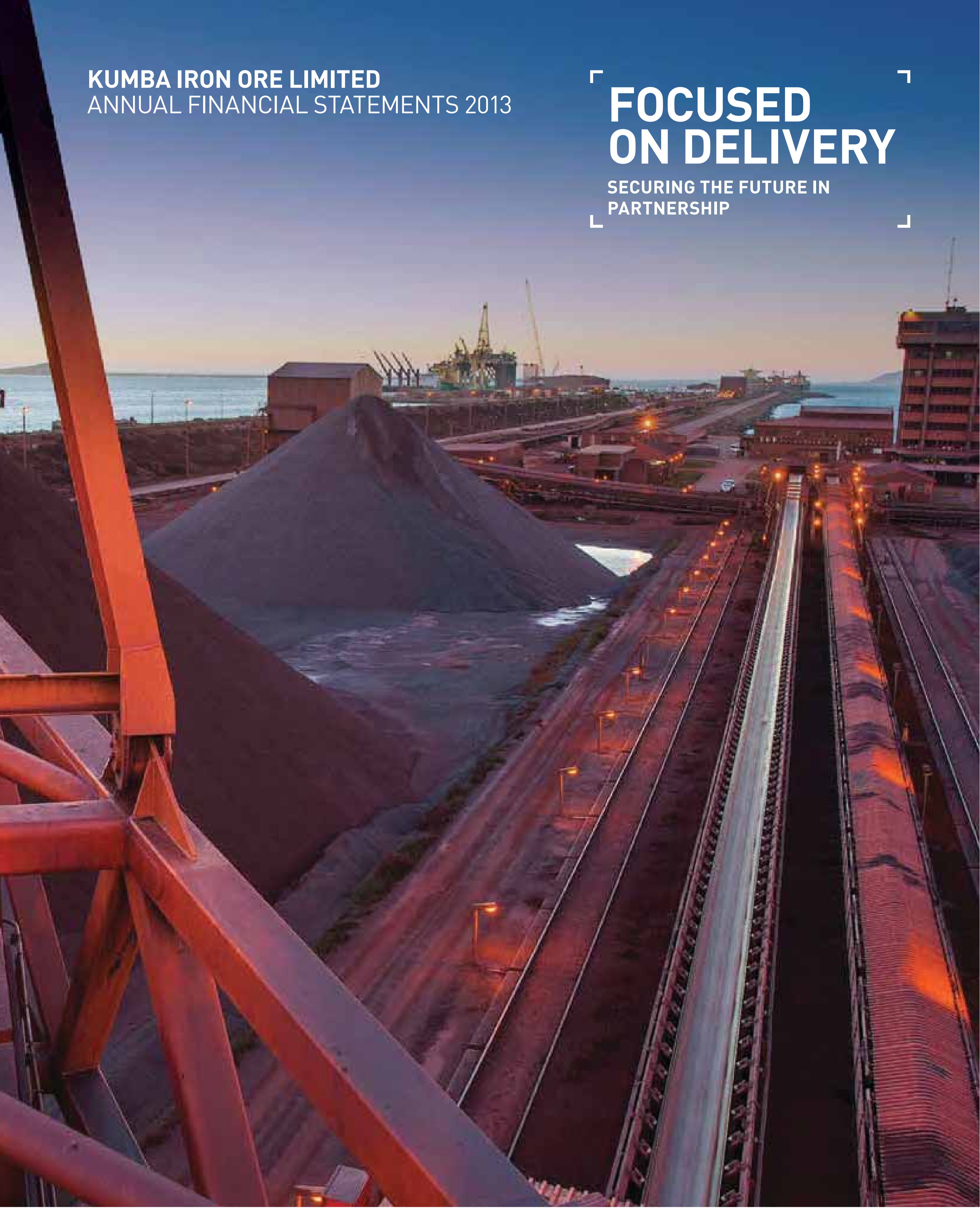
KUMBA IRON ORE LIMITED
ANNUAL FINANCIAL STATEMENTS 2013

FOCUSED ON DELIVERY

SECURING THE FUTURE IN PARTNERSHIP



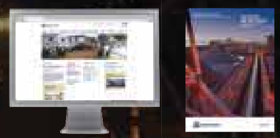
AngloAmerican

IRON ORE

FOCUSED ON DELIVERY

2013 was a year in which we revised our strategy to ensure it gave us the flexibility our business required. We undertook extensive studies to help revise our mine plans, and we initiated intensive stakeholder engagement to gain insight into how people see us. With all this planning and understanding behind us, in 2014 we will be focused on execution of the revised strategy to yield results.

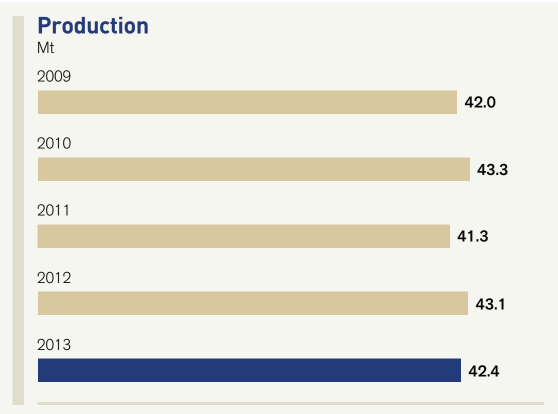
Other sources of information

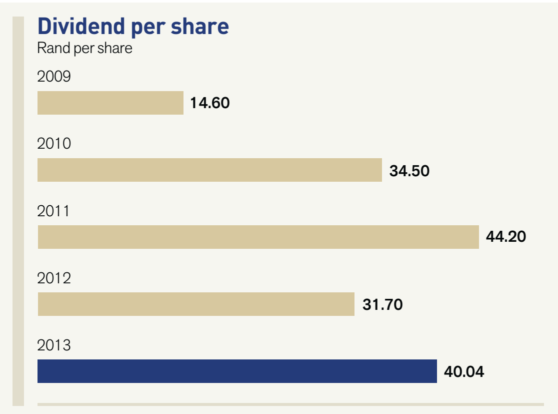


You can find this report and additional information about Kumba Iron Ore Limited on our corporate website.

For more information visit **www.angloamericankumba.com/investor_fin_reports.php**

HIGHLIGHTS





SAFETY
(2012: 2 fatalities)

No loss of life

REVENUE
(2012: R45.4bn)

R54.5bn

HEADLINE EARNINGS
(2012: R12.5bn)

R15.4bn

CASH GENERATED FROM OPERATIONS
(2012: R24.7bn)

R29.4bn

DIVIDENDS PAID
(2012: R18.0bn)

R13.7bn

Cover Image
Ore stockpiles await shipment at the deep-water Port of Saldanha on South Africa's West Coast. In 2013 Kumba exported 39.1Mt of seaborne iron ore to its customers in China, South Korea, Japan and Europe.

Opposite
Operating around the clock, the iron ore terminal at Saldanha has two berths where two vessels of 310,000 tonnes each can simultaneously be loaded at a rate of 10,000 tonnes per hour.

DIRECTORS' DECLARATION

The Kumba Iron Ore Limited (Kumba or the company or the group) board, assisted by the audit committee, is ultimately responsible for the preparation, fair presentation and integrity of the audited annual financial statements and related financial information of the group, as contained in this report, the Annual Financial Statements 2013. The directors confirm that they have collectively reviewed the content of this report and approved it at its meeting on 13 March 2014, for presentation to shareholders at the next annual general meeting on 9 May 2014.

