

# Principal accounting policies

## General information

Kumba Iron Ore Limited (the company) is the holding company of the Kumba group (the 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 Mine in the Northern Cape Province and at Thabazimbi Mine in the Limpopo Province, and is currently developing a new mine, Kolomela Mine, also in the Northern Cape Province.

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

## Basis of preparation

### Accounting framework

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

The following principal accounting policies and methods of computation were applied by the company and the group in the preparation of the consolidated and stand-alone financial statements for the financial year ended 31 December 2009. Except as disclosed below, these accounting policies are consistent in all material respects with those applied for the year ended 31 December 2008.

### Statement of compliance

#### Change in accounting policies

##### *Accounting treatment of property, plant and equipment related to waste stripping*

Kumba changed its accounting policy in respect of stripping costs incurred during the production phase of a mine. Previously all stripping costs were treated as variable production costs incurred. The change in policy requires the capitalisation as development costs of waste stripping costs incurred during the production phase of the mine where the actual stripping ratio exceeds the average life of mine stripping ratio.

These capitalised costs are expensed when the actual stripping ratio is below the average life of mine ratio. This policy will ensure that the cost of stripping in any period is reflective of the average stripping rates of the ore body as a whole.

Due to the fact that the current pit profile of Sishen Mine is such that the actual stripping ratio is below the average over the remaining life of mine no costs have been capitalised. The change in accounting policy has no effect on the financial position or performance of the group.

#### Adoption of new accounting standard and amendments to accounting standards

The following new accounting standard and amendments to issued accounting standards which are relevant to the group were adopted and are effective from 1 January 2009:

##### *IAS 1 (revised), Presentation of Financial Statements*

IAS 1 (revised) introduces a statement of comprehensive income with two optional formats. The revised standard requires that changes in equity resulting from transactions with owners (holders of instruments classified as equity) be presented separately from non-owner changes in equity (also known as other comprehensive income). In addition, specific disclosures for components of other comprehensive income have been introduced.

As a result, the group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of other comprehensive income. As the change in accounting policy only impacts presentation aspects, there is no impact on the reported results.

##### *IFRS 8, Operating Segments*

IFRS 8 replaces IAS 14, Segment reporting, and requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments disclosed to include the operational mines and the shipping operations. Previously the group disclosed only a single business segment, mining (being mining, extraction and production of iron ore).



#### *IFRS 7, Financial Instruments: Disclosures (amendment)*

The amendment requires enhanced disclosures about fair value measurement and liquidity risk. A three-level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of the inputs used is introduced. These disclosures provide more information about the relative reliability of fair value measurements. Furthermore, the amendments enhance disclosure requirements on the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed. As the change in accounting policy only results in additional disclosures, there is no impact on the reported results.

#### *IFRS 2, Share-based Payment (amendment)*

The amendment 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 the valuation thereof subsequent to grant date. The amendment did not have an impact on the reported results.

#### *Annual Improvements Project 2008*

As part of its annual improvements project, the International Accounting Standards Board (IASB) issued 'Improvements to International Financial Reporting Standards 2008' in May 2008. The standard includes 35 amendments to various issued accounting standards. These amendments were primarily made to resolve conflicts and remove inconsistencies between standards, clarify the status of application guidance in standards, clarify existing IFRS requirements as well as conforming the terminology used in standards with that used in other standards and to that more widely used. The group adopted these amendments in 2009 (with the exception of those listed under 'New accounting standards and interpretations not yet adopted'), the application of which has not had a significant effect on the results, nor has it required any restatement of prior period results.

