.48
1,000,001 shares and over	10	0.06	286,041,506	88.81
Totals	**17,428**	**100.00**	**322,085,974**	**100.00**
Distribution of shareholders				
Banks/brokers	22	0.13	17,764,307	5.52
Close corporations	15	0.09	3,996	0.00
Endowment funds	5	0.03	1,201	0.00
Government	1	0.01	41,498,615	12.88
Individuals	2,143	12.30	391,711	0.12
Insurance companies	2	0.01	590	0.00
Mutual funds	11	0.06	10,072,494	3.13
Other corporations	9	0.05	1,235	0.00
Private companies	37	0.21	224,544,227	69.72
Public companies	4,822	27.67	21,836,965	6.78
Retirement funds	10,206	58.56	5,931,537	1.84
Trusts	155	0.89	39,096	0.01
Totals	**17,428**	**100.00**	**322,085,974**	**100.00**
Public/Non-public shareholders				
Non-public shareholders	**14**	**0.09**	**267,860,509**	**83.16**
Directors, associates and Exco of the Company	9	0.06	173,256	0.05
Strategic holdings	2	0.01	266,034,530	82.60
Related holdings	3	0.02	1,652,723	0.51
Public shareholders[1]	**17,414**	**99.91**	**54,225,465**	**16.84**
Totals	**17,428**	**100.00**	**322,085,974**	**100.00**

	Number of shares	%
Beneficial shareholders holding 2% or more		
Anglo American	224,535,915	69.71
Industrial Development Corporation of South Africa Limited	41,498,615	12.88
Totals	**266,034,530**	**82.59**

[1] Included in this shareholding is 781,787 shares held by employees under the bonus share scheme, which have been allocated, but not yet vested.

SHAREHOLDER ANALYSIS continued

Register date: 2 January 2016
Issued share capital: 322,085,974

BREAKDOWN OF NON-PUBLIC HOLDINGS

	Number of shares	%
Directors, associates and Exco of the Company		
FT Kotzee (Chief financial officer)	**16,674**	**0.01**
FT Kotzee *	16,674	0.01
Mbazima, N (Chief executive)	**42,477**	**0.01**
Mbazima, N*	42,477	0.01
Mc Gavigan, GM	**12,673**	**0.00**
Mc Gavigan, GM*	12,673	0.00
Mokgatle, DD	**428**	**0.00**
Mokgatle, LA	428	0.00
Parboosing, A	**5,293**	**0.00**
Parboosing, A*	5,293	0.00
Mawasha, B	**31,662**	**0.00**
Mawasha, B*	30,662	0.01
Mawasha, B	1,000	0.00
Tyobeka, SV	**23,831**	**0.00**
Tyobeka, SV*	18,993	0.01
Tyobeka, SV	4,838	0.00
Mfolo, Y	**18,355**	**0.00**
Mfolo, Y*	16,090	0.00
Mfolo, Y	2,265	0.00
Mgadzah, LLA	**21,863**	**0.00**
Mgadzah, LLA*	14,516	0.00
Mgadzah, LLA	7,347	0.00
Totals	**173,256**	**0.03**
Strategic holdings		
Anglo South Africa Capital Propriety limited	224,535,915	69.71
Industrial Development Corporation of South Africa Limited	41,498,615	12.88
Totals	**266,034,530**	**82.60**
Related holdings		
Mercantile Shareholder Nominees – Exxaro	**1,338,021**	**0.42**
Mercantile Shareholder Nominees – Exxaro	1,338,021	0.42
Kumba Bonus Share Plan Trust	**225,717**	**0.07**
Kumba Bonus Share Plan Trust	225,717	0.07
Exxaro Resources Limited (No 8)	**88,985**	**0.03**
Exxaro Resources Limited (No 8)	88,985	0.03
Totals	**1,652,723**	**0.51**

* Shares awarded under the bonus share scheme that have not yet vested.

BREAKDOWN OF BENEFICIAL SHAREHOLDERS HOLDING 2% OR MORE

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

ADMINISTRATION

COMPANY REGISTRATION NUMBER:

2005/015852/06

JSE share code: KIO

ISIN code: ZAE000085346

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FORWARD-LOOKING STATEMENTS

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