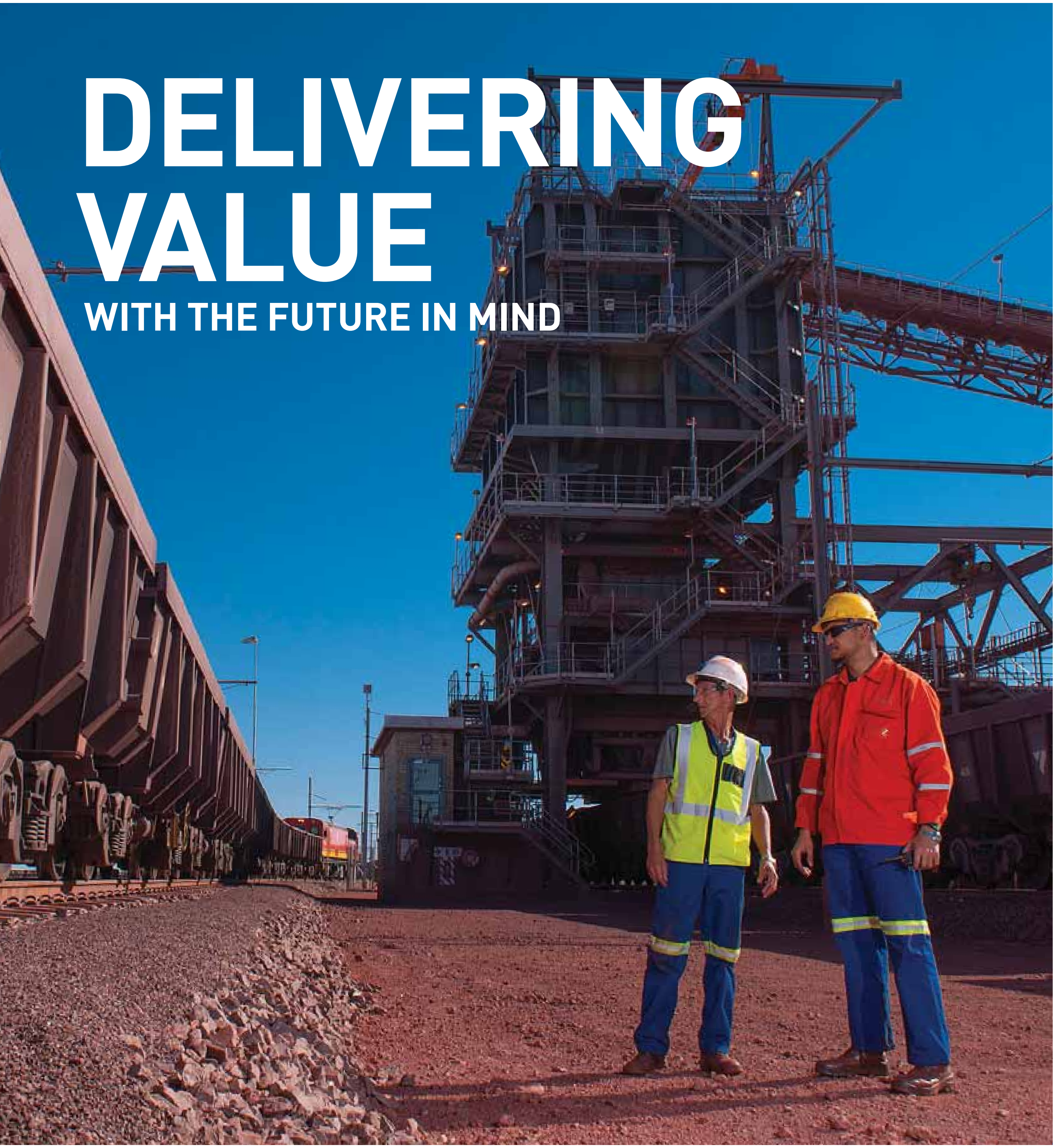
IRON ORE

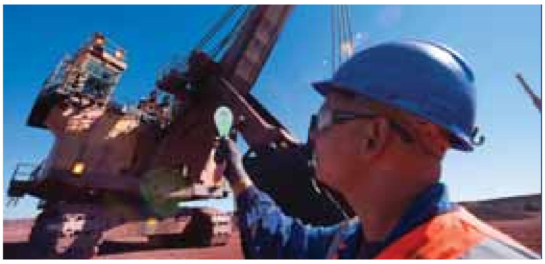


KUMBA IRON ORE LIMITED
ANNUAL FINANCIAL STATEMENTS 2012

WITH THE FUTURE IN MIND

At Kumba Iron Ore we strive towards the following: safety, quality, reliability and consistency. We believe that using these as the benchmark in all areas of our business can ensure we deliver on our promises to communities, maintain open and beneficial relationships with our employees and produce iron ore that focusses on the needs of our customers. It is our commitment to quality, reliability and consistency, as well as living our values of safety, care and respect, among others, that ensures we make decisions that consider both the short and long term, allowing the business to grow with the future in mind.

01


02


DELIVERING VALUE TO OUR STAKEHOLDERS

Kumba paid R17.2 billion in dividends to our shareholders in 2012 and contributed R6.4 billion to the South African fiscus.


03


04


05


06

Images

01 Sishen mine is a 24-hour operation.

02 The shovel, one of eight employed at the Sishen mine, is capable of loading 50 tonnes at a time.

03 The jig plant at Sishen mine seen from the viewpoint atop the adjacent waste dump.

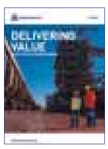
04 A maintenance crew works on the replacement of a bucket on one of the shovels at Sishen mine.

05 The Batho Pele mobile health clinic at Gasese Village 80km from Kathu. The clinic provides primary health care to rural villages in the Northern Cape.

06 Waste is loaded and hauled from the main Leeufontein pit at Kolomela mine.

Cover

Kolomela mine load-out station is designed to rapidly transfer iron ore to waiting rail wagons. Overseeing operations are Ronwan Jacobs, reclaimer operator in orange, and Barries Barnard, assistant foreman.



Other sources of information

Our website provides more information on our company and its performance, including details of business policies and latest updates.

Detailed information on the business can be found in the Integrated Report 2012, while more detail about our sustainability performance is provided in our Sustainable Development Report 2012.

Both of these reports can be found requested from the company, or downloaded online at www.angloamericankumba.com/investor-fin-reports.php.

Key to icons in this document

Go to a page in this or another publication

www.angloamericankumba.com

OVERVIEW OF ACTIVITIES

Kumba Iron Ore Limited (Kumba or the group), a member of the Anglo American plc group (the Group), is a leading value-adding supplier of high-quality iron ore to the global steel industry.

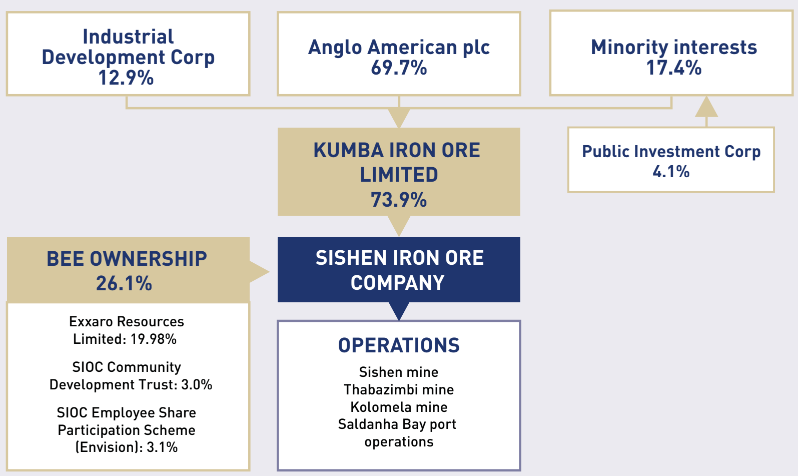
KUMBA AT A GLANCE

Kumba's headquarters are located just north of Johannesburg, in Centurion, South Africa.

Kumba holds a 73.9% interest in and manages Sishen Iron Ore Company Proprietary Limited (SIOC), with the balance of 26.1% held by SIOC's black economic empowerment (BEE) shareholders:

- Exxaro Resources Limited (Exxaro), a leading BEE company listed on the JSE Limited (JSE)(19.98%);
- SIOC Community Development Trust (SIOC-cdt) (3.0%); and
- employees, through the Envision share participation scheme (3.1%).

KUMBA IRON ORE LIMITED GROUP STRUCTURE



SIGNIFICANT EMPLOYER

Kumba is a significant employer in its regions of operation. At the end of December 2012, we employed 11,773 people (2011: 11,898 people), comprising 6,878 full-time employees, 4,193 full-time contractors and 702 learnerships.

Approximately 80% of employees are local (drawn from the province in which the operation is located). A further 8,806 fixed-term, project contractors were employed on capital projects during the year.

For more information go to page 38 in the Integrated Report 2012.

OPERATIONS IN SOUTHERN AFRICA

Corporate office
1 Centurion

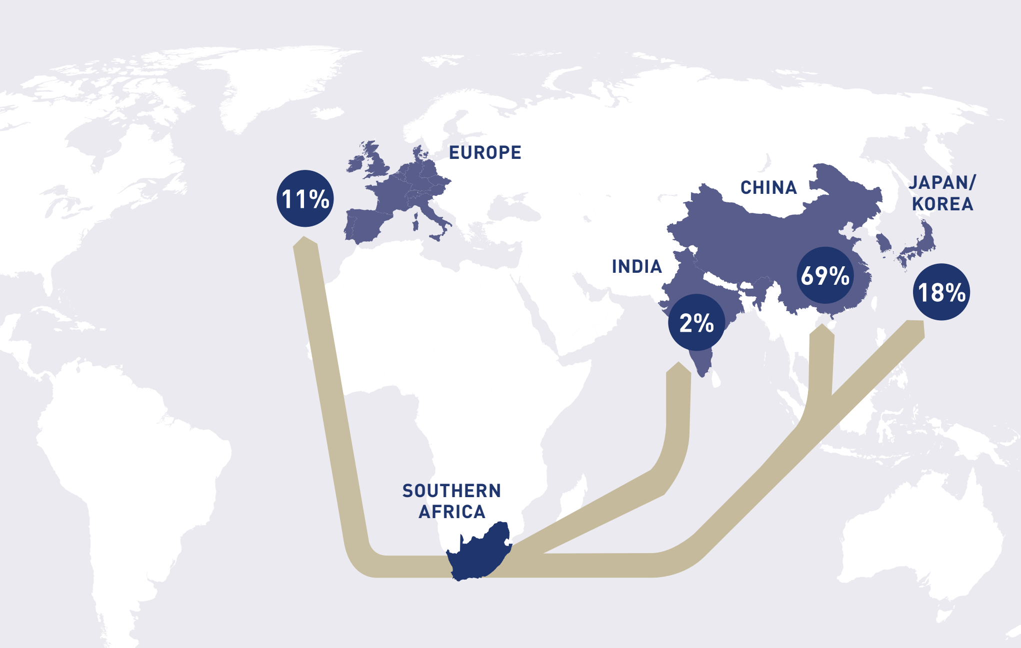
Mining operations
2a Sishen mine
2b Kolomela mine
2c Thabazimbi mine

Port operations
3 Saldanha Bay

PRODUCTION FOR DOMESTIC AND EXPORT MARKETS

In 2012, Kumba produced a record 43.1 million tonnes (Mt) of iron ore (2011: 41.3 Mt) for both the domestic and export markets. Our operations are serviced by a dedicated iron ore rail link operated by Transnet Freight Rail (TFR), the national rail transport utility, to the port of Saldanha Bay. In 2012, Kumba's export sales totalled 39.7 Mt (2011: 37.1 Mt) of iron ore from Saldanha Bay, primarily to China (69%), Western Europe (11%), Japan and South Korea (18%) and India (2%).

EXPORT DESTINATIONS AND EXPORT VOLUMES



MINING OPERATIONS

SIOC has three mining operations:

- Sishen mine, which is located near the town of Kathu in the Northern Cape Province. This mine has been in operation since 1953. Optimisation of activities at this operation, combined with expansion, will see a continued rise in production. Sishen's life of mine (LoM) is currently estimated at 18 years.
- Kolomela mine is located near Postmasburg in the Northern Cape Province. This mine was brought into commercial production in December 2011, ahead of schedule, and is on track to produce at design capacity of 9 million tonnes per annum (Mtpa) in 2013. Kolomela mine's LoM is currently estimated at 29 years. Further expansion of this mine is being considered.
- Thabazimbi mine, situated in the town of Thabazimbi in the Limpopo Province, is a mature mining operation, nearing the end of its life. Thabazimbi mine operates on a cost-plus basis and is contractually dedicated to supplying ArcelorMittal South Africa Limited (AMSA). The future of the current operations is under discussion with AMSA. The Phoenix project, located adjacent to Thabazimbi mine, is currently undergoing a feasibility study. We are looking at options to bring the Phoenix project into production as well as the timing of doing so.

The project is described in more detail in the Integrated Report 2012 on page 48.

EXPANSION AND EXPLORATION

Kumba's expansion and exploration pipeline seeks to grow production:

- to 70 Mtpa in South Africa (2012: 43.1 Mt); and
- by a further 10 Mtpa to 20 Mtpa from prospects in west and central Africa.

Progress was made in west and central Africa jointly with Anglo American plc.

See page 50 of the Integrated Report 2012 for further details.

INVESTMENT IN THE FUTURE

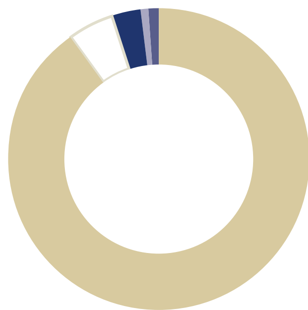
Kumba has continued to invest significantly in the development and expansion of our business. In 2012, we spent R5.4 billion (2011: R5.8 billion) on capital expenditure: R2.2 billion on growth projects and R3.2 billion on stay-in-business (SIB) capital.

At the end of 2012, SIOC, in which Kumba holds a 73.9% shareholding, reported total attributable Ore Reserves of 1.1 billion tonnes (2011: 1.2 billion tonnes) and attributable Mineral Resources of 1.2 billion tonnes (2011: 1.3 billion tonnes). This is reported in accordance with the South African Code for Reporting of Exploration Results, Mineral Resources and Mineral Reserves (SAMREC).

Kumba is listed on the JSE in South Africa, with a market capitalisation of R183.2 billion (2011: R161.0 billion) at the end of December 2012.

GEOGRAPHICAL SPLIT OF SHAREHOLDERS

as at 31 December 2012 (%)



South Africa	90.2
United Kingdom	5.0
North America	3.0
Europe (ex UK)	0.8
Rest of the world	1.0

INVESTMENT IN COMMUNITIES

Kumba invests significantly in the communities in which it operates, directly and indirectly. In 2012, our community engagement and development (CED) expenditure was R275.6 million (2011: R190.9 million).

Refer to page 58 to 65 of the Sustainable Development Report 2012 for more details.

OUR PERFORMANCE
WITH THE FUTURE IN MIND

SAFETY
- Regrettably two lives were lost
- Lost-time injury frequency rate (LTIFR) of 0.10 per 200,000 hours worked

MARKET
- Global crude steel production rose by 2% in 2012 to 1.6 billion tonnes, primarily driven by China
- Seaborne iron ore supplies reached 1.1 billion tonnes
- 23% decrease in realised average export iron ore prices of US$122/tonne
- Export sales rose to a record 39.7 Mt

OPERATING PERFORMANCE
- Record production of 43.1 Mt
- Kolomela mine exceeded its ramp-up schedule, producing 8.5 Mt
- Sishen mine's production decreased mainly due to the impact of the unprotected strike in October 2012 and production challenges experienced earlier in the year
- Operations remained steady at Thabazimbi mine as the mine nears the end of life

FINANCIAL PERFORMANCE
- Operating profit of R23.1 billion
- Headline earnings of R12.2 billion or R37.97/share
- Dividends of R18.0 billion or R31.70/share

COMMUNITY ENGAGEMENT AND DEVELOPMENT
- SIOC-cdt received dividends of R570.5 million
- Social and labour plan (SLP) targets significantly met or exceeded
- R275.6 million spent on CED

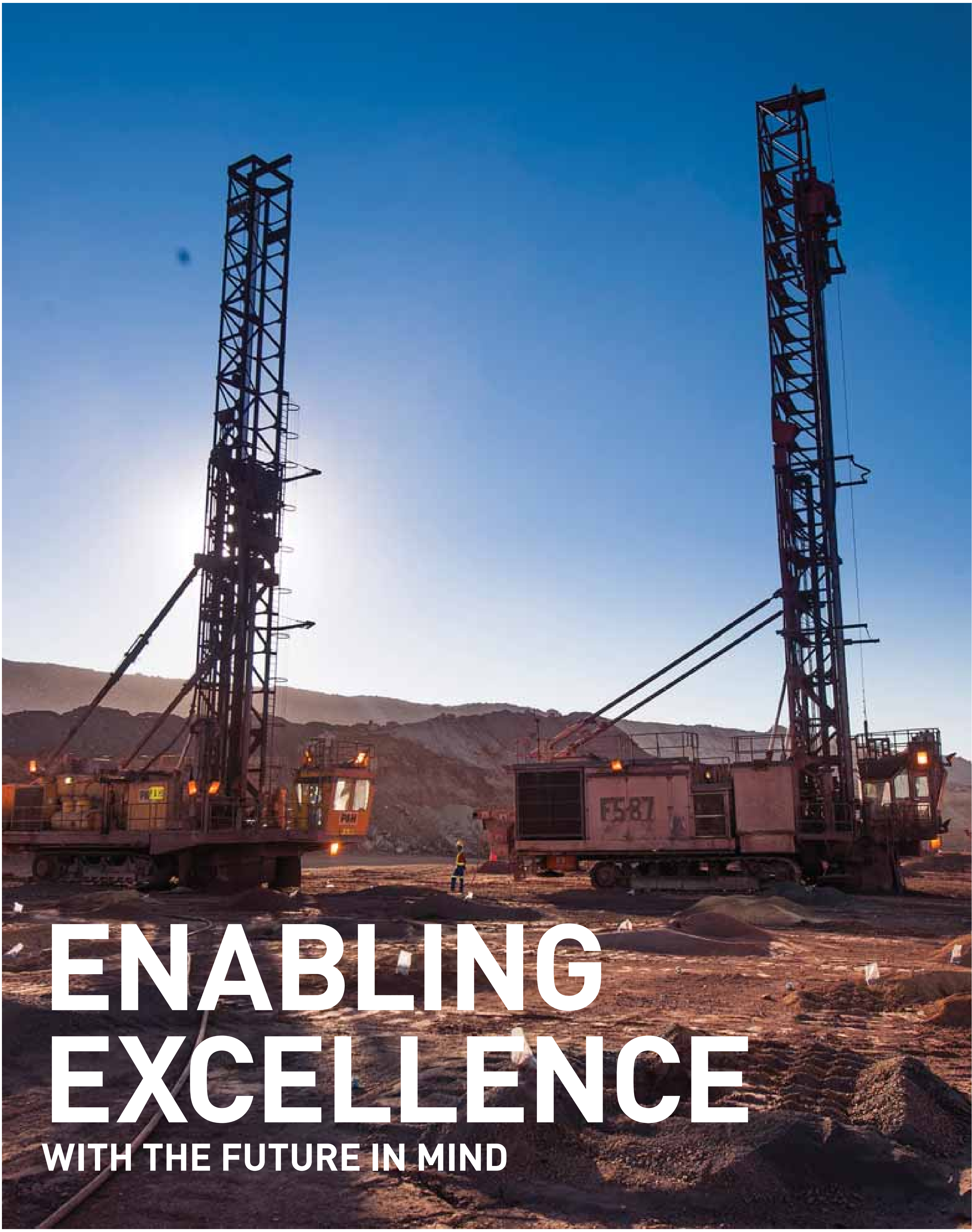
ENVIRONMENTAL PERFORMANCE
- Sishen and Thabazimbi mines retained ISO 14001 certification
- Kolomela ISO 14001 certification planned for the second half of 2013

DIRECTORS' DECLARATION

The Kumba board, assisted by the Audit Committee, is ultimately responsible for the preparation, fair presentation and integrity of the audited annual financial statements and related financial information of the group, as contained in this report, the Annual Financial Statements 2012. The directors confirm that they have collectively reviewed the content of this report and approved it at its meeting on 13 March 2013, for presentation to shareholders at the next annual general meeting on 10 May 2013.

STRATEGIC ELEMENT: Investing in world-class people

01



ENABLING EXCELLENCE

WITH THE FUTURE IN MIND

At Kumba, we are our people. Through our efforts, growth, well-being and achievement, we are able to meet and exceed our objectives, and deliver sustainable benefits to all stakeholders.

Our investment in dedicated, motivated and skilled people is an investment in excellence. We provide our people with opportunities to continuously improve themselves so that they can make a difference in all their interactions – at work, at home and within their communities.

Excellence is ensured through our value system which upholds safety, care and respect, integrity, accountability, collaboration and innovation.

We remain determined to pursue our goal of zero harm at all our operations. Safety, care and respect are integral to our value system. We regret that two of our contractor colleagues, Ms Sarah Obudilwe and Mr Wickus Coetsee lost their lives in work related incidents at Sishen mine in 2012. These tragic events represent a setback in our safety efforts following more than 24 months without a fatality, and have resulted in a lot of sombre introspection and review of our processes.

TRAINING AND DEVELOPMENT SPEND
(2011: R134.8 MILLION)

R224.2 million

"Excellence is at the heart of all our interactions and ensuring excellence is an integral element of our sustainable growth strategy"

Norman Mbazima
Chief executive

02

11,773

PEOPLE EMPLOYED AT END OF 2012, INCLUDING 702 TALENT DEVELOPMENT LEARNERSHIPS

"Women held 12.8% of core mining positions"

81.02%

Historically Disadvantaged South Africans (HDSAs) in the workforce

Each employee received on average ~ 81 hours of training (2011: 80 hours)

03

Images
01 Drilling operations in the South Western pit at Sishen mine.
02 Plant manager meets with his production team.
03 Lockout procedures in a medium voltage substation at Kolomela mine; Darryll Daniel right, and Francois van der Bank, millwright, observing.

For more information refer to pages 36 to 43 of the Integrated Report 2012.

FINANCIAL REVIEW
for the year ended 31 December 2012

Frikkie Kotzee
Chief financial officer

REVENUE
(2011: R48.6bn)

R45.4bn

OPERATING PROFIT
(2011: R32.0bn)

R23.2bn

HEADLINE EARNINGS PER SHARE
(2011: R53.13/share)

R37.97/share

This is my first annual review as chief financial officer of Kumba and since having taken up this role, I have had the unfailing support of the board, the executive management team and my finance team. My sincere thanks to them for the warm welcome I have received into the Kumba family.

The group delivered another strong financial performance in 2012. It was always going to be a challenge to beat the record financial performance of the previous financial year. In 2012 we achieved record production and export sales and successfully ramped up Kolomela mine. This performance is all the more creditable given the difficult market conditions and operating environment experienced. The solid performance also set the company up to further progress the company's expansion projects and growth of its operations, as it seeks to secure a sustainable future for all its stakeholders.

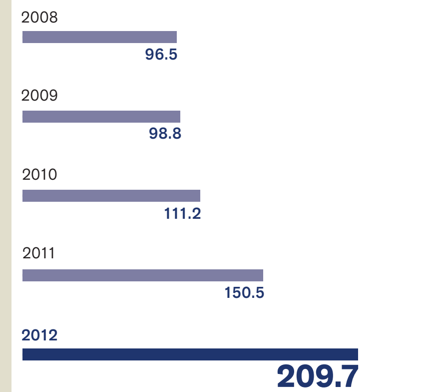
In 2012, as a result of realised export prices declining by 23% from US$158 to US$122 per tonne, the group achieved revenue of R45.4 billion. The group's operating profit of R23.2 billion was 28% down from the record profit earned in 2011.

Kumba's headline earnings for the year were R12.2 billion, 28% down from the R17.0 billion achieved in 2011, mainly as a result of a weighted average decrease of 23% in export iron ore prices realised, increased waste mined at Sishen and Kolomela mines and above inflationary cost escalations. This was partially offset by a 7% increase in export sales volumes and a 13% weaker exchange rate. Attributable and headline earnings for the year were R38.02 and R37.97 per share respectively. A final cash dividend of R12.50 per share has been declared (total dividend for 2012 is R31.70 per share; 2011: R44.20 per share).

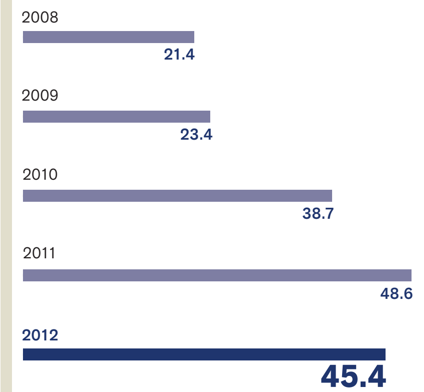
KEY INDICATORS OF OPERATIONAL PERFORMANCE

Rand million	**2012**	2011	% change	2010
Revenue	45,446	48,553	(6%)	38,704
Operating expenses	(22,293)	(16,587)	34%	(13,573)
Operating expenses (excl. mineral royalty)	(21,166)	(14,825)	43%	(12,163)
Mineral royalty	(1,127)	(1,762)	(36%)	(1,410)
Operating profit	23,153	31,966	(28%)	25,131
Operating margin (%)	51	66		65
Headline earnings	12,198	17,048	(28%)	14,328
Cash from operations	24,170	32,814	(26%)	25,555
Capital expenditure	5,399	5,849	(8%)	4,723

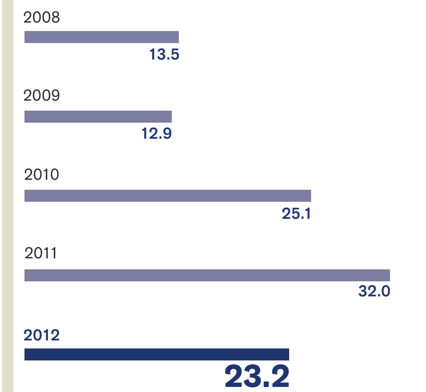
SISHEN MINE UNIT CASH COST
Rand per tonne



REVENUE
Rand billion



OPERATING PROFIT
Rand billion



KEY FEATURES

- Record total production: up 4% to **43.1 Mt**
- Record export sales volumes: up 7% to **39.7 Mt**
- Revenue: down 6% to **R45.4bn**
- Headline earnings: **R37.97** per share
- Final cash dividend: **R12.50** per share

REVENUE

The group's total mining revenue (excluding shipping operations) reduced by 8% to R42.3 billion (2011: R45.8 billion). Revenue from shipping operations increased by 19% to R3.2 billion (2011: R2.7 billion).

The decrease in mining revenue was driven by a weighted average decrease of 23% in export iron ore prices compared to 2011, in line with index prices, a R10.2 billion fall year on year. 2012 was characterised by considerable volatility, especially in the third quarter, when prices fell from US$138/tonne at the start of the quarter to US$89/tonne by early September, as Chinese steel mills depleted stockpiles and reduced raw material inventory levels to as little as 17 days' worth of production requirements. This sharp decline appeared largely to have been sentiment driven, fuelled by a negative view of China's future growth prospects. Iron ore prices reached a high of US$151/tonne (62% Fe CFR China) in April 2012, before stabilising around US$130/tonne towards the end of the year. The market recovered at the end of 2012 driven by positive sentiments following stronger Chinese demand and steel mills returning to the market, which was reflected in the marked increase in index iron ore prices at the time. For 2012 as a whole, index prices averaged US$130/tonne (CFR 62%Fe Platts), down 23% on 2011's average of US$169/tonne.

