

Principal accounting policies

The following principal accounting policies were applied by the company and the group for the financial year ended 31 December 2008. Except for the early adoption of IAS 23 as disclosed, these policies are consistent in all material respects with those applied in previous years.

Statement of compliance

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations of those standards, the South African Companies Act and the Listings Requirements of the JSE Limited. The following interpretations and amendment to an issued accounting standard, which are effective in 2008 and have no impact on the financial position, results or cash flow information of the group, were adopted:

- IFRIC 12, Service Concession Arrangements.
- IFRIC 14, IAS 19 Limit on Defined Benefit Asset.
- Amendment to IAS 39, Financial Instruments: Recognition and Measurement.

Kumba adopted the revised IAS 23 Borrowing costs before its effective date, with effect from 1 January 2008. IAS 23 requires the capitalisation of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The requirements of the standard have been applied retrospectively from the date when borrowing costs were first incurred in 2006. The effect on basic earnings per share is an increase of 29 cents and 26 cents for the years ended 31 December 2008 and 2007 respectively. The effect on headline earnings per share is an increase of 30 cents and 26 cents for the years ended 31 December 2008 and 2007 respectively.

The effect on shareholders' equity at 31 December 2007 is an increase of R82 million after taking into account taxation of R39 million and minority interest of R20 million, as follows:

Rand million	31 Dec 2008	31 Dec 2007
Increase in opening balance	82	1
Increase in profit before taxation for the year	162	140
Taxation	(45)	(39)
Increase in equity attributable to equity holders of Kumba	199	102
Minority interest	(23)	(20)
Increase in shareholders' equity	176	82

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

- IAS 1, Presentation of Financial Statements (effective from 1 January 2009).

The amended standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement.

- IFRS 8, Operating Segments (effective from 1 January 2009).

IFRS 8 replaces IAS 14, Segment reporting, and aligns segment reporting with the requirements of the US standard SFAS 131, Disclosures about segments of an enterprise and related information. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.

Principal accounting policies continued

- IFRS 2, Share-based Payment (effective from 1 January 2009).

The amended standard clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date.

- IFRS 3, Business Combinations, and consequential amendments to IAS 27, Consolidated and Separate Financial Statements; IAS 28, Investments in Associates and IAS 31, Interests in Joint Ventures (effective from 1 July 2009).

The amended standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

- IAS 39, Financial Instruments: Recognition and Measurement (effective from 1 July 2009).

The amended standard clarifies the accounting for inflation on financial hedged items and one-sided risk in hedged items.

Inflation may only be hedged if changes in inflation are a contractually specified portion of cash flows of a recognised financial instrument. If an entity designates an option in its entirety as a hedge of a one-sided risk arising from a forecast transaction, hedge ineffectiveness will arise.

- IFRIC 17, Distribution of Non-cash assets to owners (effective from 1 July 2009).

The interpretation clarifies that:

- a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity;
- an entity should measure the dividend payable at the fair value of the net assets to be distributed;
- an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss; and
- an entity should provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation.

- On 22 May 2008, the International Accounting Standards Board (IASB) issued Improvements to International Financial Reporting Standards 2008. The Standard includes 35 amendments to various standards.

The group is currently evaluating the impact of these pronouncements.

Basis of preparation

The financial statements are prepared using the historical cost convention except for financial instruments, biological assets and share-based payments which are measured at fair value.

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

These accounting policies are consistently applied throughout the group.

Basis of consolidation

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

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

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

Subsidiaries

Subsidiaries are those entities over which the group has the power to exercise control. Control is achieved where the group has the ability, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial results of subsidiaries acquired or disposed of are included in the group statements from the effective date on which control is obtained or excluded from such statements from the date on which control ceases.

The group applies a policy of treating transactions with minority interests as transactions with parties external to the group. Disposals to minority interests result in gains and losses for the group that are recognised in the income statement.

Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

The company carries its investments in subsidiaries at cost less accumulated impairments.

Associates

An associate is an entity, other than a subsidiary or joint venture, over which the group has the ability, directly or indirectly, to participate in, but not exercise control or joint control over, the financial and operating policy decisions of an entity so as to obtain economic benefit from its activities. 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.

Under this method the group's share of profits or losses of associates is recognised in the income statement as equity accounted earnings and its share of movements in equity reserves is recognised in the statement of changes in equity. All cumulative post-acquisition movements in the equity of associates are adjusted against the cost 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.

Principal accounting policies continued

Goodwill 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 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.

The company carries its investments in associates at cost less accumulated impairments.

Joint ventures

A joint venture is an economic activity over which the group exercises joint control which is established under a contractual arrangement requiring unanimous consent for financial and operating decisions. It may involve a corporation, partnership or other entity in which the group has an interest.