The standards relevant to the group and company, affected by these amendments, effective for annual period beginning on 1 January 2009 are:

- IAS 1 (revised), Presentation of Financial Statements
- IAS 16, Property, Plant and Equipment and consequential amendment to IAS 7, Statement of Cash Flows
- IAS 19, Employee Benefits
- IAS 23, Borrowing Costs
- IAS 27, Consolidated and Separate Financial Statements
- IAS 28, Investments in Associates
- IAS 31, Interests in Joint Ventures
- IAS 36, Impairment of Assets
- IAS 39, Financial Instruments: Recognition and Measurement

#### *The South African Institute of Chartered Accountants Circular 3/2009 on Headline Earnings*

This circular replaces circular 8/2007 and provides a link to IFRS and accounting policy choices through guidance on the calculation of headline earnings including rules for every IFRS. The focus is to ensure that headline earnings reflect the operating/trading earnings of an entity and generally excludes re-measurements (changes – realised and unrealised – to the initial recognition of assets and liabilities) processed through profit or loss (with certain exceptions). The adoption of this circular did not have an impact on the reported results.

#### *Other*

A number of amendments to issued accounting standards and interpretations, which are not relevant to the group and have no impact on the financial position, results or cash flow information of the group are effective for annual periods beginning on or after 1 January 2009 and have consequently been adopted.

# Principal accounting policies (continued)

## New accounting standards and interpretations not yet adopted

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

### *IFRS 3 (revised), Business Combinations*

*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)*

IFRS 3 (revised) has been issued after completion of the IASB's second phase of its business combinations project and is now largely aligned with US accounting. The comprehensively revised 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 re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree 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. The group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

### *IAS 27 (revised), Consolidated and Separate Financial Statements (effective from 1 July 2009)*

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains or losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010.

### *IAS 39, Financial Instruments: Recognition and Measurement and IFRIC 9, Re-assessment of Embedded Derivatives (effective from 30 June 2009)*

The amendments to IAS 39 and IFRIC 9 clarify that on reclassification of a financial asset out of the fair value through profit or loss category all embedded derivatives have to be assessed and, if necessary, separately accounted for in the financial statements. This amendment is not expected to have a significant impact on the group's financial statements.

### *IFRS 2 (amendments), Share-based Payment (effective from 1 January 2010)*

In addition to incorporating IFRIC 8, Scope of IFRS 2, and IFRIC 11, IFRS 2 – Group and Treasury Share Transactions into the standard, the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The amended standard provides that an entity receiving goods or services in a share-based payment transaction that is settled by any other entity in the group or any shareholder of such an entity in cash or other assets is now required to recognise the goods or services received in its financial statements. This amendment is not expected to have a significant impact on the group's financial statements.

### *IFRIC 17, Distributions of Non-cash Assets to Owners (effective from 1 July 2009)*

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. 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 re-measure the liability at each reporting date and at settlement, with changes recognised directly in equity; and
- An entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss, and should disclose it separately.

The interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. IFRS 5, Non-current Assets Held for Sale and Discontinued Operations has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The interpretation will be applied prospectively and is not expected to have a material impact on the group's financial statements.



#### *Annual Improvements Project 2008*

In May 2008, the IASB issued 'Improvements to International Financial Reporting Standards 2008'. The standard included an amendment to IFRS 5 that is effective for annual periods beginning on or after 1 January 2010. The group is in the process of evaluating the detailed requirements of this amendment.

#### *Annual Improvements Project 2009*

In April 2009, the IASB issued the 'Improvements to International Financial Reporting Standards 2009'. The standard includes 15 amendments to various issued accounting standards. These amendments consist of various necessary, but non-urgent, amendments to issued accounting standards and interpretations that will not be part of another major project of the Board. Most of these amendments are effective for annual periods beginning on or after 1 January 2010. The group is in the process of evaluating the detailed requirements of the amendments, however these amendments are not expected to have a significant impact on the group or company's financial statements.

#### *IFRS 9, Financial Instruments*

The new standard introduces new requirements for classifying and measuring financial assets that must be applied starting 1 January 2013, with early adoption permitted. The group is in the process of evaluating the impact on the financial statements of the group and company.

#### *Other*

A number of amendments to issued accounting standards and interpretations, which are not relevant to the group and are expected to have no impact on the financial position, results or cash flow information of the group, will be effective for annual periods beginning on or after 1 January 2010.