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ANNUAL FINANCIAL STATEMENTS

FINANCIAL REVIEW

Frikkie Kotzee
Chief financial officer

Kumba has again recorded a solid set of annual financial results in spite of the challenges faced by ourselves and the mining industry globally. In 2013 we grew revenue and operating profit and, while production was marginally lower, we are confident that we are addressing our production concerns and are optimistic that 2014 will be a year of improvement in operational performance for Kumba.

In 2013 the increase in the average iron ore export prices achieved and the weakening of the Rand/US$ exchange rate resulted in higher revenue for the group. This was partially offset by an increase in operating expenses, driven mostly by the increase in waste mined at Sishen and Kolomela mines, above inflationary cost escalations and higher logistics costs. Our operating profit margin was a healthy one, and a steady continuation of the 2012 performance, despite the production challenges faced at Sishen mine.

Kumba's headline earnings for 2013 of R15.4 billion were 24% higher than the R12.5 billion achieved in 2012. Attributable and headline earnings were R48.09 and R48.08 per share respectively. A final cash dividend of R19.94 per share has been declared, bringing the total dividend for 2013 to R40.04 per share (2012: R31.70 per share).

FINANCIAL PERFORMANCE

Revenue

The group's total revenue rose 20% to R54.5 billion (2012: R45.4 billion). The average Rand/US$ exchange rate of R9.62 was 17% weaker than the R8.19 achieved in 2012, significantly increasing revenue by R6.98 billion when compared to the 2012 base, as all of our export sales are denominated in US$. The improvement in revenue further reflected the 2% increase in the average iron ore export prices achieved, supported by stronger lump premiums, particularly in the second half of the year. Lump premiums were up US$4/tonne on average for the year.

Iron ore prices remained strong throughout the year under review, with index prices peaking at US$160/tonne in February 2013. Prices fell to a low of US$110/tonne in May 2013, before stabilising at about US$135/tonne in the second half of the year. Strong growth in Chinese crude steel output and demand due to sustained government infrastructure spend and steel mill restocking supported this price increase. Chinese environmental legislation also forced mills to close sinter plants, which boosted the use of direct charge material, including lump iron ore. For 2013, Platts 62% Fe CFR China index prices averaged US$135/tonne – a 4% improvement on 2012. The higher iron ore prices achieved added R2.3 billion to our revenue line.

The group's total sales volumes were 2% lower at 43.7Mt (2012: 44.4Mt) as both export and domestic sales volumes decreased by 2% to 39.1Mt (2012: 39.7Mt) and 4.6Mt (2012: 4.7Mt) respectively. The lower export sales volumes were mainly impacted by the production shortfalls at Sishen mine, which reduced export stock levels across the value chain, mostly offset by the performance from Kolomela mine. Export sales volumes to China accounted for 68% of the company's total export volumes for the year, compared to 69% in 2012. Sales volumes to Japan and South Korea rose by 13% to 8.3Mt and represented 21% of the total export sales for the year; the remaining 11% went to Europe.

KEY INDICATORS OF FINANCIAL PERFORMANCE

Rand million	2013	Restated* 2012	% change Favourable/ (unfavourable)	2011	2010
Revenue	54,461	45,446	20%	48,553	38,704
Operating expenses	(26,076)	(21,800)	(20%)	(16,587)	(13,573)
Operating expenses	(24,742)	(21,191)	(17%)	(14,825)	(12,163)
Mineral royalty	(2,157)	(1,127)	(91%)	(1,762)	(1,410)
Deferred stripping capitalised	823	518	59%	–	–
Operating profit (EBIT)	28,385	23,646	20%	31,966	25,131
Operating margin (%)	52%	52%	–	66%	65%
Profit for period, attributable to:	20,300	16,455	23%	22,298	18,289
Equity holders of Kumba	15,446	12,486	24%	17,042	14,323
Non-controlling interest	4,854	3,969	22%	5,256	3,966
Headline earnings	15,443	12,472	24%	17,048	14,329
Effective tax rate (%)**	28%	25%	–	25%	24%
Cash generated from operations	29,354	24,688	19%	32,814	25,555
Capital expenditure	6,453	5,917	9%	5,849	4,723
Net debt/(cash)	1,796	4,342	59%	(1,551)	(1,670)
Equity	27,184	19,664	38%	20,592	13,376

* Restated as a result of the adoption of IFRIC 20 *Stripping costs in the production phase of a surface mine.*

** Excluding Secondary Taxation on Companies (STC), where applicable, and the mineral royalty.

REVENUE

2013

	Rm	%
South Africa	3,672	7%
China	35,154	65%
Rest of Asia	10,587	19%
Europe	4,926	9%
MENA	122	–

2012

	Rm	%
South Africa	2,832	6%
China	28,277	62%
Rest of Asia	9,889	22%
Europe	4,322	10%
MENA	126	–

EXPORT SALES VOLUMES

2013

	Mt	%
China	26.4	68%
Rest of Asia	8.4	21%
Europe	4.3	11%
MENA	–	–

2012

	Mt	%
China	27.3	69%
Rest of Asia	7.9	20%
Europe	4.5	11%
MENA	–	–

In 2014 this spread is expected to shift slightly as more iron ore is shipped to China and less to Europe. ArcelorMittal South Africa Limited (ArcelorMittal SA) remains the company's only domestic customer.

Operating expenses

Operating expenses increased by 20% year-on-year from R21.8 billion to R26.1 billion, driven primarily by above inflationary cost increases and the mining of 47.5Mt of additional waste at Sishen and Kolomela mines. Mining operating expenses increased by R1.4 billion or 23%. Of this, R996 million resulted from the 28% increase in production costs at Sishen mine as a direct result of the planned increase in mining activity. Total tonnes mined at Sishen mine rose by 22% to 208.8Mt (2012: 171.6Mt) with waste mined amounting to 167.8Mt, an increase of 26% (2012: 133.5Mt). The waste ramp-up is helping to alleviate the current pit constraints at the mine. Iron ore production at Sishen mine, however, decreased by 8% compared with 2012 to 30.9Mt.

Kolomela mine's production costs were 24% higher at R2.9 billion as the mine completed its first full year operating at full design capacity and continues to deliver above expectations. Production grew by 27% to 10.8Mt (2012: 8.5Mt). Technical studies have confirmed the mine's capacity to sustain production at 10 Mtpa, 1Mtpa above its original design capacity.

The group's total logistics costs were R998 million higher, with shipping costs contributing more than half of this amount. Selling and distribution costs of R4.5 billion (excluding shipping expenses) were 10% higher (2012: R4.1 billion) and were impacted by higher rail tariffs as well as the utilisation of 2.1Mt from Kolomela mine at a super tariff. This was partially offset as volumes railed on the iron ore export channel remained steady at 39.7Mt (2012: 40.0Mt) and Kumba shipped 39.1Mt from the port of Saldanha, a 2% decrease on 39.7Mt of the previous financial year.

Our freight cost of R3.7 billion was impacted by volatile freight rates, which is expected to continue in the near future. The group's shipping business increased volumes shipped on behalf of customers from the port of Saldanha to 25.7Mt, 1.6Mt or 7% up over 2012.

Unit cash costs

Sishen mine

As a result of the planned increase in mining activity at Sishen mine, the production shortfalls and above inflationary input cost escalations, the mine's unit cash cost increased by 35% to R267/tonne compared to R198/tonne at the end of 2012.