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

The company carries its investments in joint ventures at cost less accumulated impairments.

Foreign currencies

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

Foreign currency transactions

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

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

Foreign exchange gains and losses arising on translation are recognised in the income statement, except where they relate to cash flow hedging activities in which case they are recognised in the statement of changes in equity, until such time as the transaction is complete or ceases to be a hedged transaction after which they are recognised in the income statement.

Foreign operations

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

All assets and liabilities, including fair value adjustments arising on acquisitions, are translated at the rate of exchange ruling at the balance sheet date. Income and expenditure transactions of foreign operations are translated at the average rate of exchange. Foreign exchange gains and losses arising on translation are recognised in the statement of changes in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets of the foreign entity and translated at the closing rate.

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

Property, plant and equipment

Property, plant and equipment, excluding land and assets that are in the process of being constructed, are stated at cost less accumulated depreciation and impairment. Land and assets that are in the process of being constructed, are measured at cost less accumulated impairment and are not depreciated.

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 usage by the group. The cost of self-constructed assets includes expenditure on materials, direct labour and an allocated proportion of project overheads.

The cost of property, plant and equipment may also include:

- the estimated costs of decommissioning the assets and site rehabilitation costs to the extent that they relate to the asset;
- gains or losses on qualifying cash flow hedges attributable to that asset; and
- capitalised borrowing costs.

The cost of items of property, plant and equipment is capitalised into its various components where the useful life of the components differ from the main item of property, plant and equipment to which the component can be logically assigned. Expenditure incurred to replace or modify a significant component of property, plant and equipment is capitalised and any remaining carrying value of the component replaced is written off as an expense in the income statement. Subsequent expenditure on property, plant and equipment is only capitalised when the expenditure enhances the value or output of the asset beyond original expectations. Costs incurred on repairing and maintaining assets are recognised in the income statement.

Research, development, mineral exploration and evaluation costs are expensed until they result in projects that are evaluated as being technically or commercially feasible, the group has sufficient resources to complete development and can demonstrate how the asset will generate future economic benefits. Once these criteria are met, development costs and ongoing mineral exploration and evaluation costs are capitalised.

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 is charged on a systematic basis over the estimated useful lives of the assets after taking into account the estimated residual values 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 either the period of time over which the asset is expected to be used or the number of production or similar units expected to be obtained from the use of the asset.

The estimated useful lives of assets and their residual values are reassessed annually, with any changes in such accounting estimates being adjusted in the year of reassessment and applied prospectively.

The estimated useful lives of items of property, plant and equipment are listed in the table on the upper right.

Business combinations

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

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

Fair values of the identifiable assets and liabilities are determined by reference to market values of those or similar items, where available, or by discounting expected future cash flows using the discount rate to present values.

Mineral properties	10 to 28 years
Buildings, infrastructure and residential buildings	5 to 28 years
Mobile equipment, built-in process computers and reconditionable spares	2 to 28 years
Fixed plant and equipment	4 to 28 years
Loose tools and computer equipment	5 years
Mineral exploration, site preparation and development	5 to 28 years

Estimated useful lives of items of property, plant and equipment.

Principal accounting policies continued

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

Goodwill is reflected at cost less accumulated impairment, if any. It represents the excess of the cost of a business combination over the fair value of the group's share of the identifiable net assets of the acquired entity at the date of acquisition. Goodwill is assessed for impairment on an annual basis. Once any impairment has occurred on a specific goodwill item, the impairment will not be reversed in future periods.

Negative goodwill arising on a business combination represents the fair value of the net identifiable assets and contingent liabilities of the entity acquired over the cost of acquisition. Negative goodwill is recognised immediately in the income statement.

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

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

Non-current assets and disposal groups held for sale

A non-current asset or disposal group (a business grouping of assets and their related liabilities) is classified as held for sale when its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The classification as held for sale of a non-current asset or disposal group occurs when it is available for immediate sale in its present condition and the sale is highly probable. A sale is considered highly probable if management is committed to a plan to sell the non-current asset or disposal group, an active divestiture programme has been initiated, the non-current asset or disposal group is marketed at a price reasonable to its fair value and the disposal will be completed within one year from classification.

Upon classification as held for sale, the non-current asset or disposal group is measured at the lower of its carrying amount and its fair value less costs to sell. Any resulting impairment is recognised in the income statement.

On classification as held for sale, the assets are no longer depreciated. Comparative information is not adjusted.