#### **Foreign currencies**

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

#### **Foreign currency transactions**

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

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

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

#### **Foreign operations**

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

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

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

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

#### **Segment reporting**

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

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

# Principal accounting policies (continued)

## Post-balance sheet events

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

## Comparative figures

Comparative figures are restated in the event of a change in accounting policy or a prior period error.

## Company financial statements

### Subsidiaries, associates and joint ventures

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

## Consolidated financial statements

### Basis of consolidation

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

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

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

### Subsidiaries

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

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

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.

### Associates

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

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

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

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 the unaudited interim financial statements.

#### Joint ventures

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

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

### Financial statement items and transactions

#### Balance sheet

##### Property, plant and equipment

Property, plant and equipment, excluding land, assets that are in the process of being constructed, development costs and ongoing mineral exploration and evaluation costs, is stated at cost less accumulated depreciation and impairment.

Land, assets that are in the process of being constructed, development costs and ongoing mineral exploration and evaluation costs, 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 intended use by the group. The cost of self-constructed assets includes expenditure on materials, direct labour and an allocated proportion of project overheads.

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

- The estimated costs of decommissioning the assets and site rehabilitation costs to the extent that they relate to the asset;
- Gains or losses on qualifying cash flow hedges attributable to that asset;
- Capitalised borrowing costs; and
- Capitalised pre-production expenditure and waste stripping costs.

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

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

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

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

#### Depreciation

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

# Principal accounting policies (continued)

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

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

## Research, development, mineral exploration and evaluation costs

Research, development, mineral exploration and evaluation costs are expensed in the year in which they are incurred until they result in projects that the group:

- Evaluate as being technically or commercially feasible;
- Has sufficient resources to complete development; and
- Can demonstrate will generate future economic benefits.

Once these criteria are met, all directly attributable development costs and ongoing mineral exploration and evaluation costs are capitalised within property, plant and equipment. Capitalisation of pre-production expenditure ceases when the mining property is capable of commercial production.

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

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

## Waste stripping expenses

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

The average life of mine stripping ratio is calculated as the number of tonnes of waste material expected to be removed during the life of mine, per tonne of ore mined. The average life of mine cost per tonne is calculated as the total expected costs to be incurred to mine the ore body divided by the number of tonnes expected to be mined. The cost of stripping in any period will therefore be reflective of the average stripping rates for the ore body as a whole. However, where the pit profile is such that the actual stripping ratio is below the average life of mine stripping ratio in the early years, no deferral takes place as this would result in recognition of a liability for which there is no obligation. Instead this position is monitored and when the cumulative calculation reflects a debit balance deferral commences.

## Business combinations and goodwill

### Business combinations

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

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

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

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

### Goodwill

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

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



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

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

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

#### 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 and 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 on reclassification.

#### Discontinued operations

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. The results of discontinued operations are presented separately in the income statement and the assets and liabilities associated with these operations are included with 'Non-current assets held for sale' in the balance sheet.

#### Impairment of non-financial assets

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

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment. Recoverable amounts are estimated for individual assets. Where an individual asset cannot generate cash inflows independently, the assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). The recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

# Principal accounting policies (continued)

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

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

Exploration 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 costs to sell, with these fair value adjustments recognised as income and expenditure in the income statement in the period in which they occur.

Biological assets comprise livestock and game. The fair value of livestock is determined based on market prices taking into account the age and size of the animals, on the basis that the animal is sold 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

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

### Financial assets (other than derivative financial instruments)

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

FVTPL financial assets are financial assets that are designated by the group as at FVTPL on initial recognition. A financial asset is designated in this category if it is managed and its performance is evaluated on a fair value basis, in accordance with documented risk management. 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. The group's FVTPL financial assets comprise the equity-linked deposits included in 'Investments held by environmental trust' in the balance sheet.