The group increased export sales volume by 7% to 39.7 Mt, underpinned by the exceptional performance of Kolomela mine, which partially offset the lower prices realised by some R2 billion.

The average Rand/US$ exchange rate of R8.19 to the US dollar was 13% weaker than the R7.25 achieved during 2011, which positively impacted revenue by R4.5 billion as most of our sales contracts are in US Dollars.

The revenue from shipping operations of R3.2 billion was R481 million up on the R2.7 billion earned during 2011. This revenue was earned on total tonnes of 24.1 Mt (2011: 21.7 Mt) shipped by Kumba on behalf of customers, at lower margins than 2011.

The segmental analysis of revenue for the year is illustrated to the right. A new segment, Logistics, has been reported for 2012, following an internal restructuring. It represents our rail and port segments. Sishen and Kolomela mines sell their ore available for export to the logistics segment, which then sells the ore to external customers through the marketing organisation.

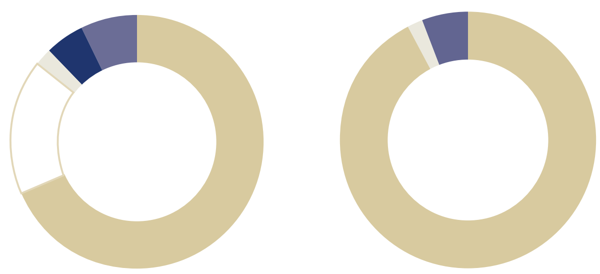
69% of revenue was earned from sales to customers in China, 18% from customers based in the rest of Asia (including 2% from India) and 11% from European customers.

ATTRIBUTABLE EARNINGS AND DIVIDEND PER SHARE

Rand per share

REVENUE - SEGMENTAL ANALYSIS

Rand billion



2012

Sishen mine	31.2
Kolomela mine	7.8
Thabazimbi mine	1.0
Logistics and inter-segment elimination	2.3
Shipping	3.2

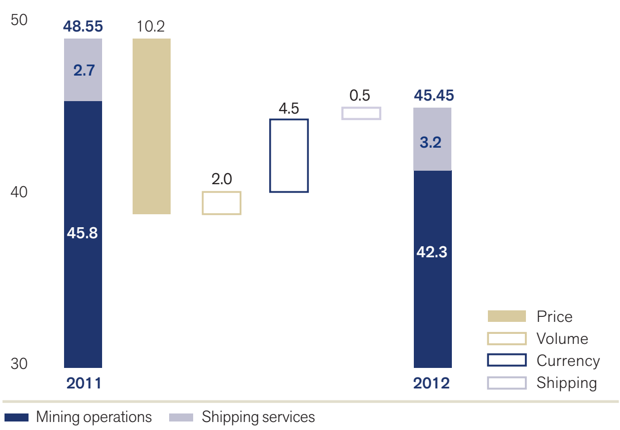
2011

Sishen mine	44.9
Thabazimbi mine	0.9
Shipping	2.7

*Kolomela mine generated revenue of R32 million

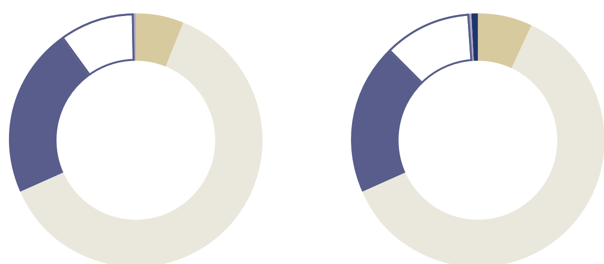
ANALYSIS OF REVENUE

Rand billion



REVENUE - GEOGRAPHICAL ANALYSIS

Rand billion



2012

South Africa	2.8
China	28.3
Japan, South Korea and India	9.9
Europe	4.3
Middle East	0.1
Americas*	–

2011

South Africa	3.4
China	29.9
Japan, South Korea and India	9.3
Europe	5.5
Middle East	0.2
Americas	0.3

* R nil revenue in 2012

FINANCIAL REVIEW continued

for the year ended 31 December 2012

OPERATING EXPENDITURE

Operating expenditure for the year was made up as follows:

Rand million	2012	2011
Production costs	13,832	8,910
Movement in inventories	59	(149)
Finished products	441	247
Work-in-progress	(382)	(396)
Cost of goods sold	**13,891**	**8,761**
Mineral royalty	1,127	1,762
Selling and distribution costs	4,065	3,698
Cost of services rendered – shipping	3,222	2,374
Sub-lease rent received	(12)	(8)
Operating expenses	**22,293**	**16,587**

Operating expenses increased by 34% year on year from R16.6 billion to R22.3 billion. Mining operating expenses increased by R5.5 billion or 44% from 2011 (calculated on operating expenses excluding shipping expenses and the mineral royalty). Of this, R2.1 billion was as a result of the year on year increase in production costs of Kolomela mine. In 2012, Kolomela mine incurred R2.4 billion in production costs compared to the R332 million recorded in 2011. In 2011, R953 million was capitalised to property, plant and equipment as part of the directly attributable cost of bringing the mine into production in December 2011.

Although operating costs rose sharply in the year under review, this is largely the function of the company being in growth mode as well as the increased waste mined at Sishen and Kolomela, and also reflects increases in mining input costs above the inflation rate, which is in line with the rest of the industry. Kumba experienced mining inflation of around 8% in excess of CPI (such as the price of diesel which increased by 16%). In addition, operating costs remained under pressure due to large planned increases in waste mining activities. We used stockpiles during the strike to mitigate production shortfalls and support 7% higher sales volumes, which together with a R14 million movement in WIP inventory, accounted for R208 million of the total increase. In line with the group's strategy, we continued to grow volumes sold on a CFR basis. Freight costs of R3.2 billion accounted for an R848 million increase in total logistics costs.

Operating expenses were unfavourably affected by lower finance gains from the revaluation of US$ denominated monetary assets and derivative instruments, to the value of R148 million.

Selling and distribution costs rose by 10% year on year to R4.1 billion. This was primarily driven by rail and port tariff contractual increases, a 2% increase in volumes railed by Transnet to 40 Mt and a 5% increase in volumes loaded at the port, to 38.5 Mt.

UNIT CASH COST (R/TONNE)

As a result of the planned increase in mining activity at Sishen mine, the production shortfalls from the unprotected strike and above inflationary input cost escalations, the mine's unit cash cost increased by 39% to R210/tonne compared to R150/tonne at the end of 2011. Excluding the strike impact of approximately R20/tonne, it is estimated that it would have been approximately R190/tonne.

The R40/tonne increase in cash unit cost was driven by a few key factors:

- Inflationary pressures, principally on labour and contract mining, pushed up costs by almost R10/tonne;
- A number of cost items increasing well in excess of inflation, such as the price of diesel, which increased by 16% from R9.27 to R10.76 per litre. This accounted for nearly R12/tonne increases in excess of inflation;
- The increased mining activity referred to above added almost R10/tonne or 10%; and
- The production shortfalls added R28/tonne. The lower production had a significant impact on Sishen's unit cash cost due to a substantial fixed cost element.

Previously, waste mining at Sishen mine was anticipated to increase by an additional 30 Mt per year in line with the planned ramp-up that commenced in 2009. However, in order to make up mining volumes lost as a result of the strike, it is anticipated that an additional ~10 Mt to ~ 20 Mt of waste further to the 30 Mt detailed above, will need to be mined in 2013, which will put upward pressure on unit cash costs. In addition to normal mining inflation, increased waste stripping is expected to add R25 per incremental waste tonne.

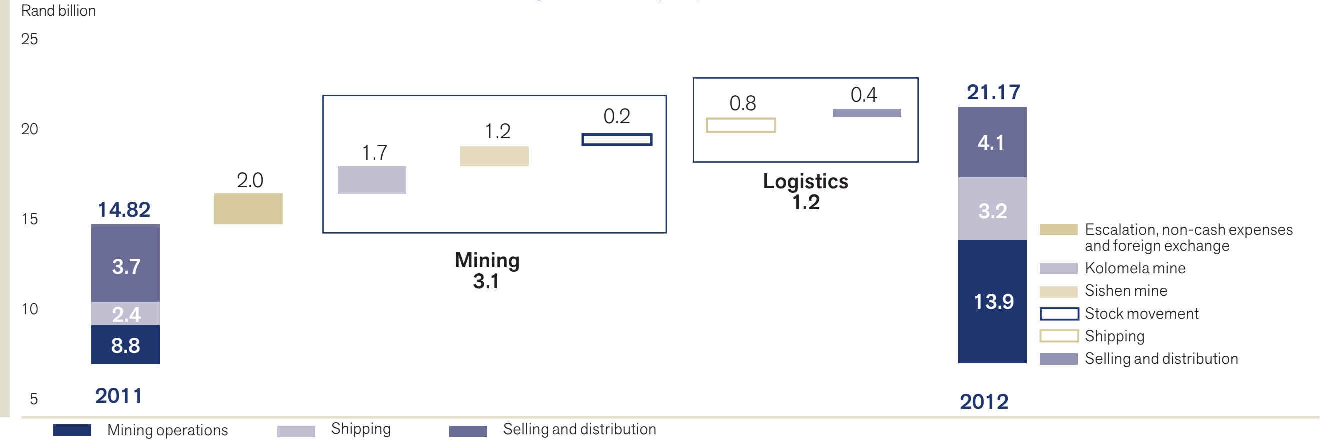
Kolomela mine's unit cash cost was R191/tonne for 2012. Waste mining at Kolomela mine is anticipated to increase as the new pits are opened up, which will put upward pressure on unit cash costs. Kolomela mine's cash unit cost is expected to be ~R180/tonne as the mine reaches full design capacity of 9 Mtpa in 2013.

The group's Asset Optimisation and Supply Chain programmes are now embedded in the business. Sishen mine's Asset Optimisation initiatives are focussed on improving the efficiency of mining operations on a sustainable basis. Through these initiatives and procurement savings we seek to contain some of the cost increases.

The Sishen mine unit cash cost structure per major cost component – both on a Rand per tonne as well as a percentage basis – is illustrated on the next page. Compared to 2011, all the components show a rise as a result of the increased scale of activity at the mine and cost pressures as discussed above. With the significant increase in the cost and utilisation of diesel, the relative contribution of fuel to Sishen mine's cost structure saw an increase of R10.70/tonne, as illustrated on the next page.

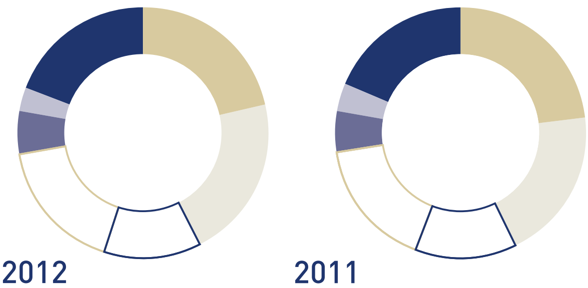
The Kolomela mine unit cash cost structure per major cost component on a Rand per tonne basis is illustrated on the next page.

ANALYSIS OF OPERATING EXPENDITURE (excluding mineral royalty)



SISHEN MINE – UNIT CASH COST STRUCTURE

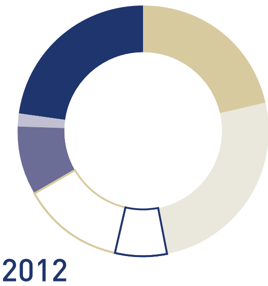
Rand per tonne



2012		2011	
Labour	45.32	Labour	34.75
Outside services	44.34	Outside services	29.76
Maintenance	26.00	Maintenance	19.53
Fuel	36.03	Fuel	25.33
Drilling and blasting	11.44	Drilling and blasting	7.91
Energy	6.81	Energy	5.32
Other	39.75	Other	27.87

KOLOMELA MINE – UNIT CASH COST STRUCTURE

Rand per tonne



2012	
Labour	41.19
Outside services	48.55
Maintenance	12.64
Fuel	25.25
Drilling and blasting	17.01
Energy	2.83
Other	43.36

OPERATING PROFIT (EBIT)

The group's operating profit margin declined to 51% (2011: 66%), primarily as a result of the 23% decrease in realised iron ore export prices. Excluding the net freight loss incurred from providing a shipping service to customers, the group's mining operating margin was 55% (2011: 69%).

Operating profit decreased by 28% to R23.2 billion (2011: R32.0 billion) mainly as a result of:

- a weighted average decrease of 23% in realised iron ore export prices, which reduced operating profit by R10.2 billion;
- a R5.1 billion or 39% increase in operating expenses (excluding selling and distribution expenses, shipping expenses and the mineral royalty) driven by the 17.6 Mt increase in waste mined at Sishen and Kolomela mines, inflationary pressures and a significant rise in the cost of diesel; and
- a net freight loss was incurred by the group's shipping operations of R30 million (profit of R337 million earned in 2011) as a result of volatile freight rates.

This decrease in operating profit was offset mainly by:

- the average Rand/US Dollar exchange rate of R8.19/US$1.00, which was 13% weaker than the R7.25 achieved during 2011 and resulted in an increase in revenue of R4.5 billion;
- the 7% growth in export sales volumes, which contributed R2.9 billion; and
- the mineral royalty for 2012, at an effective rate of 3.2% (2011: 4.4%) of free-on-rail (FOR) iron ore revenue, which resulted in a R635 million reduction in operating expenditure. The reduced rate resulted from the utilisation of significant capital expenditure, predominantly of Kolomela mine, together with reduced sales.

Other segments, which include the Corporate Office, Project and Technical Services of the group, contributed a net operating loss of R1.6 billion and R1.1 billion for 2012 and 2011 respectively.
Net finance costs incurred on a centralised basis were R303 million for 2012 (R92 million net finance income for 2011). Refer to note 36 in the annual financial statements for the detailed segment disclosure.

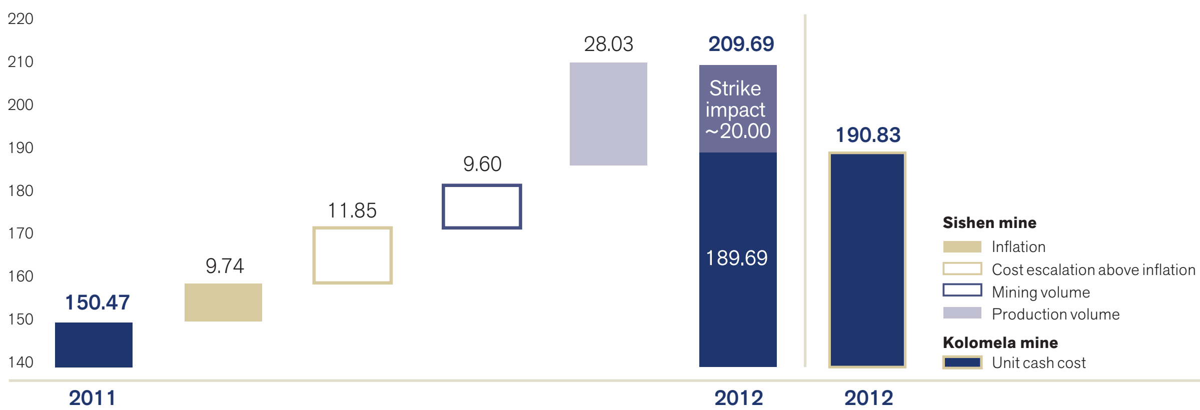
CAPITAL EXPENDITURE

During the year we completed a rigorous review of all our capital expenditure with the objective of ensuring that we spend appropriately and prudently, without compromising growth.

Capital expenditure of R5.4 billion was incurred in 2012, of which R2.2 billion was to expand operations and R3.2 billion was to maintain operations.

UNIT CASH COST

Rand per tonne



FINANCIAL REVIEW continued

for the year ended 31 December 2012

Rand million	2012	2011
Capital expenditure	**5,399**	**5,849**
Expansion	2,195	3,104
SIB	3,204	2,745
Transfers from assets under construction to property, plant and equipment	**3,905**	**8,952**

R2.2 billion was invested to expand operations, mainly on housing construction at Kolomela mine. Capital expenditure of R377 million was incurred on the Sishen Westerly Expansion Project (SWEP) in 2012 (2011: R317 million). This project will provide access to additional run of mine ore at Sishen mine from 2013. Total capital expenditure on this project is expected to be approximately R1 billion at completion in 2016.

SIB capital expenditure of R3.2 billion was driven by ramp-up capital of R1.9 billion for Sishen mining equipment, related workshop infrastructure and housing developments in and around Kathu.

Capital expenditure is forecast to peak in 2013 at between R4.6 billion and R5.2 billion. Expansion capex tapers off as Kolomela is brought into full production. The unapproved project pipeline in support of our growth strategy, is excluded.

CASH FLOWS

The group's cash generated from its operations, although 33% lower than the R34.3 billion of 2011, remains healthy at R25.3 billion (before the mineral royalty of R1.2 billion). These cash flows were used to pay dividends of R18.0 billion, taxation of R5.2 billion and mineral royalties of R1.2 billion during 2012.

Cash generated during the year was utilised as illustrated below.

NET DEBT AND LIQUIDITY

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

Rand million	2012	2011
Interest-bearing borrowings	5,869	3,191
Cash and cash equivalents	(1,527)	(4,742)
Net debt/(cash)	4,342	(1,551)
Total equity	19,309	20,592
Interest cover (times)	76	206

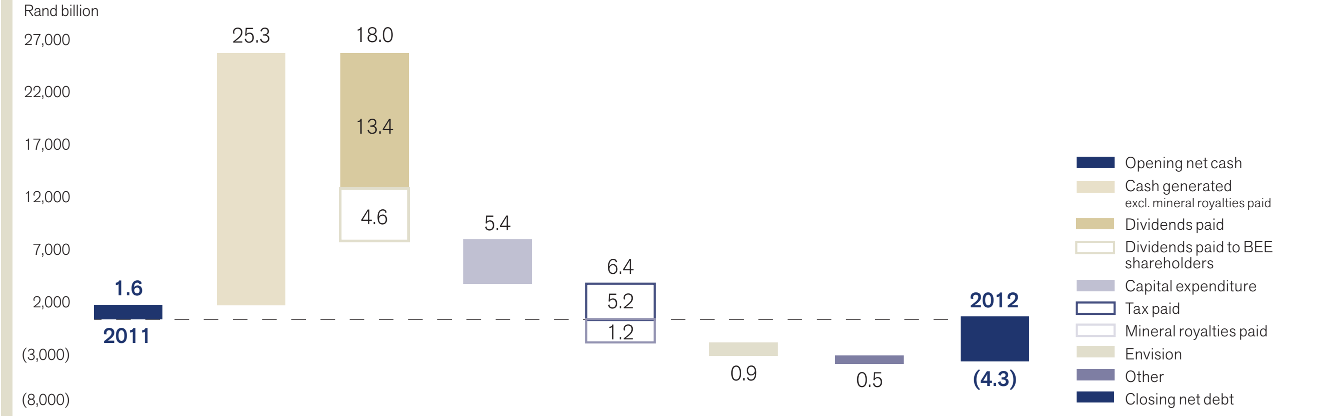
At 31 December 2012, R3.2 billion of the total R8.6 billion long-term debt facilities and R2.7 billion of the total short-term uncommitted facilities of R6.3 billion had been drawn down. Kumba was not in breach of any of its covenants during the year. The group had undrawn long-term borrowings and uncommitted short-term facilities at 31 December 2012 of R9.0 billion (2011: R9.3 billion).

Effective 1 January 2013, a committed debt facility of R6 billion was secured at more favourable rates, which replaced a maturing facility.

Kumba's debt profile has a longer term bias, which reflects both our capital investment programme as well as the excellent results generated by our operations. This has reduced the group's dependency on short-term borrowing facilities.

CASH GENERATED AND UTILISATION

Rand billion



SHAREHOLDER RETURNS

Share price

Kumba's share price has shown a further increase during the year, growing 14% from the closing price of R500 at 31 December 2011 to R569 at 31 December 2012. The share price has grown at a compound annual growth rate of 31% from the listing share price of R111 at the end of 2006. Kumba continued to outperform the mining index of the JSE during the year by some 17%.

KUMBA CLOSING SHARE PRICE

Rand per share

Dividends

Kumba continues to return cash to its shareholders and the group's dividend policy of returning surplus cash to shareholders remains unchanged. The board reviewed the cash flow generation, growth plans and the capital structure of Kumba and declared a final dividend of R12.50 per share (interim dividend R19.20 per share), bringing the total dividend for the year to R31.70 (2011: R44.20). The total dividend declared to shareholders since listing is R154.30 per share.

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

KUMBA DIVIDENDS

	Total dividend 2012	Final dividend 2012	Interim dividend 2012	Total dividend 2011	Total dividend 2010
Earnings per share (Rand per share)	38.02	14.97	23.05	53.11	44.66
Dividend per share (Rand per share)	31.70	12.50	19.20	44.20	34.50
Total dividend declared (Rm)	10,209	4,026	6,183	14,250	11,101
Dividend cover (times)	1.2	1.2	1.2	1.2	1.3

SIOC DIVIDENDS

Rand million	**2012**	2011	2010	2009	2008
Gross dividend declared by SIOC	13,797	21,192	15,381	6,925	9,928
STC	–	1,926	1,399	630	888
Dividend declared by SIOC	13,797	19,266	13,982	6,295	9,040
Kumba	10,200	14,250	10,348	4,658	6,690
Exxaro	2,757	3,851	2,796	1,259	1,808
Envision (Employee share ownership scheme)	426	587	419	189	271
SIOC – cdt	414	578	419	189	271

FINANCIAL REVIEW continued
for the year ended 31 December 2012

CONTRIBUTION TO BEE SHAREHOLDERS AND THE GOVERNMENT

One of Kumba's significant achievements since its inception has been the delivery of broad-based black economic empowerment (BBBEE) that the group believes exceeds the letter and spirit of the Mineral and Petroleum Resources Development Act (MPRDA), and further provides the group with a sustainable future. Kumba's compliance with the various elements of the Mining Charter has delivered economic opportunity. The most direct impact has been the benefits that have accrued to Kumba's BEE shareholders through both capital appreciation and the payment of substantial cash dividends.

The group's BEE shareholders have received in excess of R17 billion in dividends over the past six years.

Kumba's contribution to the South African fiscus by means of income tax and mineral royalty over the past six years amounted to R32.5 billion.

KEY FACTORS AFFECTING FUTURE OPERATING RESULTS

Export iron ore sales prices and volumes

A similar level of growth in global crude steel production of 2% is expected for 2013 as was seen in 2012, with China's crude steel production forecast to grow and reach 740 Mt, whilst growth in crude steel production in other developing countries is expected to be counter balanced by muted production growth in some of the developed markets. In 2013, Indian iron ore production is expected to remain under pressure as a result of domestic policy changes. However new supply capacity, primarily from Australia, is expected to partially offset this reduction in Indian supply.

The start of 2013 has seen a rapid price recovery in iron ore prices. The consensus view is that this rally will not be sustained throughout the year. However, some positive sentiment in relation to Chinese steel consumption growth has been restored and is expected to provide support to prices throughout the year. Seaborne iron ore supply growth may lead to iron ore prices softening in the second half of 2013, but on average prices are anticipated to be firmer than in 2012.

Export sales volumes in 2013 are anticipated to be in line with the volumes achieved in 2012. Domestic sales volumes from Sishen mine to AMSA are anticipated to be 4.8 Mt, in line with the interim pricing agreement.

Exchange rate

A significant proportion of our turnover and capital expenditure is affected by the Rand/US Dollar exchange rate, and as such Kumba's operating profit remains highly sensitive to the Rand/US Dollar exchange rate. For the next period we do anticipate some stability.

Operating expenses

Annual production volumes from Sishen mine are expected to increase from the 33.7 Mt achieved in 2012, to at least 37 Mt in 2013. Although this is lower than previously guided due to the knock on effect of the unprotected strike in 2012, this should aid in containing unit cost increases. Waste mining at Sishen mine is anticipated to increase in line with the planned ramp up that commenced in 2009, which will put upward pressure on unit cash costs of production.

RAND/US DOLLAR EXCHANGE RATE

SIGNIFICANT ACCOUNTING MATTERS

Change in accounting estimates

Management has revised the estimated rehabilitation and decommissioning provisions at Sishen, Kolomela and Thabazimbi mines as a result of ongoing mining activities as well as an independent review, refinement and standardisation of the models and assumptions used to determine all the closure cost estimates across the group.

The life of mine plan on which accounting estimates are based, only includes proved and probable ore resources as disclosed in Kumba's annual ore reserves and mineral resources statement. The effect of these changes is detailed below:

Rand million	2012
Increase in environmental rehabilitation provision	371
Increase in decommissioning provision	70

The change in estimate in the environmental rehabilitation provision was applied prospectively and resulted in a decrease in profit before taxation and headline earnings per share of R371 million and 89 cents, respectively, for the year ended 31 December 2012. The change in estimate in the decommissioning provision was capitalised to the related property, plant and equipment.

Accounting policies

There were no IFRSs, amendments to IASs or IFRIC interpretations that were effective for the first time for the financial year beginning on or after 1 January 2012 that had a material impact on the group.

The accounting standards, amendments to issued accounting standards and interpretations, which are relevant to the group but not yet effective at 31 December 2012, are being evaluated to determine the impact of these pronouncements. Refer to pages 30 to 39 for the full accounting policies.

CONCLUSION

As we go forward into the next financial year we hope to benefit from iron ore price improvements flowing from a recovery in the global economic outlook and to further grow production volumes.

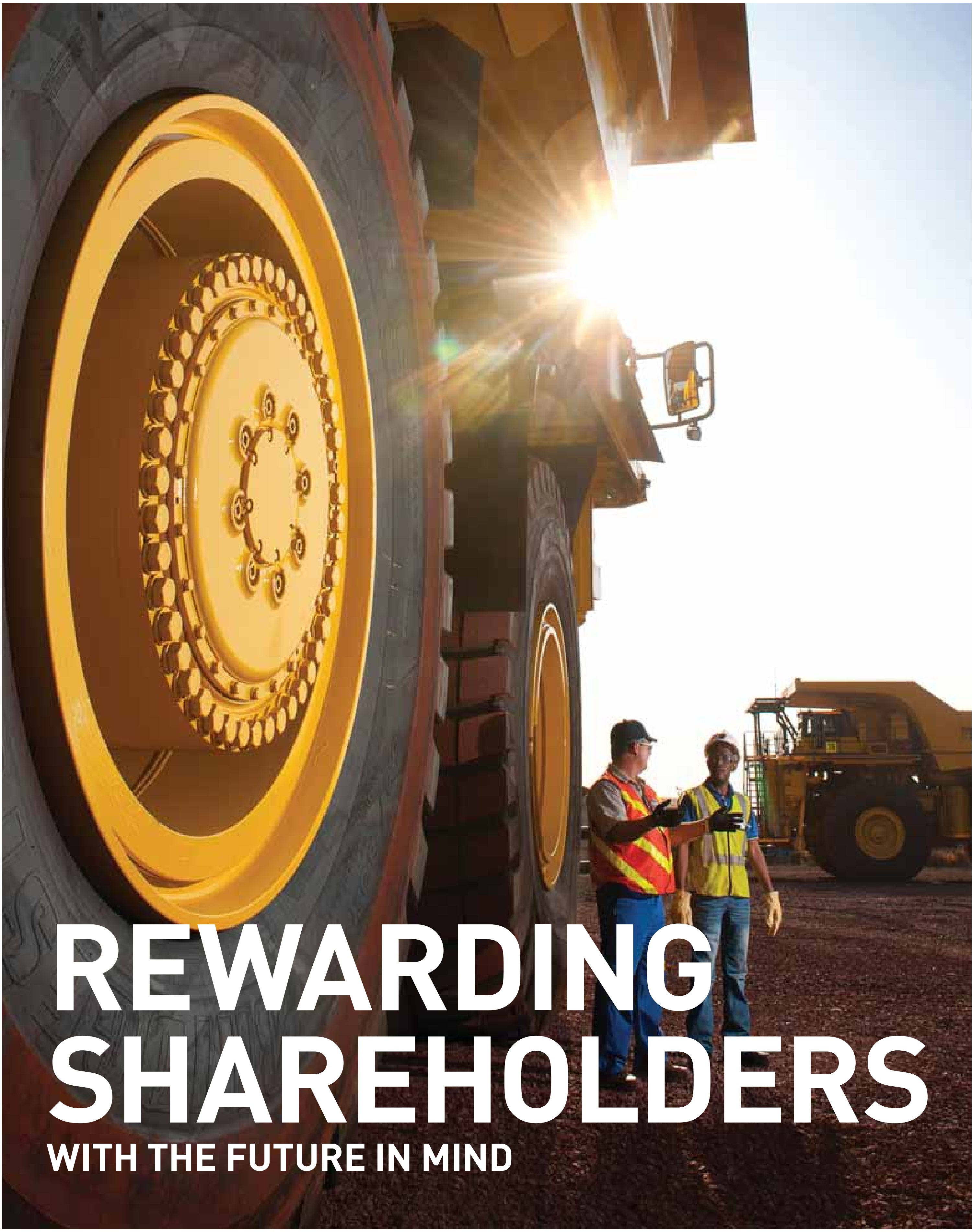
Notwithstanding the achievements of 2012, we cannot be complacent, and remain watchful and alive to matters which could potentially threaten our key stakeholder relationships and ultimately our business.