If a non-current asset or disposal group is classified as held for sale, but the criteria for classification as held for sale are no longer met, the disclosure of such non-current asset or disposal group as held for sale is ceased. On ceasing such classification, the non-current assets are reflected at the lower of:

- the carrying amount before classification as held for sale, adjusted for any depreciation or amortisation that would have been recognised had the assets not been classified as held for sale; or
- the recoverable amount at the date the classification as held for sale ceases.

Any adjustments required to be made on reclassification are recognised in the income statement.

A discontinued operation is a disposal group that, pursuant to a single plan, has been disposed of or abandoned or is classified as a disposal group held for sale. Once an operation has been identified as discontinued, or is reclassified as continuing, the comparative information in the income statement is restated.

Impairment of non-financial assets

The group's non-financial assets, other than inventories and deferred tax, are reviewed to determine whether there is any indication that those assets are impaired whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

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

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 or, where an individual asset cannot generate cash inflows independently, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

Exploration 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 assets are included in the existing cash-generating units of producing properties that are located in the same region.

Biological assets

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

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

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

Financial instruments

Financial assets (other than derivative financial instruments)

The group classifies its financial assets into the following categories:

- Loans and receivables.
- Derivative financial instruments.

The classification is dependent on the purpose for which the financial asset is acquired. Management determines the classification of its financial assets at the time of the initial recognition and re-evaluates such designation annually.

Financial assets are recognised on transaction date when the group becomes a party to the contract and thus obtains rights to receive economic benefits and are derecognised when these rights no longer exist.

Financial assets are initially measured at fair value, including any transaction costs. The fair values of financial assets are based on quoted bid prices or amounts derived using a discounted cash flow model.

Investments held by environmental trusts, non-current receivables and trade receivables

Investments held by environmental trusts, non-current receivables and trade receivables are categorised as loans and receivables. Loans and receivables are subsequently measured at amortised cost less accumulated amortisation and impairment.

Principal accounting policies *continued*

Loans and receivables which comprise both current and non-current receivables, are assessed at each balance sheet date to determine whether objective evidence exists that a financial asset is impaired. To the extent that the carrying value of an individual or group of assets exceeds the carrying amounts of those assets, an impairment is recognised by way of an allowance account in the income statement.

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

Cash and cash equivalents

Cash and cash equivalents are measured at carrying value which is deemed to be fair value. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call, and investments in money market instruments, net of bank overdrafts, all of which are available for use by the group unless otherwise stated.

Financial liabilities (*other than derivative financial instruments*)

Debt, which constitutes a financial liability, includes short-term and long-term interest-bearing borrowings. Debt is initially recognised at fair value, net of transaction costs incurred and is subsequently stated at amortised cost. Debt is derecognised when the obligation under the contract is discharged, cancelled or has expired. Premiums or discounts arising from the difference between the fair value of debt raised and the amount repayable at maturity date are recognised in the income statement as borrowing costs based on the effective interest rate method.

Derivative financial instruments

All derivative instruments are initially recognised at fair value and are subsequently measured at fair value at balance sheet date. Resulting gains or losses on derivative instruments, excluding designated and effective hedging instruments, are recognised in the income statement.

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

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

Where a derivative instrument is designated as a cash flow hedge of an asset, liability or highly probable forecast transaction, the effective part of any gain or loss arising on the derivative instrument is classified as a cash flow hedge accounting reserve in the statement of changes in equity until the underlying transaction occurs. The ineffective part of any gain or loss is recognised in the income statement.

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

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

Derecognition of financial assets and liabilities

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

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

Offset

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

Inventories

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

The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and fixed production overheads, but excludes finance costs. Fixed production overheads are allocated on the basis of normal capacity.

Consumable stores are capitalised to the balance sheet and expensed to the income statement as they are utilised.

Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Write-downs to net realisable value and inventory losses are expensed in the income statement in the period in which the write-downs or losses occur.

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.

Environmental rehabilitation provisions

Estimated long-term environmental provisions, comprising rehabilitation and mine closure, are based on the group's environmental policy taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises from environmental disturbance caused by the development or ongoing production of a mine. Any subsequent changes to assumptions in estimating an obligation are recognised in the income statement.

Decommissioning provision

The estimated present value of future decommissioning costs, taking into account current environmental and regulatory requirements, is capitalised as part of property, plant and equipment, to the extent that they relate to the construction of the asset, and the related provisions are raised. These estimates are reviewed at least annually. The effect of subsequent changes to assumptions in estimating obligations that were originally recognised as part of the cost of the asset is adjusted against the asset.

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 above.

Ongoing rehabilitation expenditure

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

Contributions to rehabilitation trust

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

Principal accounting policies continued

Taxation

The income tax charge is determined based on net income before tax for the year and includes deferred tax and Secondary Taxation on Companies.