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise cash elements of 'Investments held by environmental trust', 'Trade and other receivables' (excluding VAT and prepayments) and 'Cash and cash equivalents' in the balance sheet.



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

#### *Impairment*

Loans and receivables are assessed at each balance sheet date to determine whether objective evidence exists that a financial asset is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

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

#### *Trade receivables*

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

#### *Cash and cash equivalents*

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

#### *Derecognition*

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

#### *Financial liabilities (other than derivative financial instruments)*

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

Financial liabilities comprise short-term and long-term interest-bearing borrowings and trade and other payables (excluding income received in advance). Financial liabilities are subsequently carried at amortised cost using the effective interest rate method. Interest calculated using the effective interest rate method is recognised in profit or loss.

#### *Borrowings*

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

#### *Trade payables*

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

#### *Derecognition*

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

#### **Equity instruments**

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

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

# Principal accounting policies (continued)

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

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

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

If the 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 and included in the initial measurement of the cost of the underlying asset or liability on the transaction date. For hedges that do not result in the recognition of a non-financial asset or liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects profit or loss.

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

## Offset

Where a legally enforceable right of offset exists for recognised financial assets and financial liabilities, and the group has the intention and the ability 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.

## Inventories

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

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

Plant spares and consumable stores are capitalised to the balance sheet and expensed to the income statement as they are utilised.

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

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

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



### Treasury shares

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

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

### Dividends payable

Dividends payable and the related taxation thereon are recognised by the group when the dividend is declared. These dividends are recorded and disclosed as dividends in the statement of changes in equity. Secondary Taxation on Companies (STC) in respect of such dividends is recognised as a liability when the dividends are recognised as a liability and are included in the taxation charge in profit or loss.

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

### Provisions

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

### Environmental rehabilitation provision

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.

### 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.

### Ongoing rehabilitation expenditure

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

### Contributions to rehabilitation trust

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

### Employee benefits cash-settled share-based payments

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

# Principal accounting policies (continued)

## Deferred tax

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

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

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

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

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 in 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.

## Employee benefits

### Long-term benefits

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

### Post-employment benefits

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

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

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

### 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 twelve 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 allows 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 a 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 up to the balance sheet date.

### Income statement

#### Revenue

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

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

#### Sales of goods – iron ore

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

#### Shipping services

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

#### Cost of goods sold

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.

#### 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.

# Principal accounting policies (continued)

## Dividend income

Dividends received 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.

## 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.

## Operating leases

The group leases property, plant and equipment. The leasing agreements where 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.

## 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.

## Taxation

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

Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

## Current tax

The current tax charge is the calculated tax payable on the taxable income for the year using tax rates that have been enacted or substantively enacted by the 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.

## 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.

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

## Earnings per share

The group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of Kumba by the weighted average number of ordinary shares outstanding during the year.

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



### 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; and
- 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.

### 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 and 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:

### 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 values 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 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 lives 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 actual iron ore prices and iron ore price assumptions;
- Unforeseen operational issues at mine sites; and
- Changes in capital, operating, mining, processing, reclamation and logistics costs, discount rates and foreign exchange rates.

Also refer to the unaudited 'General statement on mineral resource and ore reserve estimation and reporting' included in the Annual Report for a more detailed discussion on iron ore reserve estimation.

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 lives of the mines would impact the depreciation charge as well as our estimated rehabilitation and decommissioning provisions.

# Principal accounting policies (continued)

## Waste stripping costs

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

- Expected stripping ratio;
- Average life of mine stripping ratio; and
- Total expected mining costs to be incurred to mine the ore body.

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

## Impairment of non-financial assets

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

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

## 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, life of mine estimates and discount rates used could affect the carrying amount of this provision. As a result the liabilities that we report can vary if our assessment of the expected expenditures changes.

## 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.

## Equity-settled share-based payment reserve

Management makes certain judgements in respect of selecting the 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 22).



#### Discount rates

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

#### Segment reporting

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

#### 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.