The R69/tonne increase in unit cash costs was driven by several key factors. Inflationary pressures pushed up costs by R15/tonne. Cost escalations in excess of inflation added a further R19/tonne after a number of cost items, including mining contractor rates, diesel, blasting material and haul truck tyres, rose well in excess of inflation. Growth in mining volumes as the ramp-up continued added R20/tonne. Lower iron ore production had a significant impact on Sishen mine's unit cash cost, a R22/tonne increase, due to a substantial fixed cost element. The increased deferral of waste stripping costs to the balance sheet decreased the cost by R7/tonne.

A production recovery plan to address the current pit constraints at Sishen mine and a longer term operational optimisation strategy has been implemented, which includes redesigning of waste mining push-backs to rotate mining direction in some areas through 90°, optimising smaller push-backs, and design changes to enable faster sink rates to expose ore. It is expected that the recovery plan will effectively allow us to get to the ore quicker and we are confident that within a year the mine will have turned the corner. The planned increase in production is expected to reduce the unit cost per tonne for Sishen mine.

Kolomela mine

Kolomela mine's cost performance was commendable as unit cash costs increased by a marginal R2/tonne to R182/tonne for 2013 (2012: R180/tonne). This was in line with our forecast unit cash costs for the mine. Production exceeded monthly design capacity for most of the year, reaching a new record level during October 2013.

Inflationary increases pushed up costs by R16/tonne, and above inflationary increases in mining contractor rates for drilling and blasting increased costs by an additional R7/tonne. Mining volumes grew to 16.4Mt, increasing costs by R34/tonne. This was all offset by a R48/tonne unit cost reduction resulting from the production volumes that increased by 27% to 10.8Mt. The increased deferral of waste stripping costs to the balance sheet decreased the cost by a further R7/tonne.

Thabazimbi mine

Thabazimbi mine, which operated on a cost-plus basis and was contractually dedicated to supplying ArcelorMittal SA until the end of 2013, became a more commercial operation from the start of 2014 subsequent to the new sales agreement concluded with ArcelorMittal SA in November 2013. This agreement provides security of supply and favourable pricing of iron ore relative to the export parity price (EPP), to the domestic market, and is an opportunity for the extension of the life of Thabazimbi mine beyond 2023 through mining out the remaining haemetite and through the introduction of low-grade beneficiation technologies. Thabazimbi mine's unit cash cost for 2013, excluding deferred stripping, was R662/tonne.

The mine is expected to ramp up to produce about 1Mt in 2014, and with a reconfiguration we expect to establish a lower cost, longer life mine producing approximately 2Mtpa.

Operating profit (EBIT)

The group's operating profit margin of 52% for the period under review remained a healthy one, despite the production challenges at Sishen mine. Our mining operating margin also remained steady at 56%.

These increases were partially offset by a R2.2 billion or 17% increase in operating expenses (excluding selling and distribution expenses, shipping expenses and the mineral royalty expense), driven mostly by the 53.6Mt increase in total tonnes mined at Sishen and Kolomela mines.

The mineral royalty expense for 2013 doubled to R2.2 billion (2012: R1.1 billion), principally as a result of higher revenue, as well as lower capital allowances related to Kolomela mine.

The group recorded a loss of R72 million from shipping operations on the back of higher volumes shipped on behalf of our customers, of which 6.7Mt were shipped under long-term contracts of affreightment (COAs) which were largely out of the money in 2013.

Taxation

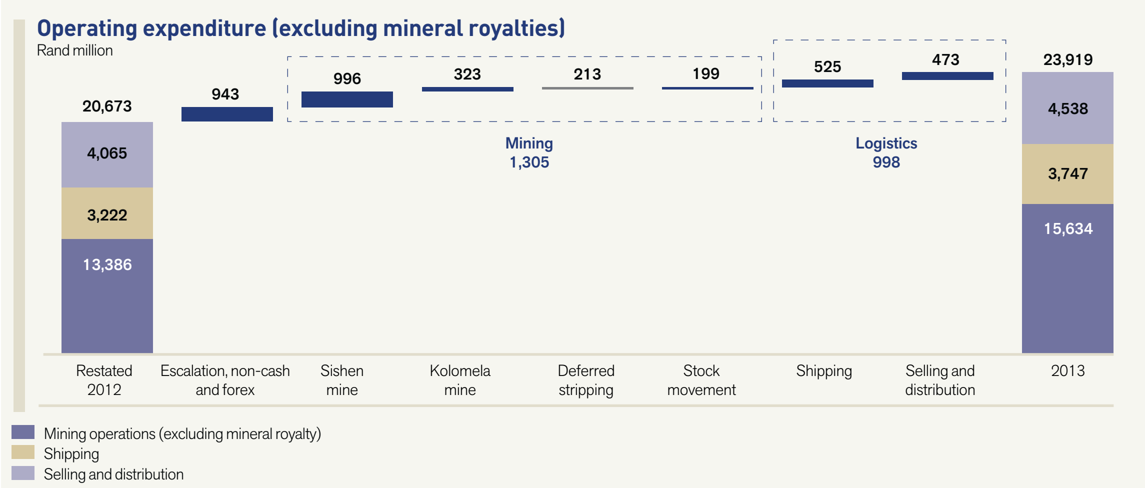
The group's effective tax rate increased to 28% (2012: 25%). The effective tax rate is impacted by a number of factors, including the geographies in which we operate, the relative mix of profits across those geographies, the level of cash and gearing in each of those jurisdictions, the group's dividend and capital management programmes and a number of non-recurring adjustments, which will, by their very nature, fluctuate year-on-year.

Capital expenditure

Kumba continues to invest in the development and expansion of our business to ensure future sustainability. We are continually reviewing our cost base to ensure we achieve an optimal return on capital. The stay-in-business (SIB) ramp-up capital requirements of the group are currently under review as a result of revised mining strategies for Sishen mine (see page 61 of the Integrated Report 2013).

In 2013 we spent R6.5 billion (2012: R5.9 billion) on capital, as follows:

Rand million	2013	Restated 2012
	6,453	**5,917**
Expansion capital	1,132	2,195
SIB capital	4,498	3,204
Deferred waste stripping cost	823	518



Expansion capital expenditure comprised the final expenditure on Kolomela mine and the first phase of Sishen Western Expansion Project (SWEP), both of which are being completed, as well as the upgrade of the group's financial systems. SWEP will provide access to an additional 283Mt of run of mine (ROM) ore, while total expenditure on this project is expected to be about R1 billion.

SIB capital expenditure to maintain operations was principally for the acquisition of heavy mining equipment, mainly haul trucks and shovels for Sishen and Kolomela mines in support of the waste mining ramp-up, as well as the completion of the Sishen workshop infrastructure and housing developments.

The group adopted a new accounting interpretation – IFRIC 20 *Stripping costs in the production phase of a surface mine* – during the year which resulted in a restatement of the 2012 capital expenditure. The application of this interpretation resulted in the deferral of R823 million (2012: R518 million) of waste-stripping costs to the balance sheet.

The Kumba board approved the plan to relocate the community of Dingleton to the town of Kathu in the Northern Cape province, which is expected to cost an estimated R4.2 billion over a four to six year period.

Total capital expenditure is forecast to be between R7.5 billion and R8.2 billion in 2014.

Cash flow

Cash generated by the group's operations increased by 19% to R29.4 billion for the year (2012: R24.7 billion) in line with the iron ore price increase and a weakened Rand. These cash flows were after the payment of mineral royalties of R2.1 billion, and were used to pay income tax of R6.2 billion and dividends of R13.7 billion. Dividends paid to shareholders came to R10.5 billion while our empowerment partners received R3.2 billion in dividends.

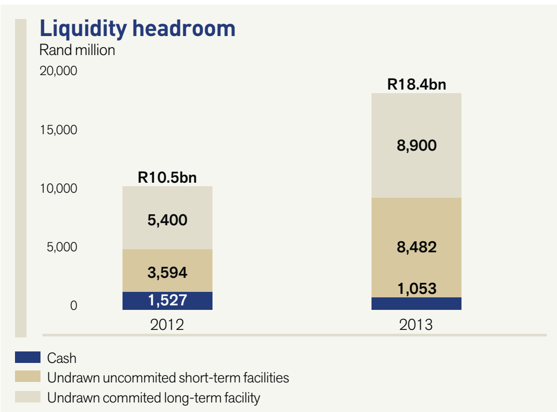
Net debt and liquidity

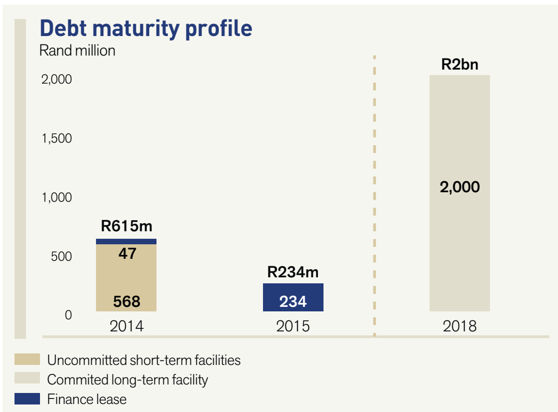
Kumba maintained its strong balance sheet in 2013. At 31 December 2013, the group's net debt stood at R1.8 billion, which was 59% lower than its net debt of R4.3 billion at the end of 2012.

The group's R6 billion facility was renegotiated and the revised committed debt facility of R10.9 billion was effective 27 November 2013. Total debt facilities increased by 34% to R19.9 billion, made up of the R10.9 billion committed facility and further uncommitted facilities of R9 billion. The increase in debt facilities was secured to ensure an appropriately sized balance sheet for the group. R2.7 billion of these facilities was drawn down at 31 December 2013.

The group's gearing, however, remained low with the gross debt to equity ratio at 1:10 and the interest cover for the year at 102 times.

The group entered into a R312 million finance lease in respect of mining equipment during 2013.





SHAREHOLDER RETURNS

Total shareholder return

The total shareholder return for Kumba over the seven years since listing was 545% up to 31 December 2013, which is a reflection of the share's solid growth performance and the consistent cash dividend returns over the period.

Share price

Kumba's share price declined during the year from R569 at 31 December 2012 to R443 at 31 December 2013. The share price has grown at a compound annual growth rate of 22% from the listing share price of R110 at the end of 2006.

The share price history since listing is presented at the bottom of this page.

Dividends

After reviewing the cash flow generation, growth plans and the capital structure, the board declared a final cash dividend of R19.94 per share. This, together with the interim cash dividend of R20.10 per share, brought the total dividend for 2013 to R40.04 per share (2012: R31.70 per share). The total dividend declared to shareholders since listing is therefore R194.34 per share.

The board will continue to consider the group's position at each declaration date and reward shareholders after taking into account the financial position and growth requirements of the group. For more on this, see the Report of the audit committee on page 14.

KEY FACTORS AFFECTING FUTURE OPERATING RESULTS

Export iron ore sales prices and volumes

It is anticipated that global crude steel demand in 2014 will grow by a further 3%, with China's production rising to about 806Mt, up 4%. Growth in production in other developing countries is expected to be countered by a reduction in output in some of the developed markets. It is anticipated, however, that the supply/demand balance will shift in the second half of 2014 due to more supply from Australia and Brazil, and slowing demand growth. This is expected to put some further pressure on iron ore prices in the second half of 2014. Although lump premiums declined slightly in January 2014, they continue to be strong, without any signs of significant weakening ahead.

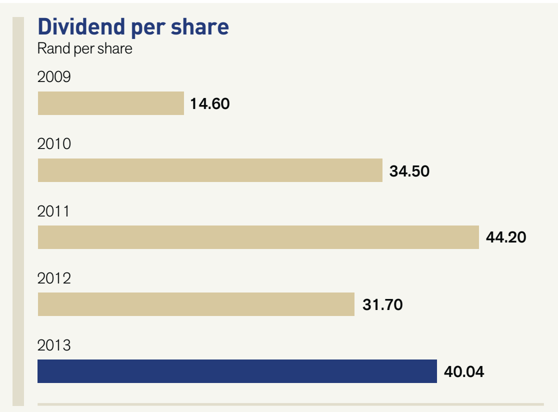
Export sales volumes are expected to remain at the 2013 level. Domestic sales volumes will be dictated by the off-take requirements of ArcelorMittal SA, in terms of which the company can acquire 6.25Mtpa from Kumba under the new supply agreement concluded in 2013.

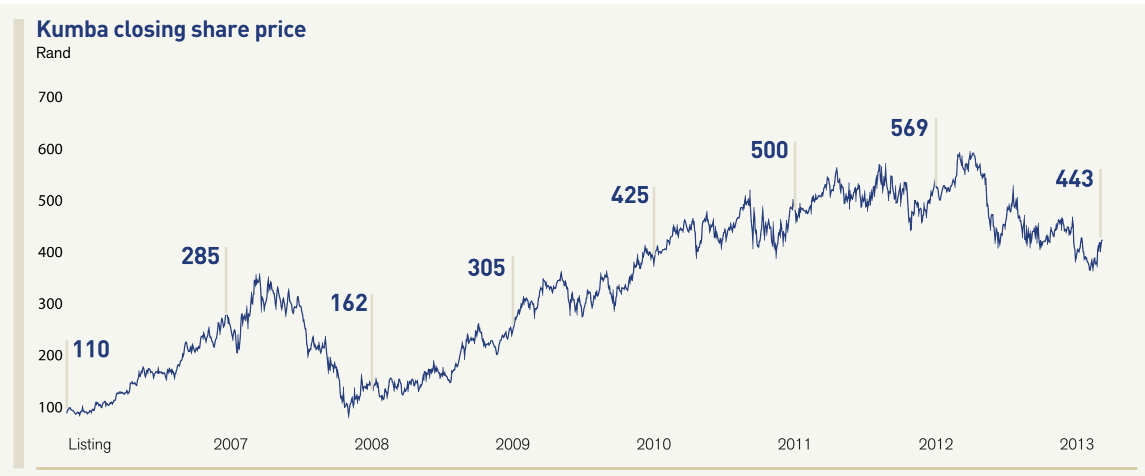
Exchange rate

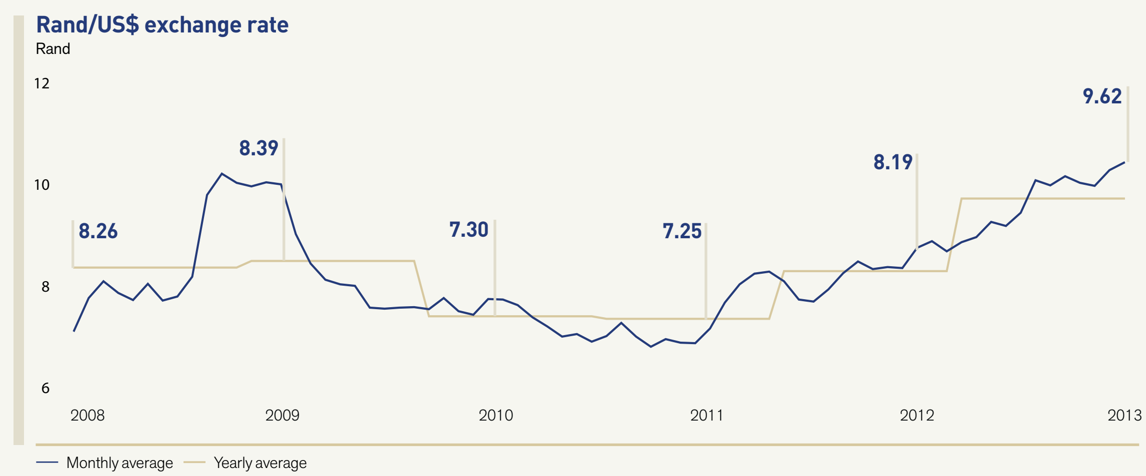
A significant proportion of our turnover and capital expenditure is affected by the Rand/US$ exchange rate and, as such, Kumba's operating profit remains highly sensitive to fluctuations in it.

The average Rand/US$ exchange rate weakened 17% during the year, and approximated lows last seen in November 2008. For the next period we do anticipate some stability.

The five-year exchange rate history can be seen on the next page.







SIGNIFICANT ACCOUNTING MATTERS

Change to accounting estimates: environmental rehabilitation and decommissioning provisions

The life of mine (LoM) plan on which accounting estimates are based only includes proved and probable ore reserves as disclosed in Kumba's annual ore reserves and mineral resources statement. The estimated remaining LoM of Thabazimbi mine increased to 10 years, a seven-year increase from that previously reported. There has been no change to the LoM plans of the Sishen or Kolomela mines for the purpose of calculating the provisions for the year. Management has revised the estimated rehabilitation and decommissioning provisions for Thabazimbi mine.

Management has also revised the estimated rehabilitation and decommissioning provisions at Sishen, Kolomela and Thabazimbi mines as a result of changes in assumptions on the discount and inflation rates used to calculate the provisions for the three mines.

The change in estimate in the environmental rehabilitation provision was applied prospectively from 1 January 2013. The effect of this change is a net increase in the environmental rehabilitation provision of R261 million and an increase in the decommissioning provision of R8 million. The total rehabilitation and decommissioning provisions of the group were R1.8 billion at the end of 2013 (2012: R1.4 billion).

Change in accounting policy

The group adopted IFRIC 20 during the year. The interpretation clarifies that there can be benefits accruing to surface mining operations from the removal of mine waste materials to gain access to mineral ore deposits in the production phase of a mine (stripping activity). The two benefits being usable ore that can be used to produce inventory in the current period, and improved access to further quantities of material that will be mined in future periods. IFRIC 20 considers when and how to account for the benefits arising from stripping activity, as well as how to measure these benefits both initially and subsequent to the change in accounting policy.

The adoption of the IFRIC required the company to componentise each of its mines into geographically distinct ore bodies to which the stripping activities being undertaken within that component could be allocated. This has resulted in more stripping costs being deferred than under the previous accounting policy.

The IFRIC has also resulted in the company depreciating the deferred costs capitalised on a unit of production method, with reference to the ex-pit ore production from a component.

The group has adopted the IFRIC for the year under review, which commenced on 1 January 2013, and applied the IFRIC to production stripping costs incurred on or after 1 January 2012, in line with the transitional guidance. A summary of the impact of this new accounting policy is provided in the principal accounting policies on page 26.

The group adopted a number of accounting standards and amendments to published standards effective for the accounting period commencing 1 January 2013, which did not result in significant changes to the group's financial statements.

CONCLUSION

It was pleasing that we made constructive progress in 2013 on the resolution of key strategic issues facing the group, such as the Constitutional Court judgment, the new supply agreement with ArcelorMittal SA, and being awarded the mining right over the SWEP railway properties early in 2014.

As the group moves into the next financial year we are expecting to benefit from an improved performance at Sishen mine and sustained improvements in production at Kolomela and Thabazimbi mines. Notwithstanding the recent pressure on iron ore prices, we believe iron ore prices will remain relatively strong on average in the first half of 2014, but further price pressure is expected in the second half of the year. These price pressures will come from slowing demand and increased supply pressures from Australia and Brazil.

Frikkie Kotzee
Chief financial officer

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

for the year ended 31 December 2013

The directors are responsible for the preparation, fair presentation and integrity of the annual financial statements and related financial information of the Kumba Iron Ore Limited group (the group) as well as Kumba Iron Ore Limited (Kumba or the company), in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act No. 71 of 2008, as amended (Companies Act) and the Listings Requirements of the JSE Limited (JSE Listings Requirements), which include amounts based on judgements and estimates made by management.

The annual financial statements, set out on pages 26 to 85, are based on appropriate accounting policies which have been consistently applied, except for changes in accounting policies as detailed in the notes, and which are supported by reasonable and prudent judgements and estimates. The annual financial statements comprise the balance sheets at 31 December 2013; 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's 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
- 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 Kumba is set out on page 25 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, an assessment of the solvency and liquidity taking into account the current financial position and existing borrowing facilities as well as the group's financial budgets with their underlying business plans, the directors consider it appropriate that the annual financial statements be prepared on the going concern basis.

APPROVAL OF GROUP ANNUAL FINANCIAL STATEMENTS AND ANNUAL FINANCIAL STATEMENTS

The group annual financial statements on pages 26 to 67 and 76 to 85, and the annual financial statements on pages 68 to 75 of Kumba Iron Ore Limited were approved by the Kumba board of directors on 7 February 2014 and will be presented to the shareholders at the annual general meeting on 9 May 2014. The group and company annual financial statements are signed on the directors' behalf by:

F Titi
Chairman

NB Mbazima
Chief executive officer

7 February 2014

CERTIFICATE OF THE COMPANY SECRETARY

for the year ended 31 December 2013

I, VF Malie, in my capacity as company secretary, confirm that, for the year ended 31 December 2013, Kumba Iron Ore Limited has lodged with the Registrar of Companies all such returns and notices as are required of a public company in terms of the Companies Act, and that all such returns and notices are true, correct and up to date.

VF Malie
Company secretary
7 February 2014

DIRECTORS' REPORT
for the year ended 31 December 2013

The directors have pleasure in presenting the annual financial statements of Kumba and the group for the year ended 31 December 2013.

NATURE OF BUSINESS

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

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 nature of the businesses of the group's subsidiaries, associate and joint ventures is set out in annexures 1 and 2 on pages 74 to 75 of this report.

CORPORATE GOVERNANCE

The group subscribes to the King Code of Governance Principles and the King Report on Governance (King III). 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 review is set out on pages 118 to 128 of the Integrated Report 2013.

FINANCIAL RESULTS

The financial statements on pages 26 to 85 set out fully the financial position, results of operations and cash flows of the group for the financial year ended 31 December 2013. 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	2013	Restated 2012	% Favourable/ (unfavourable)
Revenue	54,461	45,446	20%
Operating profit	28,385	23,646	20%
Cash generated from operations	29,354	24,688	19%

The group's total revenue rose 20% to R54.5 billion (2012: R45.4 billion). This improvement directly reflects the weakening of the Rand/US$ exchange rate, closing at R10.46/US$ from a starting point of R8.48/US$ at the beginning of the financial year as well as the increase in the average iron ore export prices achieved, supported by stronger lump premiums particularly in the second half of the year.

Total operating costs rose by 20% to R26.1 billion (2012: R21.8 billion), driven primarily by above inflationary cost increases and the mining of 47.5Mt of additional waste at Sishen and Kolomela mines. As a result of the planned increase in mining activity at Sishen mine, the production shortfalls and above inflationary input cost escalations, the mine's unit cash cost increased by 35% to R267/tonne compared to R198/tonne at the end of 2012. Kolomela mine's unit cash cost was R182/tonne for 2013 (2012: R180/tonne).

The group's selling and distribution costs of R4.5 billion (excluding shipping expenses) were 10% higher (2012: R4.1 billion) and were impacted by higher rail tariffs as well as the utilisation of 2.1Mt from Kolomela mine at a super tariff.

The group's operating profit margin of 52% in the period under review (56% from mining activities) is a healthy one, and a steady continuation of the 2012 performance, despite the production challenges at Sishen mine.

Operating profit increased by 20% to R28.4 billion (2012: R23.6 billion) in line with:

- the average Rand/US$ exchange rate of R9.62/US$1.00, which was 17% weaker than the R8.19 achieved during 2012
- a weighted average increase of 2% in realised iron ore export prices

These increases were partially offset by a R2.2 billion or 17% increase in operating expenses (excluding selling and distribution expenses, shipping expenses and the mineral royalty) driven mostly by the 53.6Mt increase in total tonnes mined at Sishen and Kolomela mines. The mineral royalty expense for 2013 doubled to R2.2 billion (2012: R1.1 billion), principally as a result of higher revenue, as well as lower capital allowances related to Kolomela mine.

Cash generated by the group's operations increased by 19% to R29.4 billion for the year (2012: R24.7 billion) in line with the iron ore price increase and a weakened Rand. These cash flows were after the payment of mineral royalties of R2.1 billion, and were used to pay income tax of R6.2 billion and dividends of R13.7 billion. Dividends paid to shareholders came to R10.5 billion while our empowerment partners received R3.2 billion in dividends.

Kumba spent R4.5 billion on SIB capital, mainly on heavy mining equipment such as haul trucks and shovels for Sishen and Kolomela mines in support of the waste mining ramp up.

FINANCIAL POSITION

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

Rand million	2013	Restated 2012	% Favourable/ (unfavourable)
Property, plant and equipment	29,922	25,258	18%
Working capital (excluding cash and cash equivalents)	7,407	5,456	36%
Net debt	1,796	4,342	59%
Net asset value per share (Rand per share)	64.68	47.32	37%

Property, plant and equipment

Capital expenditure of R6.5 billion was incurred, of which R4.5 billion was to maintain operations, principally for the acquisition of heavy mining equipment, the completion of the Sishen workshop infrastructure and housing developments. R1.1 billion was invested to expand operations, comprising the final expenditure on Kolomela mine and the first phase of SWEP, both of which are being closed out, as well as the upgrade of the group's financial systems. R0.8 billion was capitalised in respect of deferred stripping costs. The adoption of IFRIC20 resulted in the restatement of property, plant and equipment and net asset value per share in 2012.

Working capital

Net working capital increased by R2.0 billion from 31 December 2012 to R7.4 billion. This increase is due to an increase in the trade receivables balance on the back of increased sales prices in 2013 relative to 2012 as well as increased work-in-progress inventory at year end at both Sishen and Kolomela mines.

Net debt

At 31 December 2013 the group was in a net debt position of R1.8 billion (2012: R4.3 billion).

The R6.0 billion facility was renegotiated and the new committed debt facility of R10.9 billion was effective 27 November 2013. The interest on the facility is charged at Jibar plus a margin, determined by the period for which the funds are borrowed.

R2.0 billion of the R10.9 billion long-term debt facility and R568 million of the total short-term uncommitted facilities of R9.1 billion had been drawn down at the year end. Kumba was not in breach of any of its financial covenants during 2013 and 2012.

The group had undrawn committed long-term and uncommitted short-term borrowing facilities at 31 December 2013 of R17.4 billion (2012: R9.0 billion), of which R7.6 billion is with Anglo American SA Finance Limited.

ACCOUNTING POLICIES

A number of new and amended accounting standards were effective for the first time for the financial year beginning on or after 1 January 2013. Only IFRIC 20 had a material impact on the group. The impact of this change is set out in section 2.2.1 of the accounting policies on page 26.

SHARE CAPITAL

Authorised capital

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

Share movements

Rand million	2013	2012
Balance at beginning of year	(121)	30
Total shares issued for cash consideration	2	5
Net movement in treasury shares under employee share incentive schemes	(178)	(156)
Share capital and share premium	**(297)**	**(121)**

The group acquired 660,923 (2012: 473,435) of its own shares through purchases on the JSE during the year. The total amount paid to acquire the shares was R265 million (2012: R261 million). The shares are held as treasury shares and the purchase consideration has been deducted from equity.

Unissued shares

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

DIVIDENDS

An interim dividend of R20.10 per share was paid on 19 August 2013. A final cash dividend of R19.94 per share was declared on 11 February 2014 from profits accrued during the financial year ended 31 December 2013. The total dividend for the year amounted to R40.04 per share.

The estimated total cash flow of the final dividend of R19.94 per share, payable on 17 March 2014, is R6.4 billion for Kumba.

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

SUBSIDIARIES, JOINT ARRANGEMENTS AND ASSOCIATE

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

EQUITY COMPENSATION PLANS

Refer to the detailed remuneration report on pages 17 to 24, note 21, 'Equity-settled share-based payment reserve', and annexure 3 of the group annual financial statements for a detailed discussion and analysis of movements in the group's various equity compensation plans available to executive directors and senior employees.

SEGMENT RESULTS

Refer to note 1 for a detailed segmental analysis of the group's revenue and operating results for the year ended 31 December 2013.

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 (2012: 69.72%).

The analysis of ordinary shareholders is given on pages 86 and 87.

EVENTS AFTER THE REPORTING PERIOD

SWEP rail properties

Significant progress has been made in the progression of the SWEP Project development remains within budget, and construction activities have been completed. A major milestone in the development of the project was the relocation of the Transnet railway line from its previous position, to the far western extent of the SIOC property. The relocation of the railway line was completed in May 2013.

As a consequence of Transnet having previously held the surface rights over the SWEP rail properties, the rail properties were excluded from the Sishen Mining Right area. SIOC applied to the DMR to obtain the necessary right in relation to the rail properties in October 2013.

SIOC was granted this mining right in February 2014, giving SIOC access to the approximately 33% of the Sishen reserve included in the LoM plan which is located on either side of the affected area. This portion of the reserve, which had been classified as probable, can now be reclassified as proven. The company will accordingly proceed with the implementation of its mining plan and will start waste stripping in the affected area from the second half of 2014.

Other

Refer to note 31 for a detailed description of other events after the reporting period for the year ended 31 December 2013.

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 ASSET AND LIABILITIES

Contingent asset

Kumba initiated arbitration proceedings against La Société des Mines De Fer Du Sénégal Oriental (Miferso) and the State 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 settlement agreement was revised in June 2013. The parties agreed that the precise terms of the settlement agreement will remain confidential.

Guarantees

During the year ended 31 December 2013, the group negotiated additional financial guarantee facilities, in respect of the environmental rehabilitation and decommissioning obligations of the group to the DMR, with Lombard Insurance Group (one of the approved insurance providers by the DMR), Rand Merchant Bank and the Standard Bank of South Africa Limited to the total value R1.2 billion.

Included in this amount are financial guarantees for the environmental rehabilitation and decommissioning obligations of the group to the DMR in respect of Thabazimbi mine of R331 million (2012: R nil). ArcelorMittal SA has guaranteed this full amount by means of bank guarantees issued in favour of SIOC. The guarantees for the balance of the shortfall (R88 million) was issued subsequent to year end by both ArcelorMittal SA and SIOC.

The total guarantees issued for environmental closure liabilities at 31 December 2013 is R2.1 billion (2012: R874 million).

LEGAL PROCEEDINGS

21.4% undivided share of the Sishen mining right

On 28 March 2013 the Supreme Court of Appeal (SCA) dismissed the appeals of the DMR and ICT against the decision of the North Gauteng High Court, which, inter alia, confirmed that SIOC became the exclusive holder of the mining rights at the Sishen mine in 2008 when the DMR converted SIOC's old order rights, and further set aside the grant of a prospecting right to ICT by the DMR. The SCA held that as a matter of law and as at midnight on 30 April 2009, SIOC became the sole holder of the mining right to iron ore in respect of the Sishen mine, after ArcelorMittal SA failed to convert its undivided share of the old order mining right.

Both ICT and the DMR lodged applications for leave to appeal against the SCA to the Constitutional Court. The Constitutional Court hearing was held on 3 September 2013.

On 12 December 2013, the Constitutional Court granted the DMR's appeal in part against the SCA judgment. In a detailed judgment, the Constitutional Court clarified that SIOC, when it lodged its application for conversion of its old order right, converted only the right it held at that time (being a 78.6% undivided share in the Sishen mining right).

The Constitutional Court further held that ArcelorMittal SA retained the right to lodge its old order right (21.4% undivided share) for conversion before midnight on 30 April 2009, but failed to do so. As a consequence of such failure by ArcelorMittal SA, the 21.4% undivided right remained available for allocation by the DMR. The Constitutional Court ruled further that, based on the provisions of the Mineral and Petroleum Resources Development Act (MPRDA), only SIOC can apply for and be granted the residual 21.4% undivided share of the Sishen mining right.

The grant of the mining right may be made subject to such conditions considered by the minister to be appropriate, provided that the proposed conditions are permissible under the MPRDA. SIOC had previously applied for this 21.4%, and continues to account for 100% of what is mined from the reserves at Sishen mine.

SIOC has, in compliance with the Constitutional Court order, submitted a further application to be granted this mining right in 2014.

As a further consequence of this finding, the ruling setting aside the prospecting right granted by the DMR to ICT also stands.

The findings made by the Constitutional Court are favourable to both SIOC and the DMR. SIOC's position as the only competent applicant for the residual right, protects SIOC's interests. The DMR's position as custodian of the mineral resources on behalf of the nation, and the authority of the DMR to allocate rights, has also been ratified by the Court.

ArcelorMittal SA Supply Agreement

The dispute between SIOC and ArcelorMittal SA regarding the contract mining agreement had been referred to arbitration in 2010. In December 2011, the parties agreed to delay the arbitration proceedings until the final resolution of the mining rights dispute (see above).

Interim Pricing Agreements were implemented to 31 December 2013.

In November 2013, SIOC and ArcelorMittal SA entered into a new Supply Agreement regulating the sale and purchase of iron ore between the parties which became effective from 1 January 2014. This agreement, subject to certain express conditions, is contemplated to endure until the end of LoM for the Sishen mine. The conclusion of this agreement settled the arbitration and the various other disputes between the companies.

Following the Constitutional Court ruling (see above), the sale of iron ore from SIOC to ArcelorMittal SA will remain regulated by the recently concluded Supply Agreement.

Lithos Corporation Proprietary Limited (Lithos)

On 3 September 2013, the Supreme Court of Appeal dismissed Lithos' application for leave to appeal, with costs. Lithos has not sought leave to appeal to the Constitutional Court, and the process to recover a contribution towards legal costs from Lithos is underway.

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 117 of the Integrated Report 2013 for his abridged CV.

The board of directors of Kumba announced that Mr Malie resigned as company secretary of Kumba with effect from 1 March 2014. Mr Malie, who has been the company secretary of the company since 7 May 2007, will take up the position of chief executive officer at the Sishen Iron Ore Company Community Development Trust. Mr Kevin Lester, head of legal of Anglo American South Africa, will be appointed as acting company secretary with effect from 1 March 2014.

DIRECTORS

The names of the directors in office during the year and at the date of this report are set out on pages 114 to 115 of the Integrated Report 2013. The remuneration and fees of directors as well as the directors' beneficial interest in Kumba are set out in the detailed remuneration report on pages 17 to 24.

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

- Mr David Weston, non-executive director, resigned from the board on 30 September 2013 following his resignation from Anglo American plc
- Mr Tony O'Neill was appointed as a non-executive director on 30 September 2013

PRESCRIBED OFFICERS

The names of the prescribed officers during the year and at the date of this report are set out on page 22. This includes all directors and members of the Executive Committee (Exco). The remuneration and fees of the prescribed officers are set out in the detailed remuneration report on pages 17 to 24. Although Timo Smit is a prescribed officer of Kumba as a member of Exco, he is employed by Anglo American Luxembourg S.A.R.L. As such his remuneration is not disclosed in the table on page 22.

AUDITORS

Deloitte & Touche continued in office as auditors of Kumba and its subsidiaries. At the annual general meeting on 9 May 2014, shareholders will be requested to re-appoint Deloitte & Touche as auditors of Kumba for the 2014 financial year.

SPECIAL RESOLUTIONS

On 18 January 2013 the shareholders of Kumba resolved that the existing Memorandum of Incorporation (MoI) of Kumba be abrogated in its entirety and replaced with a new MoI.

On 10 May 2013 the shareholders of Kumba resolved the following:

(1) 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 JSE Listings Requirements;

(2) that to the extent required by the Companies Act, the board of directors may, subject to compliance with the requirements of Kumba's MoI and the Companies Act, authorise direct or indirect financial assistance as contemplated in sections 44 and 45 of the Companies Act by way of loans, guarantees, the provision of security or otherwise; and

(3) that the company is authorised to remunerate its non-executive directors for their services as directors and/or pay any fees related thereto provided that the aforementioned authority shall be valid until the ninth annual general meeting of the company in 2015.

On 14 May 2013 the shareholders of Kumba's major subsidiary, SIOC, resolved the following:

(1) that the existing MoI of SIOC be abrogated in its entirety and replaced with a new MoI;

(2) that the company is authorised to remunerate its non-executive directors for their services as directors and/or pay any fees related thereto provided that the aforementioned authority shall be valid until the ninth annual general meeting of the company in 2015; and

(3) that to the extent required by the Companies Act, the board of directors may, subject to compliance with the requirements of SIOC's MoI and the Companies Act, authorise direct or indirect financial assistance as contemplated in sections 44 and 45 of the Companies Act by way of loans, guarantees, the provision of security or otherwise.

During the year Kumba's subsidiary, Main Street 576 Proprietary Limited, also adopted a MoI by way of special resolution as required by the Companies Act.

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 2013

(Company registration number 2005/015852/06)

INTRODUCTION

The committee is pleased to present its report for the financial year ended 31 December 2013 as recommended by the King III principles of good corporate governance, and in line with the Companies Act. The audit committee is constituted as a statutory committee of the group, as well as a board committee 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, and its mandate includes:

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

COMPOSITION

The audit committee, appointed by the board and approved by the shareholders in respect of the financial year ended 31 December 2013, 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

Biographies of the committee members are available on page 114 and 115 of the Integrated Report 2013. During the year under review the current members of the committee were nominated by the board for re-election and, all the members, having availed themselves for re-election by the shareholders at the 2013 AGM, were re-elected accordingly.

FREQUENCY AND ATTENDANCE OF AUDIT COMMITTEE MEETINGS

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

The chairman of the committee meets separately with management, internal and external auditors prior to the meetings. The committee meets separately with the internal and external auditors at least once a year. During the year under review, the committee met five times.

Composition and attendance during 2013

Member	5 February 2013	27 February 2013	7 May 2013	16 July 2013	5 November 2013
ZBM Bassa (Chairman)	✓	✓	✓	✓	✓
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. The other members of the audit committee, Dolly Mokgatle and Allen Morgan, are also members of the risk committee.

INTERNAL AUDIT

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

The internal audit charter was reviewed and approved by the committee. Internal audit provides assurance that the company operates in a responsibly governed manner by performing the following functions:

- evaluating ethics management, including whistle blowing in Tip-off Anonymous
- objectively assuring effectiveness of the risk assurance framework and the internal control framework

• analysing and assessing business processes and associated controls

• reporting audit findings and recommendations to management and the audit committee

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 2013

During the financial year ended 31 December 2013, the committee carried out its duties as required by section 94(7) of the Companies Act, King III, the committee's terms of reference and in accordance with its annual plan.

The committee performed the following statutory duties:

• evaluated the independence and effectiveness of the external auditors, Deloitte & Touche, and having conducted such assessment, accordingly nominate Deloitte & Touche as independent auditors and proposes that Sebastian Carter be re-appointed as the designated auditor to continue in office until the conclusion of the 2015 AGM

• considered and approved the audit fee payable to the external auditors for the year ended 31 December 2013

• ensured and satisfied itself that the appointment of the external auditor is in compliance with the Companies Act, the Auditing Profession Act, 2005 and the JSE Listings Requirements

• considered and pre-approved non-audit services and fees provided by the external auditors in terms of an established policy to ensure that the independence of the external auditors was not compromised

• performed the audit committee functions for subsidiaries within the group as contemplated in Section 90 of the Companies Act and reviewed the findings of the external assurance provider, PwC, emanating from the performance of an independent assurance exercise on the sustainability content of the Integrated Report 2013. 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 2013 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 as part of its mandate:

• reviewed the group financial statements and declaration of compliance with statutory requirements

• reviewed and recommended the group and company's liquidity and solvency analyses, funding strategies, compliance with debt covenants, going concern assessments, dividend policy and the interim and final dividends

• reviewed interim reports, results announcements and release of price-sensitive information

• reviewed the quality, independence and effectiveness of the internal audit process, as well as the positive assurance opinion of the internal auditor on internal financial controls

• reviewed the external auditor's management letters and management responses

• reviewed significant judgments and unadjusted differences resulting from the audit, as well as any reporting decisions made

• monitored compliance with accounting standards and legal requirements

• reviewed and recommended the budget review, revised Delegated Authority Framework and the committee's revised terms of reference

• reviewed and was satisfied that the external auditors and engagement partner were independent

• recommended the re-appointment of the external auditors and engagement partner to shareholders

• ensured that the appointments of the external auditors complied with all relevant legislation

• determined the fees to be paid to the external auditors and ensured that they were fair and equitable

• maintained a non-audit services policy

• reviewed and was satisfied with the process of risk management , including the risk assurance framework, and monitoring of legal governance compliance within the company and ensured that the combined assurance model addressed the significant risks within the company, including:

  · financial risks
  · legal risks
  · fraud risks
  · strategic risks
  · operational risks
  · IT governance risks

• reviewed and was satisfied with the expertise and the appropriateness of the finance function

• reviewed and was satisfied with the expertise of the chief financial officer

COMBINED ASSURANCE

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

LEGAL MATTERS

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

ORE RESERVES AND MINERAL RESOURCES

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

FINANCE FUNCTION AND CHIEF FINANCIAL OFFICER

The committee conducted an assessment of the appropriateness, skills, expertise and resourcing of the finance function and was satisfied with the overall adequacy and appropriateness of the function. The committee further reviewed the expertise and experience of the chief financial officer, Frikkie Kotzee (view Frikkie's abridged profile on page 114 of the Integrated Report 2013), and was satisfied with the appropriateness thereof.

GOING CONCERN

The audit committee has reviewed a documented assessment, including key assumptions, prepared by management of the going concern status of the group and company and has made recommendation to the board in support thereof. The board's statement on the going concern status of the group and company, as supported by the audit committee, is included on page 13 of this report.

ANNUAL FINANCIAL STATEMENTS

The audit committee has evaluated the group and company annual financial statements for the year ended 31 December 2013 and concluded that they comply in all material aspects, with the requirements of the Companies Act, the JSE Listings Requirements and IFRS. The committee therefore recommended the approval of the annual financial statements to the board.

INTEGRATED REPORT

The committee fulfils an oversight role regarding the group's integrated report and its reporting processes and, having regard to material factors that may impact on the integrity of the information, has recommended the Integrated Report 2013 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

7 February 2014

REMUNERATION AND PERFORMANCE

KEY FEATURES

During 2013 the following were some of the key developments and activities of Remco:

- Tony O'Neill joined the Kumba board on 30 September 2013 as non-executive director. He holds a BSc in engineering, as well as an MBA, and is the group director of technical for Anglo American plc and a member of the Anglo American Group management committee. David Weston resigned as a non-executive director on 30 September 2013 as he retired from Anglo American plc.
- Key management changes during 2013 included:
  - The appointment of Andrew Loots as executive head of operations, following the review of the Kumba executive management structure with the role focusing on operational alignment and the optimisation of synergies. Consequently the three general managers at the operations no longer form part of the executive management structure as they now report into this role.
  - The appointment of Billy Mawasha as executive head of technical services, replacing Christo van Loggerenberg who retired in April 2013. Billy joined Kumba on 2 September 2013. He was previously with AngloGold Ashanti where he held various senior positions including managing director of Iduapriem gold mine in Ghana and senior vice president of operations running all its underground mines in South Africa.
- Kumba has extended the Anglo American plc performance management standard to first-line management to ensure that all management employees' performance standards and measures are based and rewarded on similar principles. Previously this category of employees participated in production-related performance incentives intended for bargaining unit employees.
- During 2013 employees shared in the good performance of Kumba. This was illustrated by the payments received by our workforce participating in Envision (7,081 Envision participants at the end of December 2013) through dividend pay-outs during March and August 2013 to the total value of R144 million before tax .
- During 2012 the company successfully concluded a multi-year wage agreement with recognised trade unions, applicable to bargaining category employees. The second part of this agreement was implemented during July 2013, resulting in an average increase of 9%. This agreement is due to expire on 30 June 2014 and wage negotiations will take place during 2014, preparation for which commenced during the third quarter of 2013.
- Following the unprotected strike during October 2012, Kumba embarked on an extensive strike remedial plan to strengthen relations with the workforce. A programme of actions consisting of various short- and long-term interventions is being implemented.
- The executive and senior management talent pool was reviewed and approved to define appropriate succession plans to ensure sustainable operations.
- The 2013 performance contracts of the CEO, the chief financial officer as well as all prescribed officers were reviewed and approved in February 2013 for the performance period.

OUR REMUNERATION PHILOSOPHY UNDERPINS OUR