The tax expense represents the sum of the current tax charge and the movement in deferred tax.

Current tax

The current tax charge is the calculated tax payable on the taxable income for the year using substantively enacted tax rates 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. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and is adjusted to the extent that it is no longer probable that sufficient taxable profit will be available to allow all of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is recognised in the income statement, except when it relates to items recognised directly to equity, in which case the deferred tax is also taken directly to equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the group intends, and is able to, settle its current tax assets and liabilities on a net basis.

Secondary Taxation on Companies (STC)

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

Employee benefits

Short- and long-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.

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

Post-employment benefits

The group operates defined contribution plans for the benefit of its employees, the assets of which are held in separate funds. The plan is funded by payments from employees and the group. The group's contribution to the funds is recognised in the income statement in the year to which it relates.

The group is also a participating employer in two closed defined benefit plans for its pensioner members who retired before 2001. The group does not, however, provide defined employee benefits to its current employees.

Statutory actuarial valuations on the defined benefit plans are performed every three years, using the projected unit credit method. Valuations are performed on a date which coincides with the balance sheet date. Consideration is given to any event that could impact the funds up to the balance sheet date. The surplus or deficit of the plan is the difference between the present value of the funded obligation and the fair value of plan assets. No actuarial surplus is recognised as the group's ability to access the future economic benefit is uncertain. Actuarial losses, if any, are recognised in the income statement as and when they arise.

The group does not provide guarantees in respect of the returns in the defined contribution funds.

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 Phantom Share Scheme allowed certain senior employees the right to participate in the performance of the Kumba share price, in return for services rendered, through the payment of cash incentives which are based on the market price of the Kumba share. These rights are considered cash-settled and are recognised as a liability at fair value in the balance sheet until the date of settlement. The fair value of these rights is determined at each reporting date and the unrecognised cost amortised to the income statement over the period that the employees provide services to the company.

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 the balance sheet date.

Principal accounting policies continued

Revenue

Revenue is derived principally from the sale of goods and is measured at the fair value of the consideration received or receivable, which excludes Value-Added Tax, discounts, volume rebates and sales between group companies, and represents the gross value of goods invoiced.

Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer. Export revenues are recorded according to the relevant sales terms, when the risks and rewards of ownership are transferred.

Revenue arising from services is recognised based on the percentage of completion method.

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

Royalties are recognised in accordance with the substance of the relevant agreements.

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

Borrowing costs

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

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

Operating leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor 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.

Stripping costs

All stripping costs incurred during the production phase of a mine are treated as variable production costs and as a result are included in the cost of inventory produced during the period that the stripping costs are incurred.

Dividends

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

Black economic empowerment (BEE) transactions

To the extent that an entity grants shares or share options in a BEE transaction and the fair value of the cash and other assets received is less than the fair value of the shares or share options granted, such difference is charged to the income statement in the period in which the transaction becomes effective. Where the BEE transaction includes service conditions the difference will be charged to the income statement over the period of these service conditions. A restriction on the transfer of the shares or share options is taken into account in determining the fair value of the shares or share options.

Segment reporting

The group's primary reporting format is business segments. As there is only one business segment, being mining, extraction and production of iron ore, the relevant disclosures have been given in the financial statements. The secondary reporting format is geographical segments by origin. The business is managed and organised according to the nature of the products and service provided, with the segment representing a strategic business unit that offers a specific product and services a specific market.

Convenience translation from Rand to US Dollars

The presentation currency of the group is Rand.

Supplementary US Dollar information is provided for convenience only and is not audited. 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.

Key estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The following key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- The provision for environmental rehabilitation and decommissioning is based on management's best estimate of the cost to be incurred. The actual liability for rehabilitation and decommissioning can vary from the estimate and, as a result, the liabilities that are reported can vary if the assessment of the expenditures changes.
- In applying IFRS 2, Share-based Payments, management makes certain judgements in respect of the fair value models to be used in determining the various share-based payment arrangements in respect of employees and special purpose entities. Option pricing models are used to estimate the fair value of the share-based payments. Various assumptions are used in the models. These include, but are not limited to, a dividend yield, risk-free rate and share price volatility.
- Depreciation is based on management's ore reserve estimation. The estimate of the total reserves of Kumba's mines could be materially different from the actual ore mined. The actual usage by the mines may be impacted by changes in the factors used in determining the ore reserves. Any change in management's estimate of the total expected future lives of the mines would impact the depreciation charge as well as the estimated rehabilitation and decommissioning provisions.
- Estimates made in determining the probability of future taxable income, thereby justifying the recognition of deferred tax assets.
- Estimates made in determining the expected future lives of the mines within the group.