We remain committed to our Envision programme, emphasising productivity, employee retention, skills attraction and other fundamental business drivers, while also keeping a watchful eye on the social and community development issues.

For more information on Kumba's business performance and our response to the material issues facing our business, refer to the business performance section on pages 18 to 65 of the Integrated Report 2012.

STRATEGIC ELEMENT: Leaving a positive legacy

01



REWARDING SHAREHOLDERS

WITH THE FUTURE IN MIND

We unfailingly deliver exceptional returns to our shareholders despite the challenging mining environment and volatile global iron ore markets.

Our shareholders enjoy sustained growth because we continue to focus keenly on a long-term strategy of value accretion which underpins our aspirations. Our strategy aims to ensure that the returns on our shareholders' investment are sustained.

In the year ahead, shareholders can look forward to more of the same as we keep a close watch on supply and demand globally – encouraged by positive sentiment that the recent improvement in the global economic outlook is expected to have a positive impact on the steel market and, consequently, demand for iron ore.

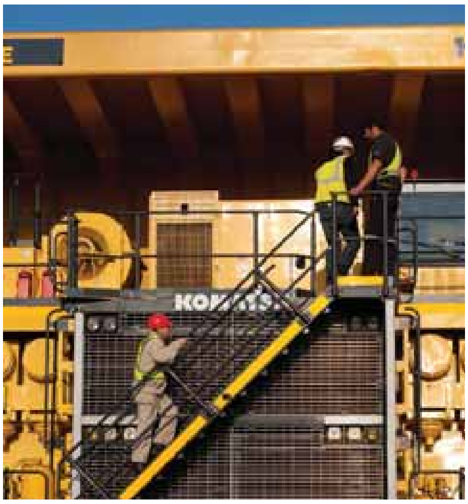
CASH RETURNED TO SHAREHOLDERS
(2011: R17.9bn)

R18.0bn

Kumba share price outperformed the mining index by

17%

03


02


ATTRIBUTABLE EARNINGS AND DIVIDEND PER SHARE
Rand per share

31%

ANNUALISED COMPOUND GROWTH RATE IN SHARE PRICE SINCE LISTING

"Kumba's dividend policy of returning surplus cash to shareholders remains unchanged"

Frikkie Kotzee
Chief financial officer

1.2

DIVIDEND COVER MAINTAINED FOR THE PAST TWO YEARS

Images
01 Floris Ellis, foreman at the heavy mining equipment assembly yard, and Botumelo Ruiter, safety officer, next to one of the Komatsu 960E haul trucks.
02 The Komatsu 960 haul trucks on which the collision avoidance system has been fitted.
03 The start of another shift at Sishen mine.

For more detail on shareholder returns, refer to page 09 of this report as well as the Chairman's Report on pages 10 and 11 of the Integrated Report 2012.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

for the year ended 31 December 2012

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

The annual financial statements, set out on pages 30 to 81, are based on appropriate accounting policies which have been consistently applied and which are supported by reasonable and prudent judgements and estimates, and comprise of the balance sheets at 31 December 2012; the income statements, the statements of comprehensive income, the statements of changes in equity and cash flow statements for the year then ended; the notes to the financial statements, which include a summary of principal accounting policies and other explanatory notes; the directors' report, the audit committee report and the company secretary report.

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

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

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

The independent auditors are responsible for reporting on whether the group annual financial statements and the company annual financial statements are fairly presented in accordance with the applicable financial reporting framework. The independent auditor's report to the shareholders of the group and Kumba is set out on page 27 of this report.

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

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

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

Approval of audited Group Annual Financial Statements and Annual Financial Statements

The audited group annual financial statements on pages 30 to 73 and the audited annual financial statements on pages 74 to 79 of Kumba Iron Ore Limited were approved by the Kumba board of directors on 8 February 2013 and are subject to approval by the shareholders at the annual general meeting on 13 May 2013. The group and company annual financial statements are signed on the directors' behalf by:

F Titi
Chairman

NB Mbazima
Chief executive

8 February 2013

CERTIFICATE OF THE COMPANY SECRETARY

for the year ended 31 December 2012

I, VF Malie, in my capacity as company secretary, confirm that, for the year ended 31 December 2012, Kumba Iron Ore Limited has lodged with the Registrar of Companies all such returns and notices as are required of a public company in terms of the South African Companies Act No 71 of 2008 (as amended), and that all such returns and notices are true, correct and up to date.

VF Malie
Company secretary

8 February 2013

DIRECTORS' REPORT
for the year ended 31 December 2012

The directors have pleasure in presenting the annual financial statements of Kumba and the group for the year ended 31 December 2012.

Nature of business
Kumba was incorporated in South Africa on 16 May 2005 and commenced trading in November 2006 following the unbundling of Kumba from Exxaro Resources Limited (previously Kumba Resources Limited). Subsequent to unbundling Kumba listed on the JSE on 20 November 2006, and since then remains as the only pure play iron ore company on the JSE.

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

The nature of the businesses of the group's subsidiaries, associates and joint ventures is set out in annexures 1 and 2, on pages 80 and 81 of this report.

Corporate governance
The group subscribes to the Code of Good Corporate Practices and Conduct as contained in the King III report on corporate governance. The board has satisfied itself that Kumba has complied in all material aspects with the code as well as the JSE Listings Requirements throughout the year under review.

The corporate governance report is set out on pages 77 to 81 of the Integrated Report 2012.

Financial results
The financial statements on pages 30 to 81 set out fully the financial position, results of operations and cash flows of the group for the financial year ended 31 December 2012. The financial statements have been prepared under the supervision of FT Kotzee, CA(SA), chief financial officer.

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

Rand million	2012	2011	% Decrease
Revenue	45,446	48,553	(6%)
Operating profit	23,153	31,966	(28%)
Cash generated from operations (excluding mineral royalties paid)	25,330	34,331	(26%)

The group's total mining revenue (excluding shipping operations) reduced by 8% to R42.3 billion (2011: R45.8 billion).

Revenue from shipping operations increased by 19% to R3.2 billion (2011: R2.7 billion).

Primarily as a result of the 23% decrease in realised export prices, the group's operating profit margin declined to 51% (2011: 66%). Excluding the net freight loss incurred from providing a shipping service to customers, the group's mining operating margin was 55% (2011: 69%).

Operating profit decreased by 28% to R23.2 billion (2011: R32.0 billion) principally as a result of:

- a weighted average decrease of 23% in realised iron ore export prices, which reduced operating profit by R10.2 billion;
- a R5.1 billion or 39% increase in operating expenses (excluding selling and distribution expenses, shipping expenses and the mineral royalty) driven by the 17.6 Mt increase in waste mined at Sishen and Kolomela mines, inflationary pressures and a significant rise in the cost of diesel. Of this, R2.1 billion was as a result of the year on year increase in production costs of Kolomela mine. In 2012, Kolomela mine incurred R2.4 billion production costs compared to the R332 million recorded in 2011. In 2011, R953 million incurred on 34.6 Mt of material mined, were capitalised to property, plant and equipment as part of the directly attributable cost of bringing the mine into production in December 2011; and
- a net freight loss was incurred by the group's shipping operations of R30 million (profit of R337 million earned in 2011) as a result of volatile freight rates. Total tonnes shipped by Kumba on behalf of customers increased by 2.4 Mt to 24.1 Mt (2011: 21.7 Mt).

This decrease in operating profit was offset mainly by:

- the average Rand/US$ exchange rate of R8.19/USD, which was 13% weaker than the R7.25 achieved during 2011 and resulted in an increase in revenue of R4.5 billion;
- the 7% growth in export sales volumes, which contributed R2.9 billion; and
- the mineral royalty for 2012, at an effective rate of 3.2% (2011: 4.4%) of free-on-rail (FOR) iron ore revenue, which resulted in a R635 million reduction in operating expenditure. The reduced rate resulted from the utilisation of significant capital expenditure, predominantly of Kolomela mine, together with reduced sales.

The group's cash generated from its operations, although 33% lower than the R34.3 billion of 2011, remains healthy at R25.3 billion (before the mineral royalty of R1.2 billion). These cash flows were used to pay aggregate dividends of R18 billion, taxation of R5.2 billion and mineral royalties of R1.2 billion during 2012.

Attributable and headline earnings for the year were R38.02 and R37.97 per share respectively. Refer to note 20, 'Per share information', of the group annual financial statements for an analysis of movements in the group's basic and headline earnings per share.

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

Rand million	2012	2011	% Increase / (decrease)
Property, plant and equipment	24,765	20,878	19%
Working capital (excluding cash and cash equivalents)	5,456	2,845	92%
Net debt/(cash)	4,342	(1,551)	(380%)

Property, plant and equipment
Capital expenditure of R5.4 billion was incurred, of which R3.2 billion was to maintain operations, mainly for Sishen mine's fleet expansion programme and workshop infrastructure. R2.2 billion was invested to expand operations, mainly on housing construction at Kolomela mine. Included in the R2.2 billion was capital expenditure of R377 million incurred on the Sishen Westerly Expansion Project (SWEP) (2011: R317 million). This project will provide access to additional run of mine ore at Sishen mine from 2013. Total capital expenditure on this project is expected to be approximately R1 billion at completion in 2016.

Working capital
Net working capital increased by R2.6 billion from 31 December 2011 to R5.5 billion. This increase is due to an increase in the trade receivables balance on the back of an increase in sales volumes in December 2012 relative to December 2011, as well as a decrease in payables as a result of the employees' tax in 2011 for the Envision payout which was paid in 2012.

DIRECTORS' REPORT continued
for the year ended 31 December 2012

Net debt/(cash)
At 31 December 2012 the group was in a net debt position of R4.3 billion (2011: R1.6 billion net cash), with R3.2 billion of the total R8.6 billion long-term debt facilities and R2.7 billion of the total short-term uncommitted facilities of R6.3 billion being drawn down. Kumba was not in breach of any of its covenants during the year. The group had undrawn long-term borrowing and uncommitted short-term facilities at 31 December 2012 of R9.0 billion (2011: R9.3 billion).

Accounting policies
There were no International Financial Reporting Standards (IFRS), amendments to International Accounting Standards (IASs) or International Financial Reporting Interpretation Committee (IFRIC) interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that had a material impact on the group.

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

Share movements

Rand million	2012	2011
Balance at beginning of year	30	153
Total shares issued for cash consideration	5	16
Net movement in treasury shares under employee share incentive schemes	(156)	(139)
Share capital and share premium	**(121)**	**30**

The group acquired 473,435 (2011: 550,781) of its own shares through purchases on the JSE during the year. The total amount paid to acquire the shares was R261 million (2011: R278 million). The shares are held as treasury shares and the purchase consideration has been deducted from equity.

Unissued shares
The directors are authorised to issue unissued shares until the next annual general meeting. Shareholders will be asked to extend the authority of the directors to control the unissued shares of the company at the forthcoming annual general meeting, up to a maximum of 5% of the issued capital.

Dividends
On 20 August 2012, an interim dividend of R19.20 per share was paid. A final dividend of R12.50 per share was declared on 12 February 2013 from profits accrued during the financial year ended 31 December 2012. The total dividend for the year amounted to R31.70 per share.

The total cash flow of the final dividend of R12.50 per share, paid on 18 March 2013, is R5.2 billion.

The board of directors is satisfied that the capital remaining after payment of the final dividend is sufficient to support the current operations and, after considering all reasonable foreseeable financial circumstances, that the company complies with the requisite liquidity and solvency tests.

Subsidiaries, joint ventures and associates
Full particulars of the group's investment in subsidiaries, associates and joint ventures are set out in annexures 1 and 2 on pages 80 and 81.

Equity compensation plans
Refer to the detailed remuneration report on pages 20 to 26, note 22, 'Equity-settled share-based payment reserve', for a detailed discussion and analysis of movements in the group's various equity compensation plans available to executive directors and senior employees.

Segment results
Refer to note 36 for a detailed segmental analysis of the group's operating results for the year ended and financial position as at 31 December 2012.

Holding company and related parties
Anglo American plc is the group's ultimate holding company. The interest in the group is held through a 69.72% holding by Anglo South Africa Capital Proprietary Limited (2011: 65.22%).

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

Subsequent events
The shareholders approved the Memorandum of Incorporation of Kumba at a general meeting held on 18 January 2013.

Refer to note 34 for a detailed description of post-balance events for the year ended 31 December 2012.

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

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

Following the arbitration award rendered in July 2010, a mutually agreed settlement was concluded between the parties. The parties agreed that the precise terms of the settlement agreement will remain confidential. The first settlement was paid by the Republic of Senegal in April 2011. A portion of the second instalment was received in December 2012, the remainder of which was received on 1 March 2013.

In terms of the settlement agreement, the remaining settlement amount is expected to be recovered in equal instalments from the Republic of Senegal over the remaining three-year period, on which contingent legal costs will be payable. A portion of the amount recovered was committed to social and community development projects to benefit the population of Senegal.

There have been no other significant changes in the contingent assets and liabilities disclosed at 31 December 2011.

Legal proceedings
Sishen Supply Agreement arbitration – AMSA
A dispute arose between SIOC and ArcelorMittal South Africa Limited (AMSA) in February 2010, in relation to SIOC's contention that the contract mining agreement concluded between them in 2001 had become inoperative as a result of the fact that AMSA had failed to convert its old order mining rights. This dispute has been referred to arbitration. On 9 December 2011, SIOC and AMSA agreed to delay the arbitration proceedings in relation to the Sishen Supply Agreement until the final resolution of the mining rights dispute. This arbitration is only expected to commence in the fourth quarter of 2013, with possible resolution only expected in the third quarter of 2014 at the earliest.

An Interim Pricing Agreement between SIOC and AMSA was in place until 31 July 2012 and was extended to 31 December 2012. In December 2012 a further interim agreement was concluded after negotiations which were facilitated by the Department of Trade and Industry (DTI). The further interim agreement will govern the sale of iron ore from the Sishen Mine to AMSA for the period 1 January 2013 to 31 December 2013, or until the conclusion of the legal processes in relation to the 2001 Sishen Supply agreement (whichever is the sooner), at a weighted average price of US$65 per tonne. Of the total 4.8 Mt, about 1.5 Mt is anticipated to be railed to Saldanha Steel and the rest to AMSA's inland operations.

21.4% undivided share of the Sishen mine mineral rights

On 3 February 2012 both the Department of Mineral Resources (DMR) and Imperial Crown Trading 289 Proprietary Limited (ICT) submitted applications for leave to appeal against the High Court judgment delivered in December 2011. SIOC applied for leave to present a conditional cross-appeal, in order to protect its rights. The Supreme Court of Appeal (SCA) hearing was held on 19 February 2013, and the SCA judgment is expected to be received in the second quarter of 2013.

The High Court order did not affect the interim supply agreement between AMSA and SIOC, which was in place until 31 July 2012 and was extended to 31 December 2012 as indicated in the Sishen Supply Agreement arbitration section above.

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

Project Phoenix dispute

A dispute exists between AMSA and SIOC concerning AMSA's contention that it holds an entitlement to require SIOC to supply AMSA with iron ore produced from the Phoenix project in terms of the Thabazimbi Supply Agreement. The Phoenix project is a reserve located within the Thabazimbi mining licence area. SIOC is the holder of such mining right. In November 2001, a 'captive mine supply agreement was concluded with AMSA in terms of which ore produced at Thabazimbi is supplied to AMSA on a cost-plus basis. There are a number of provisions in this agreement that regulate the development of future ore reserves.

AMSA took a strategic decision in November 2006 not to participate in the Phoenix project. Kumba accepted AMSA's election and decided to develop the Phoenix project independently and at its own cost.

In 2011, AMSA indicated that it now wished to pursue the Phoenix project, and formally declared a dispute with Kumba early in 2012 on the basis that the supply agreement entitles AMSA to obtain all ore from Thabazimbi.

Kumba rejected this premise and, in line with the supply agreement dispute mechanisms, a mediation meeting of the respective chief executives was held on 6 June 2012, without resolution.

The agreement requires that disputes are thereafter escalated to arbitration. The matter has not subsequently progressed.

Sishen Supply Agreement cost recovery

A dispute relating to historical cost recovery by SIOC, in terms of the Sishen-AMSA supply agreement (prior to 2010) has been declared by AMSA. A mediation meeting of the respective chief executives held on 6 June 2012, as provided for in the supply agreement as a first step in dispute resolution, has not resulted in a resolution.

AMSA has indicated its intention to pursue the matter. Kumba will defend its position.

Lithos Corporation Proprietary Limited

Lithos Corporation Proprietary Limited is claiming US$421 million from Kumba for damages in relation to the Falémé project in Senegal. Kumba continues to defend the merits of the claim and is of the view, and has been so advised, that the basis of the claim and the quantification thereof is fundamentally flawed. The trial commenced in the first quarter of 2013.

Company secretary

The company secretary of Kumba is Mr VF Malie. The contact details of the company secretary are set out on page 88.

Refer to page 23 of the Integrated Report 2012 for Mr Malie's abridged CV.

Directors

The names of the directors in office during the year and at the date of this report are set out on pages 12 and 13 of the Integrated Report 2012.

The remuneration and fees of directors as well as directors' beneficial interests in Kumba are set out in the detailed remuneration report on pages 25 and 26.

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

	Designation	Date
Resignation:		
Mr Chris Griffith	Executive director and chief executive	31 August 2012
Mr Peter Matlare	Non-executive director	31 March 2012
Mr Godfrey Gomwe	Non-executive director	15 October 2012
Appointment:		
Mr Fani Titi	Chairman	1 October 2012
Mr Norman Mbazima	Executive director and chief executive	1 September 2012
Mr Frikkie Kotzee	Executive director and chief financial officer	1 June 2012
Ms Buyelwa Sonjica	Non-executive director	1 June 2012
Ms Khanyisile Kweyama	Non-executive director	15 October 2012

Prescribed officers

The names of the prescribed officers during the year and at the date of this report are set out on page 25.

The remuneration structure and fees of the prescribed officers are set out in the detailed remuneration report on pages 24 and 25.

Auditors

Deloitte & Touche continued in office as auditors of Kumba and its subsidiaries. At the annual general meeting on 10 May 2013, shareholders will be requested to re-appoint Deloitte & Touche as auditors of Kumba for the 2013 financial year.

Special resolution

On 4 May 2012 the shareholders of Kumba resolved that the company and any of its subsidiaries may from time-to-time be authorised to acquire the company's own shares subject to the articles of association of the company, the provisions of the Companies Act and the Listings Requirements of the JSE.

Going concern statement

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

REPORT OF THE AUDIT COMMITTEE

for the year ended 31 December 2012

Introduction

The committee is pleased to present its report for the financial year ended 31 December 2012 as recommended by the King Report's principles of good corporate governance (King III) and in line with the South African Companies Act No 71 of 2008 (as amended).

The Audit Committee is constituted as a statutory committee of the group, as well as a board committee approved by the board.

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

Its mandate includes:

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

Composition

The Audit Committee, appointed by the board and approved by the shareholders in respect of the financial year ended 31 December 2012, comprised the following independent non-executive directors, who have the requisite financial skills and experience to fulfil the committee's duties:

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

Details of the members of the Audit Committee are available on pages 12 and 13 of the Integrated Report 2012 as well as on the company website at: www.angloamericankumba.com/au_directorate.php.

During the year under review the current members of the committee were nominated by the board for re-election and all the members availed themselves for re-election by shareholders at the 2012 annual general meeting and were re-elected accordingly.

Frequency and attendance of Audit Committee meetings

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

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

Member	3 Feb	14 March	10 May	16 July	8 Nov
ZBM Bassa	✓	✓	✓	✓	✓
DD Mokgatle	✓	✓	✓	✓	✓
AJ Morgan	✓	✓	✓	✓	✓
LM Nyhonyha	✓	✓	✓	✓	✓

✓ Indicates attendance

Oversight for risk management

Although the board has a Risk Committee to assist with the discharge of its duties with regard to the integrated risk management process, the Audit Committee has an interest in risk management as a result of its responsibility for internal controls. The chairman of the group's Risk Committee, Litha Nyhonyha, is a member of the Audit Committee and the chairman of the Audit Committee, Zarina Bassa, is a member of the Risk Committee, to ensure that the Audit Committee is aware of matters canvassed by the Risk Committee which may impact the control environment. Zarina Bassa was chairman of the Risk Committee until 30 June 2012. All the other members of the Audit Committee are also members of the Risk Committee.

Internal audit

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

The internal audit plan for the 2012 financial year was reviewed and approved by the committee. The year under review saw an extensive rollout of internal financial controls testing for effectiveness and adequacy as elaborated on below.

Internal audit provides assurance that the company operates in a responsibly governed manner by performing the following functions:

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

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

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

Duties carried out in 2012

The committee is satisfied that, during the financial year ended 31 December 2012, it has considered and discharged its duties and responsibilities as required by section 94(2) of the South African Companies Act No 71 of 2008 (as amended), the King III Report, the committee's terms of reference and in accordance with its annual plan.

Statutory duties of the committee:

- evaluated the independence and effectiveness of the external auditors, Deloitte, and having conducted such assessment, accordingly nominates Deloitte as independent auditors to continue in office until the conclusion of the 2013 annual general meeting, noting that Grant Krog would be withdrawing from the Deloitte partnership and Sebastian Carter is proposed to take over from him. The committee agreed to recommend the approval of Sebastian Carter as the lead partner to the board and shareholders;
- considered and approved the audit fee payable to the external auditors for the year ended 31 December 2012;

- ensured and satisfied itself that the appointment of the external auditor is in compliance with the South African Companies Act No 71 of 2008, The Auditing Professions Act, 2005 and the Listings Requirements of the JSE; and
- considered and pre-approved non-audit services and fees provided by the external auditors in terms of an established policy to ensure that the independence of the external auditors is not compromised.
- performed the Audit Committee functions for subsidiaries within the group as contemplated in section 90 of the Companies Act.
- reviewed the findings of the external assurance provider, PwC, emanating from the performance of an independent assurance exercise on the sustainability content of the integrated report. The committee is satisfied with the findings of the independent assurance exercise and in addition has reviewed the sustainability information set out in the integrated report and is satisfied that the sustainability information is reliable and consistent with the information contained in the annual financial statements.

The committee performed the following additional duties:

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

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

Legal matters
Updates on the legal matters are provided at the committee's meetings.

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

Finance function and chief financial officer
The committee conducted an assessment of the appropriateness, skills, expertise and resourcing of the finance function and was satisfied with the overall adequacy and appropriateness of the function.
The committee further reviewed the expertise and experience of the chief financial officer, Frikkie Kotzee (view Mr Kotzee's abridged profile on page 12 of the Integrated Report 2012) and was satisfied with the appropriateness of the expertise and experience of the chief financial officer, as well as the acting chief financial officer, Martin Poggiolini, who acted in this capacity from 1 January 2012 to 31 May 2012.

Going concern
The Audit Committee has reviewed a documented assessment, including key assumptions, prepared by management of the going concern status of the group and has made recommendation to the board in accordance therewith. The board's statement on the going concern status of the group, as supported by the Audit Committee, is found on page 17 of this report.

Annual financial statements
The Audit Committee has evaluated the group and company annual financial statements for the year ended 31 December 2012 and concluded that they comply, in all material aspects, with the requirements of the South African Companies Act No 71 of 2008 (as amended) and IFRS.

The committee has therefore recommended the approval of the annual financial statements to the board.

Integrated report
The committee fulfils an oversight role regarding the group's integrated report and its reporting processes and having regard to material factors that may impact on the integrity of the information, has recommended the integrated report for approval by the board.

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

ZBM Bassa
Chairman, Audit Committee

8 February 2013

REMUNERATION REPORT

for the year ended 31 December 2012

1. KEY FEATURES

During 2012 the following were some of the key developments and activities of the Human Resources, Remuneration and Nomination Committee (Remco):

- The Remco reviewed the composition of the Kumba Board and its Committees to ensure that the members possess the required expertise and experience. The following charges in the board occurred during the year:
  - Mr Allen Morgan, who served as interim non-executive chairman of the board, was replaced by Mr Fani Titi effective 1 October 2012.
  - Ms Buyelwa Sonjica was appointed as non-executive director to the board, and as a member of the Social and Ethics and Risk Committees.
  - Ms Khanyisile Kweyama was appointed as non-executive director to the board and as a member of the Social and Ethics committee and Remco.
  - Non-executive directors, Messrs PB Matlare and GG Gomwe resigned from the board and associated committees during 2012.

Refer to pages 12 and 13 of the Integrated Report 2012 for the abridged CVs of all the directors as well as on the company website at: www.angloamericankumba.com/au_directorate.php.

- Key management changes during 2012 included the appointment of Mr Norman Mbazima as chief executive, effective 1 September 2012, after the resignation of Mr Chris Griffith. In addition, Mr Frikkie Kotzee was appointed as chief financial officer effective 1 June 2012, following the retirement of Mr Vincent Uren.
- The Kumba executive management structure was also reviewed to include two new roles – executive head of operations and the executive head of strategy and business development. These roles were specifically created to address, amongst others, operational alignment and synergies as well as to foster strategic business development capability within Kumba and appointments will be made during 2013.
- Kumba has successfully transitioned to the Anglo American Performance Management Standard. This will facilitate the management of talent and mobility across the Anglo American Group, ensuring that employees' performance standards and measures are based on similar principles.
- Employees shared in the good performance of Kumba. This is illustrated by the payments received by our workforce participating in the Employee Share Ownership Plan (Envision) through dividend pay outs during March and August 2012. Each Envision participant received a total dividend payment of R31,308 during 2012.
- The company successfully concluded a multi-year wage agreement with recognised trade unions for bargaining category employees. This agreement will expire on 30 June 2014. Included in the agreement were adjustments for specific categories of employees (e.g. artisans, operators) to ensure that the remuneration levels of employees with lower level technical skills is competitive. In addition, it was agreed to provide an increase in the employer retirement fund contribution as well as provision of transport for Sishen mine employees residing some distance from the mine.
- Even though Kumba concluded a wage agreement with an average effective increase of 11%, Sishen mine experienced an unprotected strike. On Wednesday 3 October 2012, a group of approximately 300 employees on the night shift stopped working and seized the heavy mining equipment fleet that they were using. Much effort was placed on engaging with employees to encourage them to return to work, a process complicated by the fact that striking employees were acting as individuals and were not represented by any trade union. Safety was considered a top priority, resulting in the mine being closed during the strike. With this in mind, Kumba was pleased to be able to end the illegal occupation of the pit without serious injury or loss of life. The mine has undertaken a review of the strike to gain a better understanding of its causes. The outcome of this review will further inform the appropriate actions that the company will have to undertake to address the issues identified.

2. REMUNERATION PHILOSOPHY UNDERPINS STRATEGY

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

- position Kumba as an employer of choice;
- motivate and engage employees to increase their level of commitment resulting in high levels of performance of individuals and teams;
- facilitate the attraction and retention of top talent and those employees with critical skills; and
- ensure the fair, equitable and consistent application of our remuneration principles and policies.

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

3. AIMS OF THIS REPORT

This report covers the following aspects of remuneration in Kumba:

- roles, responsibilities and constitution of the Remco;
- an overview of key elements of the reward mix for directors, executive management and prescribed officers;
- an overview of reward policy and practices within Kumba;
- the reward of directors, executive management and prescribed officers and how this is linked to company strategy;
- how incentives are structured to align individual, team and company performance;
- details of the remuneration paid and long-term incentives awarded to executive directors and executive management during 2012; and
- details of the remuneration paid to non-executive directors.

4. THE REMCO

4.1 Role of Remco and terms of reference

The Remco is a committee of the board and provides guidance and makes recommendations to the board of Directors on all reward-related matters, employee benefits, conditions of employment and retention of staff. The committee further facilitates and supports an integrated approach to reward to facilitate the achievement of company goals by aligning individual and team reward to Kumba's strategic goals. To this end the committee supports reward principles that will attract, retain and motivate not only directors and executive management, but all employees to ensure their on-going engagement and commitment to the achievement of the company goals. In addition, the committee undertakes the following governance activities:

- approves reward policies and programmes in line with company strategy and objectives;
- reviews and approves targets and objectives for all performance related pay, fixed and variable, as cascaded throughout the company;
- provides guidance on the evaluation of the performance of executive directors;
- reviews and recommends to the board the remuneration of executive directors and executive management, including short-term incentive payments and long-term share awards;
- approves the overall cost of remuneration increases awarded to employees;
- approves the overall cost of short-term incentives awarded;
- approves the basis on which all grants in terms of Kumba's long-term incentive schemes are made; and
- approves the annual performance targets for both the chief executive and the executive management team.

4.2 Membership of the Remco

The Remco Committee comprises the following non-executive directors:

- AJ Morgan (chairman);
- GS Gouws;
- KT Kweyama; and
- F Titi.

Abridged CVs for the members of the Remco are available on pages 12 and 13 of the Integrated Report 2012 as well as on the company website at: www.angloamericankumba.com/au_directorate.php.

4.3 Frequency and attendance of Remco meetings

In addition to the committee members, the chief executive and the executive head of human resources attend meetings of the Remco. The Remco met four times during the year under review and attendance of meetings is presented in the following table:

Member	2 Feb	16 Mar	8 May	6 Nov
AJ Morgan	✓	✓	✓	✓
GS Gouws	n/a	✓	✓	✓
KT Kweyama	n/a	n/a	n/a	n/a
F Titi	n/a	n/a	n/a	n/a
GG Gomwe	n/a	n/a	✓	n/a
PB Matlare	✓	✓	n/a	n/a

✓ indicates attendance

n/a indicates individual was not a member of the committee at date of meeting

4.4 Execution of duties

The Remco meets at least three times per year and is empowered to obtain such external or other independent professional advice as it deems necessary to execute its duties effectively.

When deliberating on reward-related matters, the Remco considers a range of factors, including changes in the external labour market, industry challenges and trends, economic circumstances as well as the interests of shareholders.

In applying best practice guidance on remuneration principles, the Remco is committed to the principles of accountability, transparency and good governance and seeks to ensure that reward arrangements are linked to individual as well as company performance and that it ultimately contributes to the achievement of strategic objectives.

During 2012 reward practices supported this strategy by the alignment of reward programmes to earnings before interest and tax (EBIT) and return on capital employed (ROCE) targets; contributing to the creation of short and long term value for shareholders.

Key Remco decisions during 2012 include the:

- approval of annual salary increases;
- appointment of a new chief executive and chief financial officer;
- approval of remuneration packages for the incoming chief executive and chief financial officer respectively;
- retention arrangements for scarce, critical skills and high performing employees;
- review of the executive management structure following the company's strategic review to create the new roles of executive head of operations and executive head of strategy and business development;
- appointment of a new non-executive chairman of the board; and
- approval of 2011 short-term incentive payments, bonus share plan awards and long-term incentive plan awards for the chief executive, management and total workforce.

5. KUMBA'S APPROACH TO REWARD

5.1 Overview of Kumba reward mix

Fixed Cost to Company (CTC) is targeted at the 50th percentile of the market, while short-term incentives are managed within specific parameters, directly linked to individual and business performance and fully aligned with Anglo American Group principles. Long-term incentive plan allocations are based directly on the value of short-term incentives which fully supports the pay for performance principle.

Remuneration elements are structured to:

- create long-term sustainable value and a high-performing business aligned with shareholder expectations;
- provide fair remuneration to employees for work performed and to incentivise them to achieve exceptional performance with the assurance that they will be appropriately rewarded and given opportunity to advance their careers; and
- provide effective oversight of remuneration in order to reinforce a strong performance culture that encourages long-term sustainable performance and discourages excessive risk taking.

REMUNERATION REPORT continued
for the year ended 31 December 2012

5. KUMBA'S APPROACH TO REWARD continued

5.2 Remuneration elements linked to strategic intent

<table>
<tr><th colspan="2">Remuneration elements</th><th>Strategic intent</th><th>Reward delivery</th><th>Eligibility</th></tr>
<tr><td rowspan="3">COST TO COMPANY</td><td>Basic Employment Cost (BEC)</td><td rowspan="3">1. Attract people with the necessary competencies (knowledge, skill, attitude) to add value to our business
2. Retain competent, high performing employees who are engaged and demonstrate our values
3. Competitive and market related awards
4. Compliant with legislative provisions and negotiated contractual commitments
5. Support high performing individuals and teams by aligning reward to performance
6. Reinforce and enhance the principle that employees are key assets of our company</td><td>Monthly salary reviewed annually for employees outside the bargaining unit and negotiated agreements with recognised trade unions</td><td rowspan="2">All employees</td></tr>
<tr><td>Benefits</td><td>1. Employer contribution to selected retirement funds
2. Subsidised medical aid
3. Life and disability insurance
4. Housing allowances and/or five year mortgage subsidy plan
5. Study assistance for formal education</td></tr>
<tr><td>Circumstantial remuneration</td><td colspan="2">Job specific
Scarce skills</td></tr>
<tr><td rowspan="2">SHORT-TERM INCENTIVES</td><td>Annual bonus scheme aligned to financial performance year</td><td>Aligned to the achievement of stretched targets at company/business unit/ functional level:
1. Financial targets
2. Production targets
3. Safety performance</td><td rowspan="2">Annual bonuses, paid on monthly, quarterly or annual basis.
Performance related payment
Gain share</td><td rowspan="2">All employees</td></tr>
<tr><td>Gain share</td><td>Group/business unit performance measures cascaded to individual performance level to align behaviour. No adjustment allowed on performance measures (i.e. EBIT)
Align performance to remuneration to underpin risk/reward principle</td></tr>
<tr><td rowspan="2">LONG-TERM INCENTIVES</td><td rowspan="2"></td><td rowspan="2">1. Achieve direct alignment with shareholder interests
2. Reward employees for contributing to long-term sustainable company performance
3. Attract and retain key employees</td><td>Participation in:
Bonus Share Plan (BSP)
Long-Term Incentive Scheme (LTIP)</td><td>Executive directors and executive management
Nominated key employees</td></tr>
<tr><td>Participation in Employee Share Ownership Plan (Envision)</td><td>Employees first line management and below</td></tr>
</table>

6. DIRECTORS' FEES AND REMUNERATION

Directors are appointed by the Kumba Board based on competence, ability and appropriate experience that will enable them to contribute to the achievement of the company's strategic objectives as a leading value-adding iron ore supplier to the global steel industry.

6.1 Executive directors

6.1.1 Approach to reward

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

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

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

A portion of the approved fixed package and the annual performance incentive elements of the chief executive and the chief financial officer is determined and paid in terms of separate employment agreements concluded between Kumba International Trading SA (KITSA) and the respective executive director for services rendered outside South Africa. The remuneration paid by KITSA is calculated according to the time spent by the executive director on services performed offshore. These figures are included in the emoluments table on page 25 of this report.

6.1.2 Executive directors' contracts of employment

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

Mr NB Mbazima replaced Mr CI Griffith as chief executive with effect from 1 September 2012.

Mr VP Uren retired effective 1 January 2012, but continued to be employed by Kumba until 30 June 2012 in order to devote his attention to assisting the company on legal matters. Mr FT Kotzee assumed duty as chief financial officer effective 1 June 2012.

Name	Date of appointment at Kumba	Date appointed to board	Termination date *
CI Griffith	01 July 2009	01 July 2009	31 Aug 2012
NB Mbazima	01 Sep 2012	01 Sep 2012	
FT Kotzee	01 June 2012	01 June 2012	

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

6.1.3 Fixed remuneration

Following established practice, the fixed salaries of executive directors are reviewed every year in January. Adjustments to fixed packages are determined with reference to the scope and nature of the individual role, performance and experience. The total package, both in respect of fixed and variable pay, is compared to the levels of pay of companies of comparable size and complexity in the industry to ensure market competitiveness. The review also takes into account any changes in the scope of the role performed by the individual. In addition to the basic cash salary, executive directors receive benefits that include a contribution toward membership of one of the company's approved medical aid schemes, vehicle benefits, vehicle insurance and security services.

Retirement and risk insurance benefits, including life cover and death-in-service benefits, are provided to executive directors subject to the rules of the Kumba retirement funds. During the year, contributions calculated as a percentage of pensionable income are paid to contributory retirement schemes established and/or approved by the company and subject to the rules of the retirement funds. The employer retirement fund contribution is 11% of pensionable earnings.

No other material benefits are paid.

6.1.4 Variable remuneration

Variable remuneration consists of two elements: an annual executive performance incentive scheme and long-term incentive schemes, that normally runs over a period of three years.

6.1.4.1 Annual performance incentives

From 2012 onwards, executive directors participate in the Anglo American Performance Management Standard that is linked to an Anglo American Group-wide annual incentive scheme.
The incentive scheme is designed to reward and motivate the achievement of agreed company financial, strategic and operational objectives, linked to key performance areas within their respective portfolios.

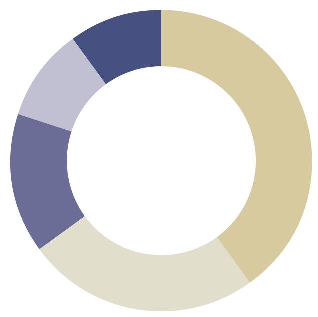
6.1.4.2 Incentive structure and Kumba's strategy

The performance targets for executive directors within Kumba's operations will vary depending on business specific strategic value drivers and key objectives approved by the board. In 2012, emphasis was placed on operational targets, including production, waste volumes and unit cash costs. Other strategic objectives such as growth, safety, financial measures and people measures were some of the key performance indicators for executive directors.

During February 2013, the Remco considered an overall assessment of company performance for the 2012 financial year. In addition, executive directors and members of the executive team were assessed in terms of achievement against strategic and key performance objectives within their respective areas of accountability. Following this, the Remco reported the outcome to the board which then approved annual incentive payments for 2012.

CHIEF EXECUTIVE'S PERFORMANCE TARGETS 2012

%



Operational targets (including production, waste volumes and unit cash costs)	40
Personal KPA's (strategic targets, people targets and energy and water savings)	25
Financial targets	15
Safety targets	10
Anglo American plc earnings per share (EPS)	10

CHIEF FINANCIAL OFFICER'S PERFORMANCE TARGETS 2012

%

Good governance (King III, JSE, legal and financial compliance)	24
Financial targets	16
Legal issues	16
Asset optimisation	14
Supply chain management	14
Strategy	8
People	8

REMUNERATION REPORT continued
for the year ended 31 December 2012

6.1.4.3 Long-term incentives

Executive directors participate in one or more of the long-term incentive schemes described below as approved by the board:

- Bonus share plan;
- Long-term incentive plan;
- Share appreciation rights scheme – no new grants made since 2008;
- Deferred bonus plan (scheme closed); and
- Kumba management share incentive scheme (no grants awarded since unbundling).

Bonus share plan (BSP)

The BSP was approved by shareholders and implemented during 2009. It is offered to executive directors who have the opportunity and the responsibility to contribute towards the company's overall strategic objectives.

The rationale of the plan is to:

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

Bonus shares are awarded annually based on 140% of the value of the annual bonus paid for the preceding performance year.

The bonus shares are held by an escrow agent and released to the participant three years after the award date (conditional upon the participant still being in the employment of the Anglo American Group). During the three-year period, the participant is entitled to all rights attached to the bonus shares, including dividend payments and voting rights. There are no further performance conditions linked to the bonus shares as historical individual performance has been taken into account in determining the base on which the share allocation is calculated.

Long-term incentive plan (LTIP)

Executive directors may each year receive, on a discretionary basis, a conditional award of Kumba shares. Conditional shares are awarded at 150% of annual BEC for the chief executive and 100% of annual BEC for the chief financial officer at the face value of the underlying Kumba share.

Any vesting of each of the annual LTIP awards made since the inception of the plan in 2007 is subject to the satisfaction of stretched performance targets measured over a three year period. 50% of the award is subject to the total shareholder return (TSR) metric and the remaining 50% is subject to a financial measure, ROCE. No re-testing of the performance conditions is allowed.

TSR performance of the company is measured relative to the performance of an approved peer group. Currently Kumba's performance is targeted to be at the upper quartile of the peer group for shares subject to this performance condition to vest. The peer group is reviewed regularly by the Remco to ensure appropriateness and representativeness.

ROCE targets attached to conditional shares are set and approved by the Remco at the time of the award. A threshold target is set at 95% of the target, with an upper limit set at 105% of the target. Linear vesting takes place once the threshold is reached.

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

6.2 Non-executive directors' fees

The Remco recommends fees payable to non-executive directors for approval by the shareholders. Non-executive directors' remuneration was determined following a benchmarking exercise using market data, including a survey of the Top 40 companies listed on the JSE, by an independent external service provider. The Remco also considered the increased scope of responsibility for its committees, taking into account specifically the increased workload of members of the respective committees. Annual fees payable to non-executive directors were approved by shareholders at the AGM during May 2012.

Non-executive directors' fees are not dependent upon meeting attendance. No other supplementary fees are payable.

Non-executive directors do not participate in any of the company's incentive schemes. Fees are considered to be in line with the market and will not increase during 2013.

Non-executive directors' fees for 2012 were as follows:

	2012/2013 Fees per annum	
Rand	Chairman	Member
Board of Directors	1,116,000	188,000
Audit Committee	251,000	124,800
Risk Committee	167,000	83,500
Social and Ethics Committee	251,000	124,800
Remuneration Committee	251,000	124,800

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

6.3 Prescribed officers' remuneration

The fixed remuneration of prescribed officers (as defined in the Companies Act) is reviewed by the Remco on an annual basis with any adjustments effective 1 January of the following year. The total salary package, both in respect of fixed and variable pay, is compared to the market median pay level of companies of comparable size and complexity in the mining industry to ensure market competitiveness. Adjustments to fixed packages are determined with reference to the scope and nature of the individual role, performance and experience as is the case for executive directors.

Prescribed officers qualify to participate in the BSP as detailed in point 6.1.4.3. In addition, executive management (excluding the chief executive and the chief financial officer who participate in the LTIP) qualify for an additional 40% to 50% of basic employment cost in the form of additional forfeitable shares. The quanta applied are fully aligned to Anglo American Group practice.

Executive management (excluding the chief executive and the chief financial officer who participate in the LTIP) qualify for an additional 40% to 50% of basic employment cost in the form of additional forfeitable shares. The quanta applied are fully aligned to Anglo American Group practice.

7. KUMBA'S APPROACH TO REWARD (Audited)

7.1 Executive directors, non-executive directors and prescribed officers emoluments

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

Rand million	Base salary	Benefits (retirement and medical aid)	Cash bonus based on 2012 performance (paid March 2013)	Retention payment	Directors' fees	Committee fees	Face value of BSP shares awarded in respect of 2012 performance (awarded March 2013) [16]	LTIP – value earned in respect of performance period 2010 to 2012 (vesting 2013)	**Total emoluments 2012**	Total emoluments 2011
Executive directors										
NB Mbazima [1]	2,290	276	1,084	–	–	–	4,123	–	7,773	–
FT Kotzee [2]	1,828	228	715	2,500	–	–	1,001	–	6,272	–
CI Griffith [3]	3,181	422	1,377	–	–	–	–	3,029	8,009	13,929
VP Uren	–	–	–	–	–	–	–	–	–	11,465
Sub-total	**7,299**	**926**	**3,176**	**2,500**	**–**	**–**	**5,124**	**3,029**	**22,054**	**25,394**
Non-executive directors										
F Titi [4]					279	–			279	–
AJ Morgan [5]					880	146			1,026	1,205
ZBM Bassa [6]					185	361			546	608
GG Gomwe [7]					146	155			301	316
GS Gouws [8]					185	176			361	346
K Kweyama [9]					39	31			70	–
PB Matlare [10]					44	39			84	409
DD Mokgatle [11]					185	433			618	635
LM Nyhonyha [12]					185	227			412	147
BP Sonjica [13]					110	122			232	–
DM Weston [14]					185	–			185	252
Sub-total					**2,423**	**1,690**			**4,113**	**3,918**
Prescribed officers [15]										
CC Holtzhausen	1,618	206	485				1,361		3,670	3,689
AC Loots	2,141	275	696				1,877		4,989	4,889
FM Louw	2,156	277	1,034				2,584		6,051	5,457
VF Malie	1,530	197	306				1,074		3,107	3,326
Y Mfolo	1,734	228	650				1,641		4,253	760
LLA Mgadzah	1,618	214	566				1,475		3,873	1,703
SV Tyobeka	1,860	247	699				1,764		4,570	4,202
C van Loggerenberg	2,168	278	1,040				2,598		6,084	5,490
A van den Brink	1,852	240	879				2,011		4,982	4,181
Sub-total	**16,676**	**2,163**	**6,355**	**–**			**16,385**		**41,579**	**33,697**
Total	**23,975**	**3,089**	**9,531**	**2,500**	**2,423**	**1,690**	**21,509**	**3,029**	**67,746**	**63,009**

Notes

1 Chief executive appointed 1 September 2012; benefits includes the salary and bonus of R307,609 (EUR29,380) paid by KITSA in respect of services rendered off shore during 2012
2 Chief financial officer appointed 1 June 2012; retention payment of R2,500,000 paid in addition to normal emoluments. The retention payment is repayable in full should Mr Kotzee resign within 24 months from his appointment date
3 Chief executive for period 1 January to 31 August 2012; benefits includes the salary and bonus of R437,887 (EUR41,823) paid by KITSA in respect of services rendered off shore during 2012
4 Chairman of the board appointed 1 October 2012
5 Chairman of the Remco, Member of Social and Ethics, Audit and Risk Committees
6 Chairman of Audit Committee, Member of Risk Committee. Ms Bassa stepped down as chairman of the Risk Committee on 30 June 2012
7 Member of the Board, Member of Social and Ethics and Remco, Directors' fees ceded to Anglo Operations Limited (AOL), a wholly owned subsidiary of Anglo American plc, resigned 15 October 2012
8 Member of Board, Member of Risk and Remco Committees, Directors' fees ceded to IDC
9 Member of the Board, Member of Social and Ethics and Remuneration Committees, Directors' fees ceded to Anglo American South Africa, appointed 16 November 2012
10 Resigned 31 March 2012
11 Chairman of Social and Ethics Committee, Member of Audit and Risk Committees
12 Chairman of Risk Committee, Member of Audit Committee
13 Member of Social and Ethics and Risk Committees, appointed 1 June 2012
14 Member of the Board, Directors' fees ceded to Anglo American Services (UK) Limited, a wholly owned subsidiary of Anglo American plc
15 The salaries of the three highest paid individuals, included in the 2011 annual financial statements, is no longer required per the amendment to King III, issued in February 2012. The information is therefore excluded from the information presented
16 Calculated as 140% of the bonus value of the individual, plus 40% or 50% of BEC as at January 2013 in terms of forfeitable shares

REMUNERATION REPORT continued

for the year ended 31 December 2012

7.2 Interests of executive directors and the Executive Committee

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

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

		Awards granted			Awards vested			Outstanding awards			
Capacity and name	Number of awards at 1 Jan 2012	Number of awards	Grant date	Fair value of awards (R'000)	Number of awards	Vesting date	Notional value at vesting date (R'000)	Number of awards at 31 Dec 2012	Notional value (R'000)	Earliest date of vesting	Share-based payment expense (R'000)
Executive directors											
Bonus share plan											
NB Mbazima	–	–	–	–	–	–	–	–	–	–	–
FT Kotzee	–	2,222	01-Jun-12	1,231	–	–	–	2,222	1,264	01-Jun-13	235
CI Griffith	21,032	6,709	01-Mar-12	3,864	7,328	01-Apr-12	3,847	20,413	11,613	22-Jul-13	2,725
VP Uren	20,509	5,454	01-Mar-12	3,141	9,528	01-Apr-12	5,002	16,435	9,350	22-Jul-13	1,141
Long-term incentive plan											
CI Griffith	39,594	8,870	01-Mar-12	5,108	18,586	01-Apr-12	9,758	29,878	16,997	22-Jul-13	2,100
VP Uren	34,372	7,344	01-Mar-12	4,230	16,858	01-Apr-12	8,850	24,858	14,141	22-Jul-13	1,820
Share appreciation rights scheme											
CI Griffith	7,540	–		–	7,540	10-Feb-12	2,235	–	–	–	–
Sub-total	**123,017**	**30,599**		**17,574**	**59,840**		**29,692**	**93,806**	**53,365**		**8,021**
Prescribed officers											
Bonus share plan											
CC Holtzhausen	5,134	2,734	01-Mar-12	1,575	1,477	01-Apr-12	775	6,391	3,636	02-Mar-13	909
AC Loots	13,252	3,849	01-Mar-12	2,217	5,179	01-Apr-12	2,719	11,922	6,782	22-Jul-13	1,658
FM Louw	17,465	5,152	01-Mar-12	2,967	7,271	01-Apr-12	3,817	15,346	8,730	22-Jul-13	2,151
VF Malie	9,823	2,776	01-Mar-12	1,599	4,486	01-Apr-12	2,355	8,113	4,615	22-Jul-13	1,144
Y Mfolo	–	2,265	01-Mar-12	1,304	–	–	–	2,265	1,289	01-Jun-15	322
LLA Mgadzah	7,124	2,873	01-Mar-12	1,655	–	–	–	9,997	5,687	01-Nov-13	1,539
SV Tyobeka	17 944	3,309	01-Mar-12	1,906	4 486	01-Apr-12	2,355	16,767	9,538	04-Jan-13	1,564
A van den Brink	13,144	3,391	01-Mar-12	1,953	6,500	01-Apr-12	3,413	10,035	5,709	22-Jul-13	1,430
C van Loggerenberg	20,209	5,021	01-Mar-12	2,892	9,928	01-Apr-12	5,212	15,302	8,705	22-Jul-13	2,180
Sub-total	**104,095**	**31,370**		**18,068**	**39,327**		**20,646**	**96,138**	**54,691**		**12,897**
Total	**227,112**	**61,969**		**35,642**	**99,167**		**50,338**	**189,944**	**108,056**		**20,918**

The current year share-based payment expense for the directors' and prescribed officers was R21 million (2011: R21 million).

7.3 Directors' beneficial interest in Kumba

The aggregate beneficial interest in Kumba at 31 December 2012 of the directors of the company and their immediate families (none of which has a holding greater than 1%) in the issued shares of the company are detailed below. There have been no changes to the shareholding since the end of 2012 and the date of approval of the annual financial statements.

	2012			2011		
	Number of shares	Long-term incentive scheme shares [1]	Total beneficial interest	Number of shares	Long-term incentive scheme shares[1]	Total beneficial interest
Executive directors						
CI Griffith [2]	n/a	50,291	**50,291**	330	68,166	**68,496**
VP Uren [2]	n/a	41,293	**41,293**	1,000	34,372	**35,371**
NB Mbazima	–	–	**–**	–	–	**–**
FT Kotzee	–	2,222	**2,222**	–	–	**–**
Non-executive directors						
GS Gouws[3]	213	–	**213**	213	–	**213**
DD Mokgatle[3]	428	–	**428**	428	–	**428**
Total	**641**	**93,806**	**94,447**	**1,543**	**102,538**	**104,509**

[1] Granted under the Bonus Share Plan, Long-term Incentive Plan and Kumba Share Appreciation Rights Scheme and disclosed in the tables above
[2] The employment contract for CI Griffith was terminated during 2012 and the employment contract for VP Uren was terminated on 31 December 2011
[3] Total indirect interest held by spouses

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUMBA IRON ORE LIMITED

We have audited the group annual financial statements and annual financial statements of Kumba Iron Ore Limited set out on pages 30 to 81, which comprise the consolidated and separate balance sheets as at 31 December 2012, and the consolidated and separate income statements, the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of Kumba Iron Ore Limited as at 31 December 2012, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 December 2012, we have read the Directors' Report, the Audit Committee's Report, the Company Secretary's Certificate and the Remuneration Report for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements.

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

Deloitte & Touche
Registered Auditor

Per: G Krog
Partner

8 February 2013

STRATEGIC ELEMENT: Investing in world-class assets

01

Kumba continues to have substantial capital investment requirements and it remains critical to the group's sustainability.

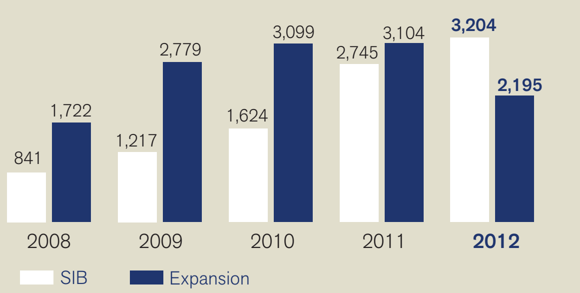
We completed a rigorous review of all our expenses, including capital spend, with the objective of ensuring that we continued to spend appropriately and prudently, without compromising growth. In the past year, we have also examined our corporate structure to ensure we are structured appropriately for future growth. The rigour we apply to our existing assets is equally visited on our growth prospects. With our measured approach, we will continue to evaluate and develop our very attractive pipeline to achieve growth of up to 70 Mtpa. We believe that our balance sheet is still conservatively structured to fund this growth.

INVESTED IN CAPITAL EXPENDITURE
(2011: R5.8bn)

R5.4bn

03

02



R377m invested in SWEP
(2011: R317m)

Total expected investment of R1 billion by 2016

"Given the current market environment, we will be cautious and disciplined in executing our capex spend"

Frikkie Kotzee
Chief financial officer

~ **R4.6**bn to ~ **R5.2**bn

FORECASTED SPEND FOR 2013

R8.2bn

CUMULATIVELY INVESTED IN KOLOMELA PROJECT

Images

01 A spotter directing haul trucks into position at Sishen mine.

02 Africa Menyani operates one of the large shovels at Sishen mine. The shovel is capable of loading 50 tonnes at a time.

03 Komatsu 960 and 860e haul trucks in the pit at Sishen mine.

PRINCIPAL ACCOUNTING POLICIES

for the year ended 31 December 2012

1. GENERAL INFORMATION

Kumba is the holding company of the Kumba Group. Kumba is a mining group of companies focusing on the exploration, extraction, beneficiation, marketing, sale and shipping of iron ore. Kumba produces iron ore at Sishen and Kolomela mines in the Northern Cape Province and at Thabazimbi mine in the Limpopo Province.

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

2. BASIS OF PREPARATION

2.1 Accounting framework

The consolidated and company financial statements are prepared in accordance with the IFRSs and IASs as issued by the International Accounting Standards Board (IASB) and IFRIC interpretations, the South African Companies Act No 71 of 2008 (as amended), the Listings Requirements of the JSE, and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee (APC).

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

The following principal accounting policies and methods of computation were applied by the company and the group in the preparation of the consolidated and stand-alone financial statements for the financial year ended 31 December 2012. These accounting policies are consistent in all material respects with those applied for the year ended 31 December 2011.

2.2 Statement of compliance

Adoption of new accounting standards and amendments to existing accounting standards

There were no IFRSs, amendments to IASs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that had a material impact on the group.

New accounting standards and interpretations not yet adopted

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

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

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

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

IFRS 10, Consolidated financial statements

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

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

IFRS 11, Joint arrangements

This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its share of assets, liabilities, revenue and expenses. Joint ventures arise where the joint venturer has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures will no longer be allowed.
The standard is effective for annual periods beginning on or after 1 January 2013.

The group is currently in the process of evaluating the detailed requirements of this new standard in order to assess the possible impact on the group's financial statements. The group currently uses the proportionate consolidation method to account for its interests in joint ventures.

IFRS 12, Disclosures of interests in other entities

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

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

IFRS 13, Fair value measurement

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

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

IFRS 9, Financial Instruments: Classification and Measurement

IFRS 9 is the first step in the process to replace IAS 39, 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets, financial liabilities, derecognition and hedge accounting.
The standard is not applicable until 1 January 2015 but is available for early adoption.

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

It is anticipated that IFRS 9 will be adopted in the group's consolidated financial statements for the annual period beginning 1 January 2015. It is not anticipated that the application of the new standard will have a significant impact on amounts reported in respect of the group's financial assets and financial liabilities as the majority of financial assets and financial liabilities are carried at amortised cost as disclosed in note 29. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Other

A number of other amendments to accounting standards and interpretations issued by the IASB are effective for annual periods beginning on or after 1 January 2013. They are not expected to have an impact on the accounting policies, methods of computation or presentation applied by the group.

2.3 Currencies

Functional and presentation currency

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

Foreign currency transactions and balances

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

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

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

Foreign operations

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

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

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

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

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. 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, distribution and selling of iron ore and shipping operations charged to external clients.

2.5 Post-balance sheet events

Recognised amounts in the financial statements are adjusted to reflect events arising after the balance sheet date that provide evidence of conditions that existed at the balance sheet date. Events after the balance sheet that are indicative of conditions that arose after the balance sheet date are dealt with in note 34.

2.6 Comparative figures

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

3. COMPANY FINANCIAL STATEMENTS

Subsidiaries, associates and joint ventures

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

4. CONSOLIDATED FINANCIAL STATEMENTS

4.1 Basis of consolidation

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

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

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

Subsidiaries

Subsidiaries are those entities (including special purpose entities) over which the group has the power to exercise control. Control is achieved where the group has the ability, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights.
The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. The group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of *de facto* control.

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

Non-controlling interests

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

PRINCIPAL ACCOUNTING POLICIES continued

for the year ended 31 December 2012

assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss.

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

Associates

Associates are all entities over which the group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee. Typically the group owns between 20% and 50% of the voting equity.

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

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

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in comprehensive income are reclassified to profit or loss where appropriate. Goodwill identified on acquisition relating to associates is included in the carrying value of those associates.

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

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

Joint ventures

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

The group's share of the assets, liabilities, income, expenditure and cash flows of joint ventures are accounted for using the proportionate consolidation method. The proportionate share of the financial results of joint ventures is consolidated into the consolidated financial statements from date on which joint control commences until such time as joint control ceases.

Proportionate consolidation combines the group's share of the financial results of the joint venture on a line-by-line basis with similar items in the consolidated financial statements.

BALANCE SHEET

4.2 Property, plant and equipment

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

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

The cost of an item of property, plant and equipment shall be recognised as an asset if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

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

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

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

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

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

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

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

Depreciation

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

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

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

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

- evaluate as being technically or commercially feasible;
- has sufficient resources to complete development; and
- can demonstrate will generate future economic benefits.

Once these criteria are met, all directly attributable development costs and ongoing mineral exploration and evaluation costs are capitalised within property, plant and equipment. During the development of a mine, before production commences, stripping expenses are capitalised as part of the investment in construction of the mine. Capitalisation of pre-production expenditure ceases when the mining property is capable of commercial production.

Capitalised pre-production expenditure prior to commercial production is assessed for impairment in accordance with group accounting policy 4.4 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 life of mine (LoM) stripping ratio in the early years of a mine's production phase, the mining costs associated with this process are deferred and charged to operating costs using the expected average stripping ratio over the average life of the area being mined. The effect of this will therefore be that the cost of stripping in profit or loss will be reflective of the average stripping rates for the ore body as a whole. This reflects the fact that waste removal is necessary to gain access to the ore body and therefore realise future economic benefit.

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

4.3 Business combinations and goodwill

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

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

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

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

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

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

Negative goodwill arises when the cost of acquisition is less that the fair value of the net identifiable assets and contingent liabilities of the entity acquired. Negative goodwill is recognised directly in the income statement. The gain or loss on disposal of an entity includes the balance of goodwill relating to the entity sold.

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

4.4 Impairment of non-financial assets

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

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

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

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

PRINCIPAL ACCOUNTING POLICIES continued

for the year ended 31 December 2012

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

Exploration and evaluation assets are tested for impairment when development of the property commences or whenever facts and circumstances indicate impairment. An impairment is recognised for the amount by which the exploration assets' carrying amount exceeds their recoverable amount. For the purpose of assessing impairment, the relevant exploration and evaluation assets are included in the existing cash-generating units of producing properties that are located in the same region.

4.5 Biological assets

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

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

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

4.6 Financial instruments

Regular purchases and sales of financial instruments are recognised on the trade-date, being the date on which the group becomes party to the contractual provisions of the relevant instrument.

The financial instruments are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, with the exception of at fair value through profit or loss assets which are initially recognised at fair value, and transaction costs are expensed in the income statement.

The fair values are based on quoted bid prices or amounts derived using discounted cash flow models. Subsequent to initial recognition, the instruments are measured as set out 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 policies. Assets in this category are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

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

Investments held by environmental trust (FVTPL)

Investments held by the environmental trust comprise cash investments, bonds and equity investments that will be utilised to settle decommissioning and rehabilitation obligations relating to the group's mining operations.

Trade receivables (amortised cost)

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 (amortised cost)

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

Impairment

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

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

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

Derecognition: financial assets

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

Financial liabilities (other than derivative financial instruments)

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

Financial liabilities comprise short-term and long-term interest-bearing borrowings and trade and other payables.

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

Borrowings (amortised cost)
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.

Fees paid on the establishment of loan facilities are capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4.8 Share capital
Ordinary shares are classified as equity instruments.

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

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

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

4.10 Dividends payable
Dividends payable and the related taxation thereon are recognised by the group when the dividend is declared. These dividends are recorded and disclosed as dividends in the statement of changes in equity. Dividends withholding tax is levied on the recipient but collected by the group and remitted to the authorities. A liability is recognised in respect of the tax levied for the period when the dividends are recognised as a liability. Dividends withholding tax is not included in the taxation charge in profit or loss.

Prior to April 2012, Secondary Taxation on Companies (STC) in respect of dividends was recognised as a liability when the dividends were recognised as a liability and were 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.

PRINCIPAL ACCOUNTING POLICIES continued

for the year ended 31 December 2012

4.11 Provisions

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

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

Environmental rehabilitation

Environmental rehabilitation provisions

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

Contributions to rehabilitation trust

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

Ongoing rehabilitation expenditure

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

Decommissioning provision

The estimated present value of costs relating to the future decommissioning of plant or other site preparation work, taking into account current environmental and regulatory requirements, is capitalised as part of property, plant and equipment, to the extent that it relates to the construction of an asset, and the related provisions are raised in the balance sheet, as soon as the obligation to incur such costs arises.

These estimates are reviewed at least annually and changes in the measurement of the provision that result from the subsequent changes in the estimated timing or amount of cash flows, or a change in discount rate, are added to, or deducted from, the cost of the related asset in the current period. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in the income statement. If the asset value is increased and there is an indication that the revised carrying value is not recoverable, an impairment test is performed in accordance with the accounting policy on 'Impairment of non-financial assets' above.

Employee benefits cash-settled share-based payments

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

4.12 Deferred tax

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

- the initial recognition of goodwill (for deferred tax liabilities only);
- the initial recognition (other than in a business combination) of an asset or liability to the extent that neither accounting nor taxable profit is affected on acquisition; 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 future taxable profits will be available against which deductible temporary differences can be utilised.

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

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

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

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

4.13 Employee benefits

Long-term benefits

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

Post-employment benefits

The group operates defined contribution plans for the benefit of its employees, the assets of which are held in separate funds.

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

The plan is funded by payments from employees and the group. The group's contribution to the funds is recognised as employee benefit expense in the income statement in the year to which it relates. The group does not provide guarantees in respect of the returns in the defined contribution funds and has no further payment obligations once the contributions have been paid.

The group is also a participating employer in two closed defined benefit plans for its pensioner members who retired before 2001. The group does not, however, provide defined employee benefits to its current employees. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

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

Termination benefits

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

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

Equity compensation benefits

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

The fair value of the share options is measured using option pricing models. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations such as volatility, dividend yield and the vesting period. The fair value takes into account the terms and conditions on which these incentives are granted and the extent to which the employees have rendered services to balance sheet date.

INCOME STATEMENT

4.14 Revenue

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

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

Sales of goods – iron ore

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

Shipping services

Revenue arising from shipping services rendered is recognised when the related sale of iron ore is recognised as indicated by the relevant sales terms stipulated in the sales contract.

4.15 Cost of sales

When inventories are sold, the carrying amount is recognised as part of cost of sales. Any write-down of inventories to net realisable value and all losses of inventories or reversals of previous write downs or losses are recognised in cost of sales in the period the write down, loss or reversal occurs.

4.16 Income from investments

Interest income

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

Dividend income

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

4.17 Borrowing costs

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

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

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

4.18 Employee benefits: short-term benefits

The cost of all short-term employee benefits, such as salaries, bonuses, housing allowances, medical and other contributions is recognised in the income statement during the period in which the employee renders the related service.

4.19 Operating leases

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

4.20 Taxation

The income tax charge for the period is determined based on profit before tax for the year and comprises current, deferred tax and STC, in respect of dividends declared prior to 1 April 2012.

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

PRINCIPAL ACCOUNTING POLICIES continued

for the year ended 31 December 2012

4.20 Taxation continued

Current tax

The current tax charge is the calculated tax payable on the taxable income for the year using tax rates that have been enacted or substantively enacted by the balance sheet date and any adjustments to tax payable in respect of prior years. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible.

Dividend tax

STC is recognised as part of the current tax charge in the income statement when the related dividend is declared. STC reflected in the income statement relates to dividends declared prior to the introduction of dividend withholding tax. Dividend withholding tax is levied on dividend recipients and has no impact on the group taxation charge as reflected in the income statement.

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. The deferred tax asset recognised in prior reporting periods was utilised in full by 31 December 2012. Also refer to the 'Deferred tax' accounting policy note above.

4.21 Earnings per share

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

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

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

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

4.22 Convenience translation from Rand to US dollars

The presentation currency of the group is Rand. Supplementary US dollar information is provided for convenience only.

The conversion to US dollar is performed as follows:

- Assets and liabilities are translated at the closing rate of exchange on balance sheet date.
- Income and expenses are translated at average rates of exchange for the years presented.
- Shareholders' equity, other than attributable earnings for the year, is translated at the closing rate on each balance sheet date.

The resulting translation differences are included in shareholders' equity.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the financial statements requires the group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires the exercise of judgement based on various assumptions and other factors such as historical experience, current and expected economic conditions, and in some cases actuarial techniques. Actual results could differ from those estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

5.1 Property, plant and equipment

The depreciable amount of property, plant and equipment is allocated on a systematic basis over its useful life. In determining the depreciable amount management makes certain assumptions with regard to the residual value of assets based on the expected estimated amount that the group would currently obtain from disposal of the asset, after deducting the estimated cost of disposal. If an asset is expected to be abandoned the residual value is estimated at zero.

In determining the useful life of items of property, plant and equipment that is depreciated, management considers the expected usage of assets, expected physical wear and tear, legal or similar limits of assets such as mineral rights as well as obsolescence.

This estimate is further impacted by management's best estimation of proved and probable iron ore reserves and the expected future life of each of the mines within the group. The forecast production could be different from the actual iron ore mined. This would generally result from significant changes in the factors or assumptions used in estimating iron ore reserves. These factors could include:

- changes in proved and probable iron ore reserves;
- differences between achieved iron ore prices and assumptions;
- unforeseen operational issues at mine sites; and
- changes in capital, operating, mining, processing, reclamation and logistics costs, discount rates and foreign exchange rates.

Refer to the unaudited Ore Reserves and Mineral Resources statement included in the Integrated Report 2012 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 life of each of the mines would impact the depreciation charge as well as the estimated rehabilitation and decommissioning provisions.

5.2 Waste stripping costs

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

- expected stripping ratio;
- the average LoM stripping ratio; and
- the total expected mining costs to be incurred to mine the ore body.

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

5.3 Impairment of non-financial assets

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

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

5.4 Provision for environmental rehabilitation and decommissioning

The provisions for environmental rehabilitation and decommissioning are calculated using management's best estimate of the costs to be incurred based on the group's environmental policy taking into account current technological, environmental and regulatory requirements discounted to a present value. Estimates are based upon costs that are regularly reviewed, by internal and external experts, and adjusted as appropriate for new circumstances. Actual costs incurred in future periods could differ from the estimates. Additionally, future changes to environmental laws and regulations, LoM estimates and discount rates used could affect the carrying amount of this provision. As a result, the liabilities that we report can vary if our assessment of the expected expenditures changes.

5.5 Deferred tax assets

The group recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future, or the probability of utilising assessed losses. Assessing the recoverability of deferred income tax assets requires the group to make significant estimates related to expectations of future taxable income on a subsidiary by subsidiary level. Estimates of future taxable income are based on forecast cash flows from operations. To the extent that future cash flows differ significantly from estimates, the ability of the group to realise the net deferred tax assets recorded at the balance sheet date could be impacted.

5.6 Equity-settled share-based payment reserve

Management makes certain judgements in respect of selecting appropriate fair value option pricing models to be used in estimating the fair value of the various share-based payment arrangements in respect of employees and special purpose entities. Judgements and assumptions are also made in calculating the variable elements used as inputs in these models. The inputs that are used in the models include, but are not limited to, the expected vesting period and related conditions, share price, dividend yield, share option life, risk free interest rate and annualised share price volatility (refer to note 22).

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

In terms of The Mineral and Petroleum Resources Royalty Act, No. 28 of 2008 and the Mineral and Petroleum Resources Royalty Administration Act, No. 29 of 2008, the specified condition for iron ore used to calculate the mining royalty payable will be deemed to have been extracted at a 61.5% Fe specified condition. Management is required to make certain judgements and estimates in determining the gross sales value of the ore extracted at the group's mines.

5.8 Discount rates

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

5.9 Segment reporting

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

5.10 Going concern

Management considers key financial metrics and loan covenant compliance in its approved medium-term budgets, together with its existing-term facilities, to conclude that the going-concern assumption used in the compiling of its annual financial statements, is appropriate.

BALANCE SHEET
as at 31 December

Rand million	Notes	2012	2011
Assets			
Property, plant and equipment	1	24,765	20,878
Biological assets	2	8	6
Investments in associate and joint ventures	3	47	33
Investments held by environmental trust	4	673	568
Long-term prepayments and other receivables	5	130	95
Deferred tax assets	11	842	658
Non-current assets		**26,465**	**22,238**
Inventories	6	4,136	3,864
Trade and other receivables	7	4,332	3,537
Current tax assets		76	32
Cash and cash equivalents	8	1,527	4,742
Current assets		**10,071**	**12,175**
Total assets		**36,536**	**34,413**
Equity and liabilities			
Shareholders' equity		14,964	15,833
Non-controlling interest	23	4,345	4,759
Total equity		**19,309**	**20,592**
Interest-bearing borrowings	9	3,200	–
Provisions	10	1,420	901
Deferred tax liabilities	11	6,697	4,942
Non-current liabilities		**11,317**	**5,843**
Short-term portion of interest-bearing borrowings	9	2,669	3,191
Short-term portion of provisions	10	26	11
Trade and other payables	12	3,012	4,556
Current tax liabilities		203	220
Current liabilities		**5,910**	**7,978**
Total liabilities		**17,227**	**13,821**
Total equity and liabilities		**36,536**	**34,413**

INCOME STATEMENT
for the year ended 31 December

Rand million	Notes	2012	2011
Revenue	13	45,446	48,553
Operating expenses	14	(22,293)	(16,587)
Operating profit	15, 16	**23,153**	31,966
Finance income	17	102	241
Finance costs	17	(405)	(149)
Profit before taxation		**22,850**	32,058
Taxation	18	(6,750)	(9,760)
Profit for the year		**16,100**	**22,298**
Attributable to:			
Owners of Kumba		12,212	17,042
Non-controlling interest		3,888	5,256
		16,100	**22,298**
Earnings per share for profit attributable to the owners of Kumba (Rand per share)	19		
Basic		**38.02**	53.11
Diluted		**37.95**	52.97

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December

Rand million	Note	2012	2011
Profit for the year		**16,100**	22,298
Other comprehensive income for the year, net of tax	20	**155**	404
Exchange differences on translation of foreign operations		193	363
Net effect of cash flow hedges		(38)	41
Total comprehensive income for the year		**16,255**	**22,702**
Attributable to:			
Owners of Kumba		12,342	17,340
Non-controlling interest		3,913	5,362
		16,255	**22,702**

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December

Rand million	Share capital and share premium (note 21)	Treasury shares (note 21)	Equity-settled share-based payments reserve (note 22)	Foreign currency translation reserve	Cash flow hedge accounting reserve	Retained earnings	Shareholders' equity	Non-controlling interest (note 23)	**Total equity**
Balance at 31 December 2010	350	(197)	487	143	(24)	13,579	14,338	4,038	18,376
Shares issued during the year	16	–	–	–	–	–	16	–	16
Net movement in treasury shares under employee share incentive schemes	–	(139)	–	–	–	–	(139)	–	(139)
Equity-settled share-based payments expense	–	–	265	–	–	–	265	87	352
Vesting of shares under employee share incentive schemes	–	–	(445)	–	–	(1,712)	(2,157)	(646)	(2,803)
Total comprehensive income for the year	–	–	–	280	18	17,042	17,340	5, 362	22,702
Change in effective ownership of SIOC	–	–	–	–	–	4	4	(4)	–
Dividends paid	–	–	–	–	–	(13,834)	(13,834)	(4,078)	(17,912)
Balance at 31 December 2011	**366**	**(336)**	**307**	**423**	**(6)**	**15,079**	**15,833**	**4,759**	**20,592**
Net movement in treasury shares under employee share incentive schemes	5	(156)	–	–	–	–	**(151)**	–	**(151)**
Equity-settled share-based payments expense	–	–	579	–	–	–	**579**	145	**724**
Vesting of shares under employee share incentive schemes	–	–	(64)	–	–	(59)	**(123)**	18	**(105)**
Total comprehensive income for the year	–	–	–	148	(18)	12,212	**12,342**	3,913	**16,255**
Dividends paid	–	–	–	–	–	(13,516)	**(13,516)**	(4,490)	**(18,006)**
Balance at 31 December 2012	**371**	**(492)**	**822**	**571**	**(24)**	**13,716**	**14,964**	**4,345**	**19,309**

Dividend per share (note 20)

(Rand per share)	**2012**	2011
Interim	19.20	21.70
Final *	12.50	22.50
	31.70	**44.20**

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

Equity-settled share-based payments reserve
The equity-settled share-based payment reserve comprises the fair value of goods received or services rendered that has been settled through the issue of shares or share options.

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

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

CASH FLOW STATEMENT
for the year ended 31 December

Rand million	Notes	2012	2011
Cash flows from operating activities			
Cash receipts from customers		44,731	48,788
Cash paid to suppliers and employees		(20,561)	(15,974)
Cash generated from operations	24	**24,170**	32,814
Net finance costs paid	25	(227)	(96)
Taxation paid	26	(5,215)	(7,035)
		18,728	**25,683**
Cash flows from investing activities			
Additions to property, plant and equipment	28	(5,399)	(5,849)
Investment in associates and joint ventures	3	(14)	(4)
Investments held by environmental trust *	4	(45)	(183)
Proceeds from disposal of non-current assets		37	2
Proceeds from disposal of investments		3	–
		(5,418)	**(6,034)**
Cash flows from financing activities			
Shares issued	21	5	16
Purchase of treasury shares	21	(261)	(278)
Vesting of Envision share scheme	22	(968)	(1,694)
Dividends paid to owners of Kumba	27	(13,428)	(13,742)
Dividends paid to non-controlling shareholders	27	(4,578)	(4,170)
Interest-bearing borrowings raised	9	5,869	–
Interest-bearing borrowings repaid	9	(3,191)	–
		(16, 552)	**(19,868)**
Net decrease in cash and cash equivalents		**(3,242)**	(219)
Cash and cash equivalents at beginning of year		4,742	4,855
Exchange differences on translation of cash and cash equivalents		27	106
Cash and cash equivalents at end of year	8	**1,527**	**4,742**

* The cash contributions to the environmental trust was previously disclosed as 'Cash paid to suppliers and employees' as a cash flow from operating activities. It has been included as a cash flow from investing activities for 2012 to reflect the underlying cash flows from the transactions. The comparatives were adjusted to reflect this change in classification

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December

1. PROPERTY, PLANT AND EQUIPMENT

Rand million	Land	Mineral properties	Residential buildings	Buildings and infrastructure	Machinery, plant and equipment	Mineral exploration, site preparation and development	Assets under construction	Total
2012								
Cost								
Balance at beginning of year	228	621	461	2,884	17,153	77	3,839	**25,263**
Additions (refer to note 28)	–	–	9	1	110	–	5,223	**5,343**
Deferred stripping	–	–	–	–	–	14	–	**14**
Changes in decommissioning provision (refer to note 10)	–	–	1	9	5	–	55	**70**
Disposals and scrapping	–	–	(3)	–	(84)	–	–	**(87)**
Transfers between asset classes	50	–	587	349	2,919	–	(3,905)	**–**
Exchange differences on translation	–	–	–	*	–	–	–	**–**
Balance at 31 December 2012	**278**	**621**	**1,055**	**3,243**	**20,103**	**91**	**5,212**	**30,603**
Accumulated depreciation								
Balance at beginning of year	–	232	51	155	3,894	53	–	**4,385**
Depreciation	–	20	25	135	1,342	2	–	**1,524**
Disposals and scrapping	–	–	(2)	–	(69)	–	–	**(71)**
Transfers between asset classes	–	–	–	–	–	–	–	**–**
Balance at 31 December 2012	**–**	**252**	**74**	**290**	**5,167**	**55**	**–**	**5,838**
Carrying amount at 31 December 2012	**278**	**369**	**981**	**2,953**	**14,936**	**36**	**5,212**	**24,765**
2011								
Cost								
Balance at beginning of year	105	621	139	382	11,013	59	6,980	19,299
Additions (refer to note 28)	22	–	6	1	132	18	5,804	5,983
Changes in decommissioning provision (refer to note 10)	–	–	–	18	13	–	7	38
Disposals and scrapping	–	–	–	–	(58)	–	–	(58)
Transfers between asset classes	101	–	316	2,482	6,053	–	(8,952)	–
Exchange differences on translation	–	–	–	1	–	–	–	1
Balance at 31 December 2011	**228**	**621**	**461**	**2,884**	**17,153**	**77**	**3,839**	**25,263**
Accumulated depreciation								
Balance at beginning of year	–	212	44	120	3,006	51	–	3,433
Depreciation	–	20	7	35	934	2	–	998
Disposals and scrapping	–	–	–	–	(46)	–	–	(46)
Transfers between asset classes	–	–	–	–	–	–	–	–
Balance at 31 December 2011	**–**	**232**	**51**	**155**	**3,894**	**53**	**–**	**4,385**
Carrying amount at 31 December 2011	**228**	**389**	**410**	**2,729**	**13,259**	**24**	**3,839**	**20,878**

* Value is less than R1 million

Additional disclosures

Included in property, plant and equipment are fully depreciated assets still in use with an original cost price of R338 million (2011: R337 million).

During the year the group scrapped fully depreciated assets with an original cost price of R52.8 million (2011: R9.1 million).

The group generated proceeds from the disposal of items of property, plant and equipment of R37.4 million (2011: R1.8 million).

The estimated replacement value of assets for insurance purposes and assets under construction at cost amounts to R35.6 billion (2011: R29.9 billion).

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

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

Capital commitments

Capital commitments include all items of capital expenditure for which specific board approval has been obtained up to balance sheet date. Capital expenditure still in the study phase of the project pipeline for which specific board approvals have not yet been obtained are excluded.

Rand million	2012	2011
Capital expenditure will be financed principally from borrowing facilities and cash generated from operations:		
Capital expenditure contracted for plant and equipment	772	1,988
Capital expenditure authorised for plant and equipment but not contracted	1,335	2,168
Capital commitments for Thabazimbi mine (a captive mine) will be financed by ArcelorMittal:		
Capital expenditure contracted for plant and equipment	7	29
Capital expenditure authorised for plant and equipment but not contracted	16	7

2. BIOLOGICAL ASSETS

Rand million	Livestock	Game	Total
Balance at beginning of year	2	4	**6**
Gains attributable to physical changes and price changes	–	3	**3**
Disposals	–	(1)	**(1)**
Balance at 31 December 2012	**2**	**6**	**8**
Balance at beginning of year	2	4	**6**
Gains attributable to physical changes and price changes	–	1	**1**
Disposals	–	(1)	**(1)**
Balance at 31 December 2011	**2**	**4**	**6**

Biological assets comprise mature livestock and game and are measured at fair value. Livestock consists of cattle, sheep and goats and game consists of giraffe, ostrich and a variety of antelope.

3. INVESTMENTS IN ASSOCIATE AND JOINT VENTURES

Rand million	2012	2011
Associate		
Unlisted	*	*
Joint ventures		
Unlisted	47	33
	47	**33**

* Value is less than R1 million

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

There are no commitments or contingent liabilities relating to the group's interest in respect of the associate or joint ventures.

ASSOCIATE

The investment in the associate remained at R50,000 for all reporting periods.

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

Balance sheet information of associate

Rand million	2012	2011
Non-current assets	3	3
Total assets	**3**	**3**
Shareholders' equity	3	3
Total equity and liabilities	**3**	**3**

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

JOINT VENTURES

Rand million	Investments	Loans	Total
Balance at beginning of year	–	33	**33**
Increase in loans to joint ventures	–	14	**14**
Balance at 31 December 2012	**–**	**47**	**47**
Balance at beginning of year	–	29	**29**
Increase in loans to joint ventures	–	4	**4**
Balance at 31 December 2011	**–**	**33**	**33**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December

3. INVESTMENTS IN ASSOCIATE AND JOINT VENTURES continued

Rand million	2012	2011
Income statement information of joint ventures		
Revenue	–	–
Operating expenses	(28)	(24)
Operating loss	**(28)**	(24)
Net financing income	*	*
Loss before taxation	**(28)**	(24)
Taxation	8	7
Loss for the year	**(20)**	**(17)**
Balance sheet information of joint ventures		
Non-current assets	31	24
Current assets	*	*
Total assets	**31**	**24**
Shareholders' deficit	(65)	(45)
Non-current liabilities	47	33
Current liabilities	49	36
Total equity and liabilities	**31**	**24**
Cash flow information of joint ventures		
Cash flows utilised in operating activities	(14)	(7)
Cash flows from investing activities	14	4
Cash flows from financing activities	–	*
Net decrease in cash and cash equivalents	**–**	**3**

* Value is less than R1 million

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

4. INVESTMENTS HELD BY ENVIRONMENTAL TRUST

Rand million	2012	2011
Balance at beginning of year	568	372
Contributions	45	183
Growth in environmental trusts	60	13
Balance at end of year	**673**	**568**
Comprising:		
Equity investments	355	283
Cash investments	265	271
Bonds	53	14

These investments may only be utilised for the purposes of settling decommissioning and rehabilitation obligations relating to the group's mining operations. The investment returns are re-invested by the trust. Refer to note 10 for the environmental rehabilitation and decommissioning provisions.

Rand million	2012	2011
Maturity profile of the investments held by environmental trust		
2 to 5 years	**242**	222
More than 5 years	**431**	346
Currency analysis of investments held by environmental trust		
Rand	**673**	**568**

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

Fair value of investments held by environmental trust
The fair value of investments held by the environmental trust is determined using quoted market values at 31 December 2012. The investments are recorded at fair value, therefore the carrying value equates fair value.

Securities price risk
The debt and equity instruments values are determined with reference to quoted market values (level 1).

5. LONG-TERM PREPAYMENTS AND OTHER RECEIVABLES

Rand million	2012	2011
Long-term receivables	1	1
Prepayments	129	94
	130	**95**
Maturity profile of long-term prepayments and other receivables		
1 to 2 years	18	10
2 to 5 years	51	28
More than 5 years	61	57
	130	**95**

6. INVENTORIES

Rand million	2012	2011
Finished products	1,186	1,472
Work-in-progress	2,245	1,864
Plant spares and stores	705	528
	4,136	**3,864**

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

The significant increases in work-in-progress and plant spares and stores inventory is as a result of the ramp-up at Kolomela mine.

7. TRADE AND OTHER RECEIVABLES

Rand million	2012	2011
Trade receivables	3,100	2,249
Other receivables	1,197	1,198
Derivative financial instruments (refer to note 29)	35	90
	4,332	**3,537**

Credit risk

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

Significant concentrations of credit risk exist in respect of trade receivables, where R2,329 million (2011: R1,862 million) or 75% (2011: 83%) of the total outstanding trade receivables balance of R3,100 million (2011: R2,249 million) consists of individual end-user customers with an outstanding balance in excess of 5% of the total trade receivables balance as at 31 December 2012.

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

Rand million	2012	2011
Trade receivables credit risk exposure by geographical area		
South Africa	212	486
Europe	461	447
Asia	2,427	1,316
	3,100	**2,249**
Credit quality of trade receivables		
Not past due	3,100	2,249
Past due 0 to 30 days	–	–
	3,100	**2,249**
Currency analysis of trade receivables		
Rand	217	486
US dollar	2,883	1,763
	3,100	**2,249**
Other receivables comprise:		
Prepayments	74	55
Value-Added Tax receivable	922	895
Interest receivable	–	21
Provision for doubtful other receivables	–	–
Opening balance	–	(5)
Income statement reversal for the year	–	5
Other	201	227
	1,197	**1,198**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December

8. CASH AND CASH EQUIVALENTS

Rand million	2012	2011
Bank balance and cash	**1,527**	**4,742**
Currency analysis of cash and cash equivalents		
Rand	128	4,041
US dollar	1,389	692
Euro	7	6
Other	3	3
	1,527	**4,742**

Credit risk

Cash and cash equivalents are held in various financial institutions with long-term investment grade credit rating and with the capacity for payment of financial commitments considered strong. Kumba has a R237 million short-term deposit facility as at 31 December 2012 that was placed with Anglo American SA Finance Limited (2011: R3,885 million), a subsidiary of the group's ultimate holding company (refer to note 35).

9. INTEREST-BEARING BORROWINGS

Rand million	2012	2011
Non-current interest-bearing borrowings		
Long-term interest-bearing borrowings	3,200	3,191
Current portion included in current interest-bearing borrowings	–	(3,191)
	3,200	**–**
Current interest-bearing borrowings		
Current interest-bearing borrowings	2,669	–
Current portion of long-term interest-bearing borrowings	–	3,191
	2,669	**3,191**
Total interest-bearing borrowings	**5,869**	**3,191**
Reconciliation		
Balance at beginning of year	3,191	3,185
Interest-bearing borrowings raised	5,869	–
Interest-bearing borrowings repaid	(3,195)	–
Deferred transaction cost recognised	4	6
	5,869	**3,191**
Maturity profile of interest-bearing borrowings		
Within 1 year	2,669	3,191
2 to 3 years	3,200	–
	5,869	**3,191**

Rand million	Maturity date	Interest rate 2012 %	Facility	Outstanding balance 2012	Outstanding balance 2011
Unsecured loans					
Revolving facility "C" at a floating interest rate of 3-month Jibar + 224 basis points, reset quarterly but payable semi-annually					
Maturity date 28 November 2013	2013	*	5,400	–	–
Term facility at a floating interest rate of 3-month Jibar + 165 basis points, reset quarterly but payable semi-annually					
Maturity date 24 July 2015	2015	8.43	3,200	3,200	–
Term facility at a floating interest rate of 3-month Jibar + 285 basis points, reset quarterly but payable semi-annually (2011: 8.43%). Matured on 31 July 2012	2012	–	–		3,195
Call loan facility	2013	–	6,263	2,669	–
Fair value at end of year			14,863	**5,869**	3,195
Deferred transaction costs				–	(4)
Carrying value at end of year			14,863	**5,869**	**3,191**

* There were no funds drawn down against the facility at 31 December 2012 or 2011. This facility was replaced with a five-year revolving committed debt facility of R6 billion, effective from 1 January 2013. The interest on the new facility is charged at Jibar plus a margin, with the actual rate being determined by the period for which the funds are borrowed

The 3-month Jibar rate at 31 December 2012 was 5.125% (2011: 5.584%).

Financial covenants
The group is in compliance with its debt covenants (Total debt/earnings before interest, tax, depreciation and amortisation (EBITDA); EBITDA/Net interest expense). This was also the case in 2011.

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

10. PROVISIONS

Rand million	Employee benefits cash-settled share-based payments	Environmental rehabilitation	Decommis-sioning	Total
Non-current provisions	3	1,141	276	**1,420**
Current portion of provisions	26	–	–	**26**
	29	**1,141**	**276**	**1,446**
2012				
Balance at beginning of the year	12	710	190	**912**
Notional interest	–	60	16	**76**
Charged to income statement	–	371	–	**371**
Capitalised to property, plant and equipment	–	–	70	**70**
Utilised during the year	(15)	–	–	**(15)**
Cash-settled share-based payments	32	–	–	**32**
Balance at 31 December 2012	**29**	**1,141**	**276**	**1,446**
Expected timing of future cash flows				
Within 1 year	26	–	–	**26**
2 to 5 years	3	299	16	**318**
More than 5 years	–	842	260	**1,102**
	29	**1,141**	**276**	**1,446**
Estimated undiscounted obligation	**29**	**1,904**	**501**	**2,434**

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10. PROVISIONS continued

Rand million	Employee benefits cash-settled share-based payments	Environmental rehabilitation	Decommis-sioning	Total
2011				
Non-current provisions	1	710	190	**901**
Current portion of provisions	11	–	–	**11**
	12	**710**	**190**	**912**
Balance at beginning of the year	11	532	140	**683**
Notional interest	–	46	13	**59**
Charged to income statement	–	132	–	**132**
Capitalised to property, plant and equipment	–	–	37	**37**
Utilised during the year	(17)	–	–	**(17)**
Cash-settled share-based payments	18	–	–	**18**
Balance at 31 December 2011	**12**	**710**	**190**	**912**
Expected timing of future cash flows				
Within 1 year	11	–	–	**11**
2 to 5 years	–	192	13	**205**
More than 5 years	1	518	177	**696**
	12	**710**	**190**	**912**
Estimated undiscounted obligation	**12**	**1,222**	**369**	**1,603**

Cash-settled share-based payments (refer to note 22)
At 31 December 2012 the current provision represents amounts payable to deceased beneficiaries on the Envision share scheme. The non-current provision represents amounts payable to beneficiaries of the certain conditional share awards under the Bonus share scheme which vests in 2014.

Environmental rehabilitation
Provision is made for environmental rehabilitation costs where either a legal or constructive obligation is recognised as a result of past events. Estimates are based upon costs that are reviewed regularly and adjusted as appropriate for new circumstances.

Decommissioning
The decommissioning provision relates to decommissioning of property, plant and equipment where either a legal or constructive obligation is recognised as a result of past events. Estimates are based upon costs that are regularly reviewed and adjusted.

Funding of environmental rehabilitation and decommissioning (refer to note 4)
Contributions towards the cost of mine closure are made to the Kumba Iron Ore Rehabilitation Trust and the balance of the trust amounted to R673 million at 31 December 2012 (2011 : R568 million).

SIGNIFICANT ACCOUNTING ESTIMATES

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

A change of 1% in the discount rate used in estimating the environmental rehabilitation and decommissioning provisions would result in an increase of R218.4 million (2011: R147.4 million) or a decrease of R182 million (2011: R122.3 million) in the carrying value of the provision.

A change of one year in the expected timing of the commencement of environmental rehabilitation and decommissioning would result in an increase of R51.6 million (2011: R34.7 million) or a decrease of R53.7 million (2011: R33.4 million) in the carrying value of the provision.

Change in accounting estimate
Management has revised the estimated rehabilitation and decommissioning provisions at Sishen, Kolomela and Thabazimbi mines as a result of ongoing mining activities as well as an independent review, refinement and standardisation of all the models and assumptions used to determine the closure cost estimates across the group.

The life of mine plan on which accounting estimates are based only includes proved and probable ore resources as disclosed in Kumba's annual ore reserves and mineral resources statement. The effect of these changes is detailed below:

Rand million	Environmental rehabilitation	Decommissioning	Total
Amount of the closure cost	371	70	**441**

The change in estimate in the environmental rehabilitation provision resulted in a decrease in profit before taxation and headline earnings per share for the year ended 31 December 2012 of R371 million and 89 cents, respectively. The change in estimate in the decommissioning provision has been capitalised to the related property, plant and equipment (refer to note 1).

11. DEFERRED TAX

DEFERRED TAX ASSETS

Rand million	2012	2011
Reconciliation		
Balance at beginning of year	658	472
Foreign exchange translation differences	34	130
Current year charge per the income statement	150	56
	842	**658**
Expected timing		
Deferred tax assets to be recovered after 12 months	738	504
Deferred tax assets to be recovered within 12 months	104	154
	842	**658**
Deferred tax assets attributable to the following temporary differences:		
Estimated tax losses	819	639
Other	23	19
Total deferred tax assets	**842**	**658**

There was no unused tax losses for which a deferred tax asset was not recognised at 31 December 2012 (2011: R'nil').

DEFERRED TAX LIABILITIES

Reconciliation		
Balance at beginning of year	4,942	2,272
Prior year adjustment	(20)	–
Current year charge per the income statement	1,775	2,670
	6,697	**4,942**
Expected timing		
Deferred tax liabilities to be recovered after 12 months	6,097	4,495
Deferred tax liabilities to be recovered within 12 months	600	447
	6,697	**4,942**
Deferred tax liabilities attributable to the following temporary differences:		
Property, plant and equipment	6,447	5,061
Environmental rehabilitation provision	(319)	(199)
Decommissioning provision	(24)	(20)
Environmental rehabilitation trust asset	188	159
Leave pay accrual	(55)	(46)
Other	460	(13)
Total deferred tax liabilities	**6,697**	**4,942**

12. TRADE AND OTHER PAYABLES

Rand million	2012	2011
Trade payables	1,710	1,672
Other payables	1,103	2,704
Leave pay accrual	197	166
Derivative financial instruments (refer to note 29)	2	14
	3,012	**4,556**
Currency analysis of trade and other payables		
Rand	2,913	4,197
Euro	10	19
US dollar	88	340
Other	1	–
	3,012	**4,556**

Other payables consist mainly of accruals for goods and services received. An amount of R968 million was included at 31 December 2011 as an accrual for PAYE on the Envision distribution. This was paid in January 2012.

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for the year ended 31 December

13. REVENUE

Rand million	2012	2011
Sale of iron ore	42,254	45,842
Services rendered – shipping	3,192	2,711
	45,446	**48,553**
Sale of iron ore		
Domestic – South Africa	**2,832**	3,388
Export	**39,422**	42,454
China	25,085	27,193
Rest of Asia	9,889	9 274
Europe	4,322	5,450
Middle East	126	227
Americas/other	–	310
Services rendered – shipping (China)	**3,192**	2,711
	45,446	**48,553**

14. OPERATING EXPENSES

Rand million	2012	2011
Operating expenditure by function		
Production costs	14,040	9 477
Movement in work-in-progress inventories	(382)	(396)
Cost of goods produced	**13,658**	9,081
Movement in finished product inventories	441	247
Finance gains (refer to note 16)	(148)	(587)
Other	(60)	20
Cost of goods sold	**13,891**	8,761
Mineral royalty	1,127	1,762
Selling and distribution costs	4,065	3,698
Distribution costs	3,800	3,393
Selling costs	265	305
Cost of services rendered – shipping	3,222	2,374
Sub-lease rentals received	(12)	(8)
Operating expenses	**22,293**	**16,587**
Cost of goods sold comprises:		
Staff costs	3,466	2,777
Salaries and wages	2,423	2,159
Equity-settled share-based payments	724	352
Cash-settled share-based payments	32	17
Pension and medical costs	287	249
Outside services	2,447	1,887
Raw materials and consumables	2,770	2,233
Depreciation of property, plant and equipment	1,524	998
Mineral properties	20	20
Residential buildings	25	7
Buildings and infrastructure	135	35
Machinery, plant and equipment	1,342	934
Site preparation and development	2	2
Sub-total	**10,207**	**7,895**

Rand million	2012	2011
Sub-total brought forward	**10,207**	7,895
Repairs and maintenance	1,122	968
Legal	66	103
Professional fees	395	330
Technical services and project studies	766	326
General expenses	1,229	599
Finance gains (refer to note 16)	(148)	(587)
Energy costs	293	247
Own work capitalised	(98)	(971)
Movement in inventories	59	(149)
Cost of goods sold	**13,891**	**8,761**

15. SIGNIFICANT ITEMS INCLUDED IN OPERATING PROFIT

Operating profit includes the following amounts, some of which are also included in the analysis of operating expenses disclosed in note 14:

Rand million	2012	2011
Staff costs		
Employee expenses	2,710	2,408
Share-based payments expenses	756	369
Directors' emoluments (refer to remuneration report on page 25)	18	18
Executive directors		
Emoluments received as directors of the company	8	10
Bonuses and cash incentives	6	4
Non-executive directors - emoluments received as directors of the company	4	4
Prescribed officers remuneration (excluding executive directors - refer to remuneration report on page 25)	26	28
Depreciation of property, plant and equipment (refer to note 1)	1,524	998
Operating lease rental expenses		
Property	73	67
Equipment	104	56
Borrowings facility fee	4	6
Auditors' remuneration		
Audit fees	9	8
Other services	3	1
Research and development cost	1	1
Net profit on disposal of investment	(3)	–
Net (profit)/loss on disposal or scrapping of property, plant and equipment	(21)	10
Net (profit)/loss on disposal of property, plant and equipment	(23)	6
Reconditioned spares scrapped	2	4
Finished product inventory write-off	135	–
Operating sub-lease rentals received		
Property	(12)	(8)

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16. FINANCE GAINS/(LOSSES)

Rand million	2012	2011
Finance gains/(losses) recognised in operating profit		
Net gains/(losses) on derivative financial instruments		
Realised	30	(473)
Unrealised	(5)	(14)
Net foreign currency gains/(losses)		
Realised	124	1,000
Unrealised	(59)	74
Fair value gains on financial instruments	58	–
	148	**587**

17. FINANCE (COSTS)/INCOME

Rand million	2012	2011
Interest expense	(329)	(337)
Notional interest on non-current provisions (refer to note 10)	(76)	(59)
Capitalisation of borrowing costs (refer to notes 25 and 28)	–	247
Finance costs	**(405)**	(149)
Interest received	**102**	241
Net finance (costs)/income	**(303)**	**92**

18. TAXATION

Rand million	2012	2011
Taxation expense		
Current taxation	4,186	5,344
Deferred taxation	1,605	2,614
STC	959	1,802
	6,750	**9,760**
Charge to the income statement		
South African normal taxation		
Current year	4,174	5,389
Prior year	(5)	(120)
Foreign taxation		
Current year	39	74
Prior year	(22)	1
STC	959	1,802
Income taxation	**5,145**	7,146
Deferred taxation	**1,605**	2,614
Current year	1,625	2,614
Prior year	(20)	–
	6,750	**9,760**

RECONCILIATION OF TAXATION RATES

	%	%
Taxation as a percentage of profit before taxation	**29.5**	**30.4**
Taxation effect of:		
Disallowable expenditure	(0.2)	(0.1)
Exempt income	1.3	2.2
Deferred tax asset raised in the current year on unrecognised taxation losses brought forward	1.3	0.7
Rate difference on tax rate	0.1	0.2
STC	(4.2)	(5.6)
Prior year overprovision	0.2	0.4
Equity-settled share-based payments	0.1	(0.2)
Foreign exchange translation differences	(0.1)	–
Standard taxation rate	**28.0**	**28.0**

The group recognised the entire remaining unused tax loss of Kumba International Trading SA (KITSA) at 31 December 2011. In February 2012, the Luxembourg tax authorities allowed KITSA an additional tax deduction in respect of items incurred during the 2009 and 2010 years of assessment which was previously recognised as a non-deductible tax expense and was added back for tax purposes. The total additional tax loss was recognised during 2012, on which a deferred tax asset was recognised. Based on management's most recent forecast financial information this balance is supported by sufficient future taxable profits anticipated to be generated.

19. PER SHARE INFORMATION

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

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

Rand million	2012	2011
Profit attributable to equity holders of Kumba	**12,212**	**17,042**

Number of shares	2012	2011
Weighted average number of ordinary shares in issue	321,223,241	320,895,696
Potential dilutive effect of outstanding share options	530,586	823,730
Diluted weighted average number of ordinary shares in issue	**321,753,827**	**321,719 426**

Rand	2012	2011
Attributable earnings per share		
Basic	**38.02**	53.11
Diluted	**37.95**	52.97
Headline earnings per share		
Basic	**37.97**	53.13
Diluted	**37.91**	52.99
Dividend per share	**31.70**	44.20
Interim	19.20	21.70
Final	12.50	22.50

RECONCILIATION OF HEADLINE EARNINGS

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

	2012		2011	
Rand million	Gross adjustment	Net attributable	Gross adjustment	Net attributable
Profit attributable to equity holders of Kumba	12,212	12,212	17,042	17,042
Net (profit)/loss on disposal or scrapping of property, plant and equipment	(21)	(11)	10	6
Net profit on disposal of investment	(3)	(3)	–	–
	12,188	**12,198**	17,052	17,048
Taxation effect of adjustments	6		(3)	
Non-controlling interest in adjustments	4		(1)	
Headline earnings	**12,198**	**12,198**	**17,048**	**17,048**

Annual Financial Statements

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20. OTHER COMPREHENSIVE INCOME (NET OF TAX)

Rand million	Before tax	Tax	Net of tax
2012			
Foreign currency translation differences			
Net gains arising during the year	193	–	**193**
Net effect of cash flow hedges			
Net losses arising during the year	(38)	–	**(38)**
Other comprehensive income for the year	**155**	**–**	**155**
2011			
Foreign currency translation differences			
Net gains arising during the year	363	–	363
Net effect of cash flow hedges			
Gains arising during the year	41	–	41
Other comprehensive income for the year	**404**	**–**	**404**

These is no tax attributable to items included in other comprehensive income/(losses).

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

Number of shares	2012	2011
Authorised		
Ordinary shares of R0.01 each	500,000,000	500,000,000
Issued		
Ordinary shares of R0.01 each	322,058,624	322,058,624
Reconciliation of issued shares		
Number of shares at beginning of year	322,058,624	321,911,721
Number of ordinary shares issued	–	5,377,770
Number of ordinary shares repurchased and cancelled	–	(5,230,867)
Number of shares at end of year	**322,058,624**	**322,058,624**
Reconciliation of treasury shares held		
Number of treasury shares at beginning of year	1,075,970	818,272
Number of shares purchased	473,435	550,781
Shares issued to employees under the Long-Term Incentive Plan, Kumba Bonus Share Plan and Share Appreciation Rights Scheme	(400,542)	(252,985)
Net movement in shares held by Kumba Iron Ore Management Share Trust	(84,332)	(40,098)
Number of treasury shares at end of year	**1,064,531**	**1,075,970**
Shares held in reserve reconciliation (unissued shares)		
Authorised shares at the beginning of year not issued	177,941,376	178,088,279
Shares issued	–	(140,000)
Shares held by the Kumba Iron Ore Management Share Trust	–	(6,903)
Unissued shares	**177,941,376**	**177,941,376**

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

All treasury shares are held in respect of employee share schemes and are available for utilisation for the purposes of these schemes, as disclosed in note 22. Included in treasury shares are shares held as conditional share awards under the Kumba Bonus Share Plan 1,035,173 (2011: 722,701).

Rand million	2012	2011
Reconciliation of share capital and premium		
Balance at beginning of year	30	153
Total shares issued for cash consideration	5	16
Shares issued – share premium	–	16
Net movement in shares held by Kumba Iron Ore Management Share Trust	5	–
Net movement in treasury shares under employee share incentive schemes	(156)	(139)
Purchase of treasury shares for employee share incentive schemes*	(261)	(278)
Shares issued to employees under employee share incentive schemes	105	139
Share capital and premium at end of year	**(121)**	**30**
Comprises:		
Share capital	3	3
Share premium	363	363
Treasury shares	(487)	(336)

* The average price paid for the purchase of the shares was R551 per share

22. EQUITY-SETTLED SHARE-BASED PAYMENTS RESERVE

Rand million	2012 Unrecognised	2011 Unrecognised	2012 Recognised	2011 Recognised
Balance at beginning of year			**307**	487
Equity-settled share-based payments expense	**1,887**	2,327	**579**	265
Employee share incentive schemes:				
Envision phase 2	1,748	2,227	624	104
Envision phase 1	–	–	–	168
Bonus Share Plan (BSP)	132	94	96	71
Long-Term Incentive Plan (LTIP)	7	6	4	8
Share Appreciation Rights Scheme (SARS)	–	–	–	1
Deferred Bonus Plan (DBP)	–	–	*	*
Non-controlling interest	–	–	(145)	(87)
Vesting of shares under employee share incentive schemes			**(64)**	(445)
Balance at end of year			**822**	**307**

* Value is less than R1 million

EMPLOYEE SHARE INCENTIVE SCHEMES

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

- Envision
- Bonus Share Plan
- Long-Term Incentive Plan
- Share Appreciation Rights Scheme (No longer in use)
- Deferred Bonus Plan (No longer in use)
- Management Share Option Scheme (No longer in use)

ENVISION

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

The acquisition of the interest in SIOC by Envision was funded by SIOC company in terms of a contribution agreement. Envision was structured as a ten year scheme, divided into two capital appreciation periods. The first capital appreciation period vested on 17 November 2011. The second capital appreciation period commenced on 10 November 2011 with the issue of 3.09% in the share capital of SIOC to the Envision trust. This resulted in a net increase in the non-controlling interest in SIOC of R4 million for the year ended 31 December 2011.

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

The unwind of phase one had resulted in a net cash outflow for the group for the year ended 31 December 2011, through the implementation of the specific share repurchase by Kumba undertaken to monetise the value of phase 1 for employee participants. The actual monetary impact was R2.7 billion, based on a Kumba five day average share price of R508.82 per share on the maturity date, being 17 November 2011. Included in the R2.7 billion is employees tax of R968 million, which was paid to SARS during January 2012.

	Number of share options (Phase 2)	Number of share options (Phase 1)	Weighted average option price (Rand)
Movement in the number of share options granted			
Balance at beginning of year	22,618,800	–	22.84
Share options issued	2,228,927		22.84
Share options forfeited	(1,369,326)		22.84
Balance at 31 December 2012	**23,478,401**	**–**	**22.84**
Balance at beginning of year	–	15,622,571	22.84
Share options issued	22,618,800	98,127	22.84
Share options vested	–	(15,614,606)	22.84
Share options forfeited	–	(106,092)	22.84
Balance at 31 December 2011	**22,618,800**	**–**	**22.84**

	Number of share options	Expiry date
Vesting period of share options granted		
Within 5 year	23,478,401	2016

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22. EQUITY-SETTLED SHARE-BASED PAYMENTS RESERVE continued

ENVISION continued

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

	Phase 2	Phase 1
Share price on date of grant (Rand)	**170.29**	39.48
Weighted average exercise price (Rand)	**170.11**	22.84
Annualised expected volatility – awards before 31 May 2012 (%)	**45.00**	45.00
Annualised expected volatility – awards after 31 May 2012 (%)	**41.00**	n/a
Expected share option life (years)	**5.00**	5.00
Expected dividend yield (%)	**5.25**	5.25
Risk-free interest rate (%)	**7.07**	8.00

The risk-free interest rate for the period within the contractual term of the share options is based on South African government bonds.
The historical volatility of the Kumba and Kumba Resources share price is used in determining the expected volatility.

BONUS SHARE PLAN (BSP)

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

- a payment of an annual cash bonus; and
- a forfeitable award of shares linked to the participant's annual cash bonus award known as Bonus Shares.

The number of Bonus Shares awarded is determined with reference to the amount of the annual cash bonus an employee receives which is directly linked to the employee's personal performance and potential. The shares are held by an escrow agent and released to the employee three years after the award date (subject to continuous employment). During the three year period, the employee is entitled to all rights attaching to the Bonus Shares including dividend entitlements and voting rights.

	2012 award	2011 award	2010 award	2009 award
Movement in the number of awards granted				
Balance at beginning of year	–	216,688	220,717	297,903
Bonus shares awarded	265,286	–	–	–
Awards exercised [1]	(5,682)	(5,774)	(10,897)	–
Awards exercised on vesting	–	–	–	(295,981)
Awards forfeited	(4,893)	(4,237)	(5,193)	–
Balance at 31 December 2012	**254,711**	**206,677**	**204,627**	**1,922**
Balance at beginning of year	–	–	225,874	310,777
Bonus shares awarded	–	223,868	16,241	
Awards exercised [1]	–	(4,878)	(17,611)	(11,549)
Awards forfeited	–	(2,302)	(3,787)	(1,325)
Balance at 31 December 2011	**–**	**216,688**	**220,717**	**297,903**

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

	Number of awards	Expiry date
Vesting period of awards granted		
Less than 1 year	206,549	2013
1 to 2 years	206,677	2014
2 to 5 years	254,711	2015

The share awards granted under the BSP are considered equity-settled. The share-based payment expense is measured using the fair value of the share awards issued under the BSP which was determined using the grant date share price of Kumba's shares.

	2012 award	2011 award	2010 award	2009 award
Fair value assumptions				
Share price on date of grant (Rand)	452.45	439.82	346.68	172.60
Expected share option life (years)	3.00	3.00	3.00	3.00
Expected dividend yield (%)	5.25	5.25	6.94	10.28

The risk-free interest rate does not impact the fair value calculations for this scheme.

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

LONG-TERM INCENTIVE PLAN (LTIP)

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

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

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

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

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

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

	Number of conditional awards					
	2012 award	2011 award	2010 award	2009 award	2008 award	2007 award
Movement in the number of conditional awards granted						
Balance at beginning of year	–	17,960	23,365	36,490	–	–
Conditional awards issued	16,214	–	–	–	–	–
Conditional awards vested	–	–	(2,803)	(36,490)	–	–
Balance at 31 December 2012	**16,214**	**17,960**	**20,562**	**–**	**–**	**–**
Balance at beginning of year	–	–	23,365	36,490	210,845	388
Conditional awards issued	–	17,960	–	–	2,314	–
Conditional awards vested	–	–	–	–	(208 775)	–
Conditional awards forfeited	–	–	–	–	(4,384)	(388)
Balance at 31 December 2011	**–**	**17,960**	**23,365**	**36,490**	**–**	**–**

	Number of conditional awards	Expiry date
Vesting period of conditional awards granted		
Less than 1 year	20,562	2013
1 to 2 years	17,960	2014
2 to 5 years	16,214	2015

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

	2012 award	2011 award	2010 award	2009 award	2008 award	2007 award
Fair value assumptions						
Share price on date of grant (Rand)	527.00	439.82	361.97	172.06	332.06	126.50
Annualised expected volatility (%)	34.21	46.55	45.00	51.66	38.95	37.20
Expected share option life (years)	3.00	3.00	3.00	3.00	3.00	3.00
Expected dividend yield (%)	5.25	5.25	6.94	10.28	5.81	2.65
Risk-free interest rate (%)	6.39	7.08	6.50	6.14	8.96	7.70

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

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

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22. EQUITY-SETTLED SHARE-BASED PAYMENTS RESERVE continued

SHARE APPRECIATION RIGHTS SCHEME (SARS)

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

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

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

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

	Number of rights		Exercise price range
	2008 award	2007 award	(Rand)
Movement in the number of rights granted			
Balance at beginning of year	98,164	61,610	124.27 – 332.06
Rights exercised [1]	(52,110)	(29,520)	124.27 – 332.06
Balance at 31 December 2012	**46,054**	**32,090**	**124.27 – 332.06**
Balance at beginning of year	210,524	104,987	124.27 – 332.06
Rights exercised [1]	(111,230)	(43,377)	124.27 – 332.06
Rights forfeited	(1,130)	–	–
Balance at 31 December 2011	98,164	61,610	124.27 – 332.06

[1] This relates to employees who are considered good leavers in terms of the share rules

	Exercise price range (Rand)	Number of rights	Expiry date
Vesting period of rights granted			
2 to 5 years	124.27 – 332.06	32,090	2014
2 to 5 years	247.30 – 332.06	46,054	2015

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

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

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

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

DEFERRED BONUS PLAN (DBP)

The purpose of the Kumba Deferred Bonus Plan was to recognise contributions made by selected employees and to provide for an incentive for their continuing relationship with the group by providing them with the opportunity of receiving shares in Kumba. The scheme was intended as an incentive to ensure that the group attracts and retains the core competencies required for formulating and implementing the group's business strategies.

A participant sacrificed up to 50% of his post-tax bonus he is entitled to under the current short-term incentive scheme in exchange for Kumba shares at the ruling market price. The pledged shares are then held in trust until their vesting date, which is three years after the offer date. The participant will beneficially own the pledged shares in the trust and will consequently receive dividends. The participant will also be entitled to the pledged shares if he leaves the employment of Kumba. At vesting date, provided that the participant is still employed by Kumba, the company makes an additional award of shares by matching the shareholding on a one-for-one basis.

	Number of pledged shares	Exercise price range (Rand)
Movement in the number of pledged shares		
Balance at beginning of year	–	–
Balance at 31 December 2012	**–**	**–**
Balance at beginning of year	1,578	232.75 – 342.25
Exercised	(1,578)	
Balance at 31 December 2011	**–**	**–**

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

MANAGEMENT SHARE OPTION SCHEME

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

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

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

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

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

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

	Number of share options	Option price range (Rand)
Movement in the number of share options granted		
Balance at beginning of year	171,930	15.38 – 97.74
Share options exercised	(114,970)	15.38 – 97.74
Balance at 31 December 2012	**56,960**	**15.38 – 97.74**
Balance at beginning of year	321,148	15.38 – 97.74
Share options exercised	(149,218)	15.38 – 97.74
Balance at 31 December 2011	**171,930**	**15.38 – 97.74**

Number of share options	2012	2011
Vesting period of share options granted		
Already vested	**56,960**	171,930

Range of exercise prices (Rand)	Weighted average option price (Rand)	Number of share options	Expiry date
37.62 – 67.26	80,57	56,960	2013

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

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22. EQUITY-SETTLED SHARE-BASED PAYMENTS RESERVE continued

MANAGEMENT SHARE OPTION SCHEME continued

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

The risk-free interest rate for the period within the contractual term of the share options is based on South African government bonds.
The historical volatility of the Kumba Resources share price is used in determining the expected volatility.

23. NON-CONTROLLING INTEREST

Rand million	2012	2011
Balance at beginning of year	**4,759**	4,038
Profit for the year	**3,888**	5,256
Exxaro	3,201	4,461
SIOC Community Development SPV	481	669
Envision	206	126
Dividends paid	**(4,490)**	(4,078)
Exxaro	(3,801)	(3,516)
SIOC Community Development SPV	(571)	(528)
Envision	(206)	(126)
Recoupment of Envision dividend *	88	92
Interest in movement in equity reserves	**188**	(457)
Change in effective ownership of SIOC (refer to note 22 – Envision)	–	(4)
Equity-settled share-based payments reserve	145	87
Vesting of shares under share incentive scheme (excluding Envision)	18	(146)
Vesting of shares under Envision	–	(500)
Foreign currency translation reserve	45	83
Cash flow hedge accounting reserve	(20)	23
Balance at end of year	**4,345**	**4,759**

* The recoupment of the Envision dividend of R88 million (2011: R92 million) arises from SIOCs participation as income beneficiary in Envision

24. CASH GENERATED FROM OPERATIONS

Rand million	2012	2011
Operating profit	23,153	31,966
Adjusted for		
Foreign exchange differences on translation of foreign operations	35	(733)
Depreciation of property, plant and equipment	1,524	998
Movement in provisions	356	113
Unrealised foreign currency revaluations and fair value adjustments	3	(62)
Reconditionable spares used	2	4
(Profit)/loss on disposal or scrapping of property, plant and equipment	(23)	10
Profit on disposal of investments	(3)	–
Deferred stripping costs capitalised	(14)	–
Acquisition of environmental trust assets	45	183
Movement in non-current financial assets and prepayments	(81)	(235)
Finished product inventory write-off	135	–
Equity-settled share-based payment expenses	724	352
Cash-settled share-based payment provision	32	18
Cash flows from operations	**25,888**	**32,614**
Working capital movements		
Increase in inventories	(481)	(429)
(Increase)/decrease in trade and other receivables	(715)	235
(Decrease)/increase in trade and other payables	(522)	394
	24,170	**32,814**

25. NET FINANCE COSTS PAID

Rand million	2012	2011
Net financing (costs)/income as per income statement	(303)	92
Adjusted for:		
Notional interest on non-current provisions (refer to note 10)	76	59
Capitalisation of borrowing costs (refer to note 17)	–	(247)
	(227)	**(96)**

26. TAXATION PAID

Rand million	2012	2011
Net taxation liability at beginning of year	(188)	(61)
Income taxation per the income statement (refer to note 18)	(5,145)	(7,146)
Translation of taxation for foreign operations	(9)	(16)
	(5,342)	(7,223)
Net current taxation liability per balance sheet	127	188
Taxation paid per the cash flow statement	**(5,215)**	(7,035)
Comprising normal taxation:		
South Africa	(5,012)	(7,033)
Foreign	(203)	(2)
	(5,215)	**(7,035)**

27. DIVIDENDS PAID

Rand million	2012	2011
Dividends per the statement of changes in equity	(13,516)	(13,834)
Recoupment of Envision dividend (refer to note 23)	88	92
	(13,428)	**(13,742)**
Dividends paid to non-controlling shareholders		
Dividends per the statement of changes in equity	(4,490)	(4,078)
Recoupment of Envision dividend (refer to note 23)	(88)	(92)
	(4,578)	**(4,170)**

28. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

Rand million	2012	2011
Investments to maintain operations	(3,204)	(2,745)
Investment to expand operations	(2,195)	(3,104)
Additions per the cash flow statement	**(5,399)**	(5,849)
Borrowing costs capitalised (refer to note 17)	–	(247)
Movement in capital creditor	56	112
Additions per note 1	**(5,343)**	**(5,984)**

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29. FINANCIAL INSTRUMENTS

The group is exposed to credit risk, liquidity risk and market risk (currency risk and interest rate risk) from the use of financial instruments. Overall responsibility for establishment and oversight of the risk management framework rests with the board of directors. The Risk Committee, a committee of the board, is responsible for the development and monitoring of the group's risk management process.

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

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

In conducting its review of the effectiveness of risk management, the board considers the key findings from the ongoing monitoring and reporting processes, management assertions and independent assurance reports. The board also takes into account material changes and trends in the risk profile and consider whether the control system, including reporting, adequately supports the board in achieving its risk management objectives.

SIOC in conjunction with Anglo American SA Finance Limited (a subsidiary of the ultimate holding company) provide a treasury function to the group, co-ordinates access to domestic and international financial markets, and manages the financial risks relating to the group's operations.

MEASUREMENT BASIS OF FINANCIAL INSTRUMENTS

Rand million	Notes	Amortised cost	Fair value through profit or loss	Total
2012				
Financial assets				
Investments held by the environmental trust	4	318	355	**673**
Trade receivables	7	3,100	–	**3,100**
Other receivables (excluding VAT and prepayments)	5, 7	202	–	**202**
Derivative financial instruments	7	–	35	**35**
Cash and cash equivalents	8	1,527	–	**1,527**
Financial liabilities				
Interest-bearing borrowings	9	(5,869)	–	**(5,869)**
Trade payables	12	(1,710)	–	**(1,710)**
Other payables	12	(1,300)	–	**(1,300)**
Derivative financial instruments	12	–	(2)	**(2)**
		(3,732)	**388**	**(3,344)**
2011				
Financial assets				
Investments held by the environmental trust	4	285	283	**568**
Trade receivables	7	2,249	–	**2,249**
Other receivables (excluding VAT and prepayments)	5, 7	248	–	**248**
Derivative financial instruments	7	–	90	**90**
Cash and cash equivalents	8	4,742	–	**4,742**
Financial liabilities				
Interest-bearing borrowings	9	(3,191)	–	**(3,191)**
Trade payables	12	(1,672)	–	**(1,672)**
Other payables	12	(2,870)	–	**(2,870)**
Derivative financial instruments	12	–	(14)	**(14)**
		(209)	**359**	**150**

CREDIT RISK

Credit risk is the risk of financial loss to the group if a counterparty to a financial instrument fails to meet its contractual obligations. The group limits its counterparty exposure arising from money market and derivative instruments by dealing only with well-established financial institutions of high credit standing.

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

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

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

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

LIQUIDITY RISK

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

Maturity profile of the group's financial instruments

Rand million	Notes	Within 1 year	1 to 2 years	3 or more years	Total
2012					
Financial assets					
Investments held by the environmental trust	4	–	–	673	**673**
Trade receivables	7	3,100	–	–	**3,100**
Other receivables (excluding VAT and prepayments)	7	201	–	1	**202**
Derivative financial instruments	7	35	–	–	**35**
Cash and cash equivalents	8	1,527	–	–	**1,527**
Financial liabilities					
Interest-bearing borrowings	9	(2,669)	–	(3,200)	**(5,869)**
Trade payables	12	(1,710)	–	–	**(1,710)**
Other payables	12	(1,300)	–	–	**(1,300)**
Derivative financial instruments	12	(2)	–	–	**(2)**
		(818)	**–**	**(2,526)**	**(3,344)**
2011					
Financial assets					
Investments held by the environmental trust	4	–	–	568	**568**
Trade receivables	7	2,249	–	–	**2,249**
Other receivables (excluding VAT and prepayments)	7	247	–	1	**248**
Cash and cash equivalents	8	4,742	–	–	**4,742**
Derivative financial instruments	7	90	–	–	**90**
Financial liabilities					
Interest-bearing borrowings	9	(3,191)	–	–	**(3,191)**
Trade payables	12	(1,672)	–	–	**(1,672)**
Other payables	12	(2,870)	–	–	**(2,870)**
Derivative financial instruments	12	(14)	–	–	**(14)**
		(419)	**–**	**569**	**150**

MARKET RISK

Market risk includes currency risk, interest rate risk and other price risk, as detailed below.

Currency risk

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

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

The average US dollar/rand exchange rate for 2012 of US$1: R8.19 (2011: US$1: R7.25) has been used to translate income and cash flow statements, whilst the balance sheet has been translated at the closing rate at the last day of the reporting year using an exchange rate of US$1: R8.48 (2011: US$1: R8.18). The group's financial instrument exposure to currency risk is analysed under the individual note for each financial instrument at balance sheet date.

Net currency exposure of the group's financial instruments, excluding derivatives:

Rand million	Financial assets	Financial liabilities	Net exposure
2012			
Rand	1,219	(8,780)	(7,561)
US dollar	4,273	(88)	4,185
Euro	7	(10)	(3)
Other	3	(1)	2
	5,502	**(8,879)**	**(3,377)**
2011			
Rand	5,343	(7,374)	(2,031)
US dollar	2,455	(340)	2,115
Euro	6	(19)	(13)
Other	3	–	3
	7,807	**(7,733)**	**74**

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29. FINANCIAL INSTRUMENTS continued

Currency risk continued

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

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

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

	Foreign amount (million)	Market related value (Rand million)	Contract value (Rand million)	Recognised fair value in equity (Rand million)
Derivative instruments – cash flow hedges				
2012	–	–	–	–
2011				
US dollar	40	328	286	42
Euro	1	13	14	(1)
		341	**300**	**41**

	Foreign amount (million)	Market related value (Rand million)	Contract value (Rand million)	Recognised fair value in equity (Rand million)
Derivative instruments – held for trading				
2012				
FECs related to the repatriation of foreign cash receipts				
US dollar	60	510	538	28
Related to commitments for the import of capital equipment				
US Dollar	4	(36)	(33)	3
Euro – FECs	1	(7)	(5)	2
Other	*	(2)	(2)	–
		465	**498**	**33**
2011				
FECs related to the repatriation of foreign cash receipts				
US dollar	180	1,466	1,505	39
		1,466	**1,505**	**39**

Sensitivity analysis

A movement in exchange rates of 5%, with all other variables held constant, against the US dollar would have increased/(decreased) profit or loss and equity by the amounts shown below.

The impact on equity includes the after tax impact of the movements in profit or loss. The analysis has been performed on the basis of the change occurring at the start of the reporting period and is performed on the same basis for 2011.

This analysis considers the impact of changes in foreign exchange rates on profit or loss and equity, excluding foreign exchange translation differences resulting from the translation of group entities that have a functional currency different from the presentation currency, into the group's presentation currency (and recognised in the foreign currency translation reserve).

	Impact on profit or loss		Impact on equity	
Rand million	Increase	Decrease	Increase	Decrease
2012				
US dollar	**233**	**(233)**	**168**	**(168)**
2011				
US dollar	**91**	**(91)**	**66**	**(66)**

Interest rate risk
Interest rate risk arises from the group's floating rate borrowings and the floating rate cash balances which exist. The company is not exposed to fair value interest rate risk as the company does not have any fixed interest bearing financial instruments carried at fair value. As part of the process of managing the company's interest rate risk, interest rate characteristics of new borrowings and the refinancing of existing borrowings are positioned according to expected movements in interest rates. For further details on long-term borrowings refer to note 9 'Interest-bearing borrowings'.

Sensitivity analysis

Changes in market interest rates affect the interest income or expense of floating rate financial instruments. A change in the market interest rate of 50 basis points, with all other variables held constant, would have increased/(decreased) profit or loss and equity by the amounts shown below.

The impact on equity includes the after tax impact of the movements in profit or loss. The analysis has been performed on the basis of the change occurring at the start of the reporting period and is performed on the same basis for 2011.

	Impact on profit or loss		Impact on equity	
Rand million	Increase	Decrease	Increase	Decrease
2012				
Floating interest rate instruments	**(39)**	**39**	**(28)**	**28**
2011				
Floating interest rate instruments	(8)	8	(6)	6

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

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

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

There were no transfers between level 1 and level 2 fair value measurements during the 2012 and 2011 financial years.

Fair value gains and losses recognised in operating profit are disclosed in note 16 – 'Finance gains/(losses)'. All gains and losses included in other comprehensive income relate to cash flow hedges in respect of future commitments for the import of capital equipment held at the end of the reporting period.

Fair value measurements recognised in the consolidated balance sheet

Rand million	Level 1 [1]	Level 2 [2]	Level 3 [3]
2012			
Investments held by the environmental trust	355	–	–
Derivative financial assets	35	–	–
Derivative financial liabilities	(2)	–	–
	388	**–**	**–**
2011			
Investments held by the environmental trust	283	–	–
Derivative financial assets	90	–	–
Derivative financial liabilities	(14)	–	–
	359	**–**	**–**

[1] Level 1 fair value measurements are derived from unadjusted quoted prices in active markets for identical assets or liabilities

[2] Level 2 fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly (i.e. derived from prices)

[3] Level 3 fair value measurements are derived from valuation techniques that include inputs that are not based on observable market data

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

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

Rand million	**2012**	2011
Long-term interest-bearing borrowings	3,200	–
Short-term interest-bearing borrowings	2,669	3,191
Interest-bearing borrowings	**5,869**	3,191
Cash and cash equivalents	**(1,527)**	(4,742)
Net debt/(cash)	**4,342**	**(1,551)**
Total equity	**19,309**	**20,592**

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

Kumba was not in breach of any of its covenants during the year. The group had undrawn long-term borrowing and uncommitted short-term facilities at 31 December 2012 of R9.0 billion (2011: R9.1 billion).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December

30. EMPLOYEE BENEFITS

Retirement fund

Independent funds provide pension and other benefits for all permanent employees and their dependants. At the end of 2012 and 2011 the following funds were in existence:

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

Members pay contributions of 7% and an employers' contribution of 9.5% is expensed as incurred.

All funds are governed by the South African Pension Funds Act of 1956.

Defined contribution funds

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

	2012		2011	
	Working members (number)	Employer contributions (Rand million)	Working members (number)	Employer contributions (Rand million)
Kumba Iron Ore Selector Pension and Provident Funds	2,513	101	2,242	83
Iscor Employees Umbrella Provident Fund	3,442	70	3,508	60
	5,955	**171**	**5,750**	**143**

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

Medical fund

The group contributes to defined benefit medical aid schemes for the benefit of permanent employees and their dependants. The contributions charged against income amounted to R110 million (2011: R93 million). The group has no obligation to fund medical aid contributions for current or retired employees.

31. GUARANTEES AND LEGAL PROCEEDINGS

GUARANTEES

Rand million	2012	2011
Environmental trust closure liability to the DMR	853	853
Operational guarantees to the DMR	21	15
	874	**868**

Environmental obligations

During 2012 SIOC did not issue any additional financial guarantees to the DMR (2011: R286 million), in respect of the environmental rehabilitation and decommissioning obligations of the group.

LEGAL PROCEEDINGS

Sishen Supply Agreement arbitration

A dispute arose between Sishen Iron Ore Company Proprietary Limited (SIOC) and ArcelorMittal South Africa Limited (AMSA) in February 2010, in relation to SIOC's contention that the contract mining agreement concluded between them in 2001 had become inoperative as a result of the fact that AMSA had failed to convert its old order mining rights. This dispute has been referred to arbitration.

On 9 December 2011, SIOC and AMSA agreed to delay the arbitration proceedings in relation to the Sishen Supply Agreement until the final resolution of the mining rights dispute. This arbitration is only expected to commence in the fourth quarter of 2013, with possible resolution only expected in the third quarter of 2014 at the earliest. (see 12.2 below).

An Interim Pricing Agreement (IPA) between SIOC and AMSA was in place until 31 July 2012 and was extended to 31 December 2012.

In December 2012 a further interim agreement was concluded after negotiations which were facilitated by the Department of Trade and Industry (DTI). The further interim agreement will govern the sale of iron ore from the Sishen Mine to AMSA for the period 1 January 2013 to 31 December 2013, or until the conclusion of the legal processes in relation to the 2001 Sishen Supply agreement (whichever is the sooner), at a weighted average price of US$65 per tonne. Of the total 4.8 Mt, about 1.5 Mt is anticipated to be railed to Saldanha Steel and the rest to AMSA's inland operations.

21.4% undivided share of the Sishen mine mineral rights

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

In December 2011 judgment was delivered in the High Court regarding the status of the mining rights at the Sishen mine. The High Court held that, upon the conversion of SIOC's old order mining right relating to the Sishen mine properties in 2008, SIOC became the exclusive holder of a converted mining right for iron ore and quartzite in respect of the Sishen mine properties. The High Court held further that as a consequence, any decision taken by the DMR after such conversion in 2008 to accept or grant any further rights to iron ore at the Sishen mine properties was void. Finally, the High Court reviewed and set aside the decision of the DMR to grant a prospecting right to ICT relating to iron ore as to a 21.4% share in respect of the Sishen mine properties. Finally, the High Court reviewed and set aside the decision of the Minister of Mineral Resources or her delegate to grant a prospecting right to ICT relating to iron ore as to a 21.4% share in respect of the Sishen mine properties.

On 3 February 2012 both the DMR and ICT submitted applications for leave to appeal against the High Court judgment delivered in December 2011. SIOC applied for leave to present a conditional cross-appeal, in order to protect its rights. The mining rights appeal process has begun, with the DMR and ICT submitting their arguments, and Kumba and AMSA filing their arguments as respondents on 23 November 2012. The Supreme Court of Appeal (SCA) hearing was held on 19 February 2013, and the SCA judgment is expected to be received in the second quarter of 2013.

The High Court order did not affect the interim supply agreement between AMSA and SIOC, which was in place until 31 July 2012 and was extended to 31 December 2012 as indicated in note 12.1 above.

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

Project Phoenix dispute
A dispute exists between AMSA and SIOC concerning AMSA's contention that it holds an entitlement to require SIOC to supply AMSA with iron ore produced from the Phoenix Project in terms of the Thabazimbi Supply Agreement. The Phoenix project is a reserve located within the Thabazimbi mining licence area. SIOC is the holder of such mining right. In November 2001, a 'captive mine supply agreement was concluded with AMSA in terms of which ore produced at Thabazimbi is supplied to AMSA on a cost-plus basis. There are a number of provisions in this agreement that regulate the development of future ore reserves.

AMSA took a strategic decision in November 2006 not to participate in this Project Phoenix. Kumba accepted AMSA's election and decided to develop the Phoenix project independently and at its own cost. AMSA was advised of this decision.

In 2011, AMSA indicated that it now wished to pursue the Phoenix project, and formally declared a dispute with Kumba early in 2012 on the basis that the supply agreement entitles AMSA to obtain all ore from Thabazimbi.

Kumba rejected this premise and, in line with the supply agreement dispute mechanisms, a mediation meeting of the respective chief executives was held on 6 June 2012, without resolution. The agreement requires that disputes are thereafter escalated to arbitration. The matter has not subsequently progressed.

Sishen Supply Agreement cost recovery
A dispute relating to historical cost recovery by SIOC, in terms of the Sishen-AMSA supply agreement (prior to 2010) has been declared by AMSA. A mediation meeting of the respective chief executives was held on 6 June 2012, as provided for in the supply agreement as a first step in dispute resolution, has not resulted in a resolution.

AMSA has indicated its intention to pursue the matter. Kumba will defend its position.

Lithos Corporation Proprietary Limited
Lithos Corporation Proprietary Limited is claiming US$421 million from Kumba for damages in relation to the Falémé project in Senegal. Kumba continues to defend the merits of the claim and is of the view, and has been so advised, that the basis of the claim and the quantification thereof is fundamentally flawed. The trial commenced during the first quarter of 2013.

32. COMMITMENTS

Operating lease commitments

Rand million	2012	2011
The future minimum lease payments under non-cancellable operating leases are as follows:		
Property		
Within 1 year	6	8
Between 1 and 2 years	39	40
2 to 5 years	9	27
	54	**75**
Plant and equipment		
Within 1 year	24	11
Between 1 and 2 years	9	2
2 to 5 years	5	1
	38	**14**
Other		
2 to 5 years	1	–
	1	**–**
	93	**89**
Shipping services commitments		
The future commitments under contracts for affreightment are as follows:		
Within 1 year	988	943
Between 1 and 2 years	986	924
2 to 5 years	2,957	2,817
More than 5 years	3,831	4,784
The future commitments for spot vessels are as follows:		
Within 1 year	–	148
	8,762	**9,616**

All contracts for affreightment were novated to Anglo American Marketing Limited (AAML), as part of the restructuring of the group's offshore marketing offices, effective 31 December 2012. Kumba has entered into back-to-back arrangements with AAML in respect of all the contracts of affreightment negotiated prior to this date. The commitments disclosed represents Kumba's future commitments to AAML.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December

33. CONTINGENT ASSETS AND LIABILITIES

Falémé Project

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

Following the arbitration award rendered in July 2010, a mutually agreed settlement was concluded between the parties. The parties agreed that the precise terms of the settlement agreement will remain confidential. The first settlement was paid by the Republic of Senegal in April 2011. A portion of the second instalment was received in December 2012, the remainder was received on 1 March 2013.

In terms of the settlement agreement, the remaining settlement amount is expected to be recovered in equal instalments from the Republic of Senegal over the remaining three-year period, on which contingent legal costs will be payable. A portion of the amount recovered was committed to social and community development projects to benefit the population of Senegal.

Other

There have been no other significant changes in the contingent assets and liabilities disclosed at 31 December 2011.

34. POST-BALANCE SHEET EVENTS

The shareholders approved the Memorandum of Incorporation of Kumba at a general meeting held on 18 January 2013.

A final dividend of R12.50 per share was declared on 8 February 2012 from profits accrued during the financial year ended 31 December 2012. The total dividend for the year amounted to R31.70 per share. The estimated total cash flow of the final dividend of R12.50 per share, payable on 18 March 2013, is R5.2 billion. The company has utilised STC credits amounting to 0.90691 cents per share. The balance of the dividend will be subject to a dividend withholding tax of 15% for all shareholders who are not exempt from or do not qualify for a reduced rate of withholding tax. The net dividend payable to shareholders subject to withholding tax at a rate of 15%, amounts to R10.63 per share.

The Republic of Senegal paid the balance of the second instalment due to Kumba in terms of the Falémé settlement agreement on 1 March 2013. Refer to note 33.

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

35. RELATED PARTY TRANSACTIONS

During the year the company and its subsidiaries, in the ordinary course of business, entered into various sale and purchase of goods and services with the ultimate holding company, Anglo American plc, its subsidiaries, associates and joint ventures. Certain deposits and borrowings are also placed with the holding company (refer to note 8 and 9). The holding company also acts as an agent for the company in respect of all foreign exchange transactions and performs a back office treasury function for the group. The effect of these transactions is included in the results of the group. These transactions occurred under terms that are no less favourable than those arranged with third parties.

SUMMARY OF RELATED PARTIES

Holding company

Anglo American plc is the group's ultimate holding company. The interest in the group is held through a 69.72% holding by Anglo South Africa Capital Proprietary Limited (2011: 65.22%).

Subsidiaries

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

Associates and joint ventures

Details of investments in associates and joint ventures are disclosed in note 3 of the group financial statements and in annexure 2.

Entities with significant influence over SIOC

Exxaro is SIOC's 19.98% (2011: 19.98%) Black Economic Empowerment shareholder. Details of dividends paid to Exxaro as well as its proportionate share of earnings for the year is detailed in note 23 of the group financial statements.

Special purpose entities

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

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

Directors, senior management and prescribed officers

Details relating to executive and non-executive directors' and the group's Executive Committee's remuneration and shareholdings (including share options) are disclosed in the remuneration report on pages 20 to 26.

Shareholders

The principal shareholders of the company are detailed under 'Shareholder analysis' on pages 84 and 85.

MATERIAL RELATED PARTY TRANSACTIONS

Rand million	2012	2011
Purchase of goods and services and finance charges		
Subsidiaries of ultimate holding company [3]	119	–
Fellow subsidiaries	378	259
Aircraft services	83	95
Corporate Operations (including shared services)	61	59
Research	46	21
Technical services	161	67
Scaw metals	27	16
Other	–	1
Enitities with significant influence over SIOC [1]	126	58
	623	**317**
Sale of goods and services and finance income		
Subsidiaries of ultimate holding company [2]	83	197
Fellow subsidiaries	18	38
	101	**235**
Amounts owing to related parties (after eliminating intercompany balances)		
Subsidiaries of ultimate holding company		
Derivative financial instruments	2	14
Fellow subsidiaries		
Interest-bearing borrowings	5,869	–
Interest payable [3]	27	–
Trade payables	40	49
	5,938	**63**
Amounts owing by related parties (after eliminating intercompany balances)		
Subsidiaries of ultimate holding company	272	3,996
Interest receivable	–	21
Cash and cash equivalents	237	3,885
Derivative financial instruments	35	90
Fellow subsidiaries		
Trade receivables	3	5
Associates and joint ventures		
Loans	47	33
	322	**4,034**

[1] Goods were purchased from Exxaro and consisted mainly of ferrosilicon
[2] Interest was earned at an average rate of 5.45% (2011: 5.36%) on cash deposits held with Anglo American SA Finance Limited
[3] Interest was accrued at an average rate of 6.25% (2011: nil) on interest-bearing borrowings from Anglo American SA Finance Limited

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December

36. SEGMENT REPORTING

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

A new segment, Logistics, has been reported for 2012, following an internal restructuring. It represents our rail and port segments. Sishen and Kolomela mines sell their export iron ore to the logistics segment, which then sells the iron ore to external customers.

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

The performance of the operating segments are assessed based on a measure of earnings before interest and tax (EBIT), which is consistent with 'Operating profit' in the financial statements. Finance income and finance costs are not allocated to segments, as treasury activity is managed on a central group basis.

Total segment assets comprise finished goods inventory only, which is allocated based on the operations of the segment and the physical location of the asset.

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

Rand million	Sishen mine	Kolomela mine	Thabazimbi mine	Logistics	Shipping	Inter-segment elimination	Total
2012							
Revenue (from external customers)	31,227	7,756	1,014	35,049	3,192	(32,792)	**45,446**
EBIT	21,250	5,288	(25)	(1,754)	(30)	9	**24,738**
Total segment assets	404	198	130	–	–	–	**732**
2012 (prepared on the same basis as 2011)							
Revenue (from external customers)	33,001	8,239	1,014	–	3,192	–	**45,446**
EBIT	19,866	4,927	(25)	–	(30)	–	**24,738**
Total segment assets	404	198	130	–	–	–	**732**
2011							
Revenue (from external customers)	44,903	32	907	–	2,711	–	**48,553**
EBIT	32,661	(80)	112	–	337	–	**33,030**
Total segment assets	392	133	268	–	–	–	**793**

RECONCILIATION OF SEGMENT INFORMATION

Rand million	2012	2011
Revenue from external customers analysed by goods and services		
Sale of products *	42,254	45,842
Shipping services	3,192	2,711
Revenue per the income statement	**45,446**	**48,553**

* Derived from extraction, production and selling of iron ore

Rand million	2012	2011
Reconciliation of EBIT to total profit before taxation		
Total EBIT for reportable segments	24,738	33,030
Other segments	(1,585)	(1,064)
Operating profit	**23,153**	**31,966**
Net finance costs	(303)	92
Profit before taxation per the income statement	**22,850**	**32,058**
Reconciliation of reportable segments' assets to total assets		
Segment assets for reportable segments	732	793
Other segments and WIP inventory	3,404	3,071
Inventory per balance sheet	**4,136**	**3,864**
Other current assets	5,935	8,311
Non-current assets	26,465	22,238
Total assets per the balance sheet	**36,536**	**34,413**

GEOGRAPHICAL ANALYSIS

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

Rand million	2012	2011
Revenue from external customers		
South Africa	2,832	3,388
Export	42,614	45,165
China	28,277	29,904
Rest of Asia	9,889	9,274
Europe	4,322	5,450
Middle East	126	227
Americas	–	310
	45,446	48,553
Non-current assets *		
South Africa	25,445	21,450
China	1	2
	25,446	**21,452**

* Excluding prepayments, investments in associates and joint ventures and deferred tax assets

BALANCE SHEET

as at 31 December

Rand million	Notes	2012	2011
Assets			
Investments in subsidiaries	1	1,557	213
Deferred tax assets	2	1	1
Non-current assets		**1,558**	**214**
Current tax assets	10	2	23
Cash and cash equivalents	3	123	147
Current assets		**125**	**170**
Total assets		**1,683**	**384**
Equity and liabilities			
Share capital and premium	4	366	366
Reserves		1,187	(74)
Total equity		**1,553**	**292**
Provisions	5	–	–
Non-current liabilities		**–**	**–**
Loans from subsidiary companies	1	32	18
Other payables		98	74
Current liabilities		**130**	**92**
Total liabilities		**130**	**92**
Total equity and liabilities		**1,683**	**384**

INCOME STATEMENT
for the year ended 31 December

Rand million	Notes	2012	2011
Net operating expenses	6	(15)	(44)
Operating loss		**(15)**	**(44)**
Finance income		62	71
Finance costs		–	(1)
Income from investments	7	14,068	13,016
Profit before taxation		**14,115**	**13,042**
Taxation	8	(23)	(95)
Profit for the year		**14,092**	**12,947**
Total comprehensive income for the year		**14,092**	**12,947**

The company did not have any non-owner changes in equity during the year other than the profit for the year, therefore no separate statement of other comprehensive income is presented for the year ended 31 December 2012 and 2011.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December

Rand million	Share capital (note 4)	Share premium (note 4)	Equity- settled share-based payment	Retained earnings	Total
Balance at beginning of year	3	347	445	548	1 343
Shares issued during the period	–	16	–	–	16
Equity-settled share-based payments	–	–	(244)	–	(244)
Vesting of shares under employee share incentive schemes	–	–	(7)	(14)	(21)
Total comprehensive income for the year	–	–	–	12, 947	12, 947
Dividends paid	–	–	–	(13,749)	(13,749)
Balance at 31 December 2011	**3**	**363**	**194**	**(268)**	**292**
Shares issued during the period	–	–	–	–	**–**
Equity-settled share-based payments	–	–	635	–	**635**
Vesting of shares under employee share incentive schemes	–	–	(12)	(24)	**(36)**
Total comprehensive income for the year	–	–	–	14,092	**14,092**
Dividends paid	–	–	–	(13,430)	**(13,430)**
Balance at 31 December 2012	**3**	**363**	**817**	**370**	**1,553**

CASH FLOW STATEMENT

for the year ended 31 December

Rand million	Notes	2012	2011
Cash flows from operating activities			
Cash utilised by operations		20	3
Net finance income	9	62	71
Income from investments	7	14,068	13,016
Taxation paid	10	(2)	(114)
Dividends paid		(13,430)	(13,749)
		718	**(773)**
Cash flows from investing activities			
Net (increase)/decrease in loans to subsidiaries		(720)	364
		(720)	**364**
Cash flows from financing activities			
Share capital issued	4	–	16
Increase in loans from subsidiaries	1	14	18
Vesting of shares under employee share incentive schemes		(36)	(21)
		(22)	**13**
Net decrease in cash and cash equivalents		**(24)**	**(396)**
Cash and cash equivalents at beginning of year		147	543
Cash and cash equivalents at end of year	3	**123**	**147**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December

1. INVESTMENTS IN SUBSIDIARIES

Rand million	2012	2011
Reflected as non-current assets		
Shares at cost	3	3
Share-based payment expenditure*	773	149
Long-term loans to subsidiaries	781	61
Short-term loans from subsidiaries	(32)	(18)
Net investments in subsidiaries	**1,525**	**195**

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

Investments in subsidiaries are accounted for at cost. For further details of interests in significant subsidiaries, refer to annexure 1.

2. DEFERRED TAX ASSET

Rand million	2012	2011
Balance at beginning of year	1	1
Balance at end of year	**1**	**1**
Comprising:		
Leave pay accrual	1	1

3. CASH AND CASH EQUIVALENTS

Rand million	2012	2011
Cash	**123**	**147**
Currency analysis of cash and cash equivalents		
Rand	**123**	**147**

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

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

4. SHARE CAPITAL AND SHARE PREMIUM

Number of shares	2012	2011
Authorised		
500,000,000 ordinary shares of R0,01 each	**500,000,000**	500,000,000
Issued		
Ordinary shares of R0.01 each	**322,058,624**	322,058,624
Reconciliation of issued shares		
Number of shares at beginning of year	322,058,624	321,911,721
Number of ordinary shares issued	–	5,377,770
Number of ordinary shares repurchased and cancelled	–	(5,230,867)
Number of shares at end of year	**322,058,624**	**322,058,624**

For further detail refer to the group annual financial statements, note 21.

Rand million	2012	2011
Reconciliation of share capital and premium		
Share capital	3	3
Share premium	363	363
	366	**366**

5. PROVISIONS

Rand million	2012	2011
Balance at beginning of year	–	–
Amounts utilised against provision	–	2
Cash-settled share-based payments	–	(2)
	–	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December

6. OPERATING (EXPENSES)/INCOME

Rand million	2012	2011
Salaries and wages	(23)	(18)
Equity-settled share-based payments	(11)	(13)
Cash-settled share-based payments	–	(2)
Pension, medical and termination costs	(1)	(9)
General charges	–	(8)
Cost recoveries	20	6
	(15)	**(44)**
The above costs are stated after including:		
Directors' remuneration (Refer to remuneration report on page 25)	18	18
Executive Directors		
Emoluments received as directors of the company	8	10
Bonuses and cash incentives	6	4
Non-executive directors – emoluments as directors of the company	4	4

7. INCOME FROM INVESTMENTS

Rand million	2012	2011
Dividends received from subsidiaries	**14,068**	13,016

8. TAXATION

Rand million	2012	2011
Charge to income		
SA Normal tax		
Current year	23	21
STC	–	74
	23	**95**
RECONCILIATION OF TAXATION RATES		
	%	%
Taxation as a percentage of profit before taxation	**0.2**	0.7
Taxation effect of:		
Capital profits	–	(0.6)
Disallowable expenditure	(0.1)	(0.1)
Exempt income	27.9	28.0
Standard tax rate	**28.0**	**28.0**

9. CASH UTILISED BY OPERATIONS

Rand million	2012	2011
Operating loss	(15)	(44)
Adjusted for:		
Movement in provisions	–	–
Share-based payment expense	11	13
Cash flows from operations	**(4)**	**(31)**
Working capital movements:		
Decrease in other receivables	–	8
Increase in other payables	24	26
	20	**3**

10. NORMAL TAXATION PAID

Rand million	2012	2011
Current tax asset at beginning of year	(23)	(4)
Amounts charged to the income statement	23	95
Amount paid during the year	(2)	(114)
Current tax asset at end of year	**(2)**	**(23)**

11. RELATED PARTY TRANSACTIONS

During the year the Kumba, in the ordinary course of business, entered into various sale and purchase of goods and services with its subsidiaries SIOC and Main Street 576 Proprietary Limited as well as its holding company, Anglo American plc. Certain deposits and borrowings are also placed with the holding company (refer to note 8 and 9). The holding company also acts as an agent for the company in respect of all foreign exchange transactions and performs a back office treasury function for the group. The effect of these transactions is included in the results of the group. These transactions occurred under terms that are no less favourable than those arranged with third parties.

MATERIAL RELATED PARTIES

Holding company

Anglo American plc is Kumba's ultimate holding company. The interest in the group is held through a 69.72% holding by Anglo South Africa Capital Proprietary Limited (2011: 65.22%).

Subsidiaries

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

Shareholders

The principal shareholders of the company are detailed under 'Shareholder analysis' on pages 84 and 85.

MATERIAL RELATED PARTY TRANSACTIONS

Rand million	2012	2011
Purchase of goods and services and finance charges		
Holding company [1]	*	*
Sale of goods and services and finance income		
SIOC [2]	**72**	**60**
Amounts owing from/(to) related parties	**30**	**43**
SIOC	(32)	(18)
Main Street 576 Proprietary Limited	62	61
Dividends paid to/(by) Kumba	**5,029**	**4,040**
SIOC	14,066	13,009
Holding company	(9,037)	(8,969)

* Value is less than R1 million

[1] Goods and services comprise directors fees paid directly to Anglo operations Limited for Mr DM Weston and Mr GG Gomwe

[2] Goods and services comprise a management fee charged by Kumba to SIOC and finance income earned on dividends payables by SIOC to Kumba

12. POST-BALANCE SHEET EVENTS

The shareholders approved the Memorandum of Incorporation of the company at a general meeting held on 18 January 2013.

A final dividend of R12.50 per share was declared on 8 February 2012 from profits accrued during the financial year ended 31 December 2012. The total dividend for the year amounted to R31.70 per share. The estimated total cash flow of the final dividend of R12.50 per share, payable on 18 March 2013, is R5.2 billion. The company has utilised STC credits amounting to 0.90691 cents per share. The balance of the dividend will be subject to a dividend withholding tax of 15% for all shareholders who are not exempt from or do not qualify for a reduced rate of withholding tax. The net dividend payable to shareholders subject to withholding tax at a rate of 15%, amounts to R10.63 per share.

A Supreme Court of Appeal (SCA) hearing was held on 19 February 2013, with regards the 21.4% undivided share of the Sishen mine mineral right. The SCA judgment is expected to be received in the second quarter of 2013. Refer to note 33 of the Kumba group annual financial statements for further disclosure on the matter.

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

ANNEXURE 1: INVESTMENTS IN SUBSIDIARIES

for the year ended 31 December

Rand	Country of incorporation[1]	Nature of business[2]	Percentage holding	Nominal issued capital	Investments at cost 2012	Investments at cost 2011	Loans to/(from) subsidiaries 2012	Loans to/(from) subsidiaries 2011
Direct investments								
Sishen Iron Ore Company Proprietary Limited	RSA	A	74%	100	3,008,810	3,008,810	664,155,888	(17,940,816)
Main Street 576 Proprietary Limited	RSA	E	100%	100	100	100	61,525,351	60,613,188
KIO Investment Holdings Proprietary Limited	RSA	E	100%	1 000	–	–	23,053,795	–
Indirect investments								
Groler Investments Limited	SWL	E	100%	258,958	–	–	–	–
Kumba Hong Kong Limited	HK	B	100%	915	–	–	–	–
Kumba Hong Kong Shipping Limited	HK	C	100%	897	–	–	–	–
Kumba International BV	NE	B	100%	10,806,511	–	–	–	–
Kumba International Trading SA	LUX	B	100%	55,335,369	–	–	–	–
Kumba Iron Ore Holdings SARL	NE	E	100%	154,654	–	–	–	–
KIO Exploration Liberia SARL	LUX	E	100%	419,750				
Kumba Singapore Pte Limited	SNG	B	100%	846,530,000				
Sibelo Resources Development Proprietary Limited	RSA	D	100%	2	–	–	–	–
Mineco Limited	MAU	F	100%	21	–		–	–
Oreco Leasing Limited	MAU	F	75%	17	–	–	–	–
Sishen South Mining Proprietary Limited	RSA	F	100%	1	–	–	–	–
Vulcan Leasing Limited	MAU	F	100%	19	–	–	–	–
Total investments in subsidiaries					**3,008,910**	**3,008,910**	**748,735,034**	**42,672,372**

Rand million	2012	2011
Aggregate attributable after tax profits/(losses) of subsidiaries:		
Profits	**17,909**	19,347
Losses [3]	**6,880**	–

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

[2] A – Mining, B – Iron ore marketing and sales, C – Shipping charter, D – Exploration, E – Investment holding, F – Dormant

[3] Includes the impairment of investments in subsidiaries

ANNEXURE 2: INVESTMENTS IN ASSOCIATE AND JOINT VENTURES

for the year ended 31 December

Rand '000	Nature of business[1]	Number of shares held	Percentage holding	Investment at cost	Group loan balance 2012	Group loan balance 2011	Company loan balance 2012	Company loan balance 2011
Associate								
Unlisted								
Manganore Iron Mining Limited [2]	A	25,000	50%	50	–	–	–	–
Incorporated joint ventures								
Unlisted								
Polokwane Iron Ore Company Proprietary Limited	A	4,000	50%	3,740	47,125	33,251	–	–
Safore Proprietary Limited [2]	B	400	40%	–	–	–	–	–
Sishen Shipping Proprietary Limited [2]	B	400	40%	–	–	–	–	–
Trans Orient Ore Supplies Limited [2]	C	2,000	50%	–	–	–	–	–
				3,740	**47,125**	**33,251**	**–**	**–**

Rand '000		Group loan balance 2012	Group loan balance 2011	Company loan balance 2012	Company loan balance 2011
Directors' valuation of investments at 31 December					
Unlisted investments in associates	50	**–**	–	**–**	–
Unlisted investments in joint ventures	3,740	**47,125**	33,251	**–**	–

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

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

[1] A – Mining, B – Shipping charter, C – Iron ore merchant

[2] Dormant

Annexures

ANNEXURE 3: BALANCE SHEET US DOLLAR CONVENIENCE TRANSLATION

as at 31 December

US Dollar million	2012	2011
Assets		
Property, plant and equipment	2,920	2,552
Biological assets	1	1
Investments in associate and joint ventures	6	4
Investments held by environmental trust	79	69
Long-term prepayments and other receivables	15	12
Deferred tax assets	99	80
Non-current assets	**3,120**	**2,718**
Inventories	488	472
Trade and other receivables	511	433
Current tax assets	9	4
Cash and cash equivalents	180	580
Current assets	**1,188**	**1,489**
Total assets	**4,308**	**4,207**
Equity and liabilities		
Shareholders' equity	1,765	1,936
Non-controlling interest	512	582
Total equity	**2,277**	**2,518**
Liabilities		
Interest-bearing borrowings	377	-
Provisions	167	110
Deferred tax liabilities	790	604
Non-current liabilities	**1,334**	**714**
Short-term portion of interest-bearing borrowings	315	390
Short-term portion of provisions	3	1
Trade and other payables	355	557
Current tax liabilities	24	27
Current liabilities	**697**	**975**
Total liabilities	**2,031**	**1,689**
Total equity and liabilities	**4,308**	**4,207**
Exchange rate		
Translated at closing Rand/US dollar exchange rate	**8.48**	8.18

ANNEXURE 4: INCOME STATEMENT US DOLLAR CONVENIENCE TRANSLATION

for the year ended 31 December

US Dollar million	2012	2011
Revenue	5,549	6,697
Operating expenses	(2,722)	(2,288)
Operating profit	**2,827**	**4,409**
Finance income	12	33
Finance costs	(49)	(21)
Profit before taxation	**2,790**	**4,421**
Taxation	(824)	(1,346)
Profit for the year	**1,966**	**3,075**
Attributable to:		
Owners of Kumba	1,491	2,351
Non-controlling interest	475	724
	1,966	**3,075**
Earnings per share for profit attributable to owners of Kumba (Cents per share)		
Basic	4.64	7.32
Diluted	4.63	7.31
Exchange rate		
Translated at average Rand/US dollar exchange rate	**8.19**	7.25

Annexures

SHAREHOLDERS ANALYSIS
REGISTER DATE: 28 DECEMBER
ISSUED SHARE CAPITAL: 322,058,624

	No of shareholdings	%	No of shares	%
Shareholder spread				
1 – 1,000 shares	19,456	89.75	4,237,779	1.32
1,001 – 10,000 shares	1,918	8.85	5,373,686	1.67
10,001 – 100,000 shares	250	1.15	7,069,891	2.20
100,001 – 1,000,000 shares	44	0.20	11,475,954	3.56
1,000,001 shares and over	11	0.05	293,901,314	91.25
	21,679	**100.00**	**322,058,624**	**100.00**
Distribution of shareholders				
Banks/brokers	227	1.05	21,692,058	6.74
Close corporations	175	0.81	84,034	0.03
Endowment funds	66	0.30	83,254	0.03
Individuals	17,648	81.40	7,310,082	2.27
Insurance companies	31	0.14	877,593	0.27
Investment companies	30	0.14	1,131,286	0.35
Medical aid schemes	6	0.03	18,146	0.01
Mutual funds	208	0.96	4,360,996	1.35
Nominees and trusts	2,724	12.56	3,839,428	1.19
Other corporations	95	0.44	75,871	0.02
Private companies	344	1.59	225,745,725	70.09
Public companies	11	0.05	41,620,827	12.92
Retirement funds	112	0.52	14,835,450	4.61
Share trusts	2	0.01	383,874	0.12
	21,679	**100.00**	**322,058,624**	**100.00**
Public and non-public shareholders				
Public shareholders	21,671	99.96	54,004,470	16.77
Non-public shareholders	8	0.04	268,054,154	83.23
Strategic holdings	2	0.01	266,034,530	82.60
Directors of the company	1	0.01	2,222	0.00
Related holdings	5	0.02	2,017,402	0.63
	21,679	**100.00**	**322,058,624**	**100.00**

BREAKDOWN OF NON-PUBLIC HOLDINGS

	No of Shares	%
Directors of the company		
FT Kotzee (Chief financial officer)	**2,222**	**0.00**
Strategic Holdings		
Anglo South Africa Capital Proprietary Limited	224,535,915	69.72
Industrial Development Corporation of South Africa Limited	41,498,615	12.89
	266,034,530	**82.61**
Related Holdings		
Mercantile Shareholder Nominees - Exxaro	1,526,420	0.47
Kumba Bonus Share Plan Trust	372,639	0.12
Exxaro Resources Limited (No8)	88,985	0.03
Sishen Iron Ore Company Proprietary Limited	29,310	0.01
SIOC Employee Share Participation Scheme	48	0.00
	2,017,402	**0.63**

BREAKDOWN OF BENEFICIAL SHAREHOLDERS HOLDING 3% OR MORE

Anglo American		
Anglo South Africa Capital Proprietary Limited	224,535,915	69.72
Industrial Development Corporation of South Africa Limited		
Industrial Development Corporation of South Africa Limited	41,498,615	12.89
Government Employees Pension Fund	13,049,783	4.05
Government Employees Pension Fund - PIC	12,759,805	3.95
Government Employees Pension Fund - Investec Asset Management	179,243	0.06
Government Employees Pension Fund - Taquanta Asset Mangers	82,235	0.03
Government Employees Pension Fund - Mergence Africa Investments	28,500	0.01
	279,084,313	**86.66**

Corporate information

GLOSSARY OF TERMS AND ACRONYMS

AGM	Annual general meeting
AMSA	ArcelorMittal South Africa
BAMCU	Building Allied Mining and Construction Union
BBBEE	Broad-Based Black Economic Empowerment
BEE	Black economic empowerment
BSP	Bonus Share Plan
CDT	Community Development Trust
CED	Community engagement and development
CEP	Community engagement plan
CFO	Chief financial officer
CSI	Corporate and social investment
CSIR	Council for Scientific and Industrial Research
DMR	Department of Mineral Resources
DMS	Dense medium separation
DTI	Department of Trade and Industry
EITI	Extractive Industries Transparency Initiative
EMP	Environmental management plan
Employment equity	Legislation assisting the elimination of discrimination and encouraging equitable representation of employees from designated groups by means of affirmative action
EMS	Emergency Medical Service
Envision	SIOC employee share participation scheme
ERP	Enterprise resource planning
ESOP	Employee Share Option Scheme
Exxaro	Exxaro Resources Limited
Fe	Iron (element)
Gap analysis	A comparison between potential performance and actual performance
Grade	A measure of the metal or mineral content in ore, expressed as a weight or percentage
GRI	Global Reporting Initiative
HCT	HIV counselling and testing
HDSA	Historically disadvantaged South African
HPI	High potential incident
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICMM	International Council on Mining and Metals
IDC	Industrial Development Corporation
IDP	Integrated development plan
IFC	International Finance Corporation
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ISO	International Organization for Standardization
ISO 14001	An environmental management system standard published by the International Organization for Standardization
IT	Information technology
JSC	Joint steering committee
JSE	JSE Limited, (Johannesburg Stock Exchange)
JTG	John Taolo Gaetsewe
Key performance indicator	An issue of concern or importance to the company during the reporting period, including material issues and other current and potential challenges (KPI)
King III	Code of and Report on Governance Principles for South Africa 2009
KIO	Kumba Iron Ore Limited

LED	Local economic development
LoM	Life of mine
LTI	Lost-time injury
LTIFR	Lost-time injury frequency rate
LTIP	Long-term Incentive Scheme
Mining Charter	The broad based socio-economic charter for the South African mining industry, published in April 2004; revised in 2010
MoU	Memorandum of Understanding
MPRDA	Mineral and Petroleum Resources Development Act
Mt	Million tonnes
Mtpa	Million tonnes per annum
NCI	Non-controlling interest
NGO	Non-governmental organisation
NIHL	Noise induced hearing loss
NOPAT	Net operating profit after tax
NUM	National Union of Mineworkers
OHSAS 18001	An occupational health and safety management system standard created by a number of the world's leading standards bodies
Ore	A rock that contains metal(s) or mineral(s) that can be extracted
Pre-feasibility phase	The period that precedes the feasibility study, in which experts determine whether undertaking a feasibility study would be prudent
PIT	Professionals in training
PwC	PricewaterhouseCoopers
R&D	Research and development
Remco	Human Resources Remuneration and Nomination Committee
RoM	Run of mine
SAICA	South African Institute of Chartered Accountants
Saldanha	Saldanha Bay
SAMREC	South African Code for Reporting of Exploration Results, Mineral Resources and Mineral Reserves
SARS	South African Revenue Service
SCD	Social and community development
SDP	Sustainable development plan
SIB	Stay in business capital expenditure
SIOC	Sishen Iron Ore Company Proprietary Limited
SIOC-cdt	SIOC Community Development Trust
SIP	Safety improvement plan
SLP	Social and labour plan
SME	Small and medium enterprise
Stripping ratio	The number of tonnes of waste material that must be removed in order to recover a single tonne of ore
STC	Secondary tax on companies
SWEP	Sishen South Western Expansion project
TFR	Transnet Freight Rail
The Companies Act	The South African Companies Act No 71 of 2008 (as amended)
Tonne	A metric measure, equal to 1,000 kilograms
USD	United States dollar
VAT	Value added tax
VFL	Visible felt leadership
ZAR	South African rand

ADMINISTRATION

COMPANY REGISTRATION NUMBER:
2005/015852/06
JSE share code: KIO
ISIN code: ZAE000085346

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FORWARD-LOOKING STATEMENTS
Certain statements made in this report constitute forward-looking statements. Forward-looking statements are typically identified by the use of forward-looking terminology such as 'believes', 'expects', 'may', 'will', 'could', 'should', 'intends', 'estimates', 'plans', 'assumes' or 'anticipates' or the negative thereof or other variations thereon or comparable terminology, or by discussions of, example future plans, present or future events, or strategy that involves risks and uncertainties.

Such forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the company's control and all of which are based on the company's current beliefs and expectations about future events. Such statements are based on current expectations and, by their nature, are subject to a number of risks and uncertainties that could cause actual results and performance to differ materially from any expected future results or performance, expressed or implied, by the forward-looking statement.

No assurance can be given that future results will be achieved; actual events or results may differ materially as a result of risks and uncertainties facing the company and its subsidiaries. The forward-looking statements contained in this report speak only as of the date of this report and the company undertakes no duty to, and will not necessarily update any of them in light of new information or future events, except to the extent required by applicable law or regulation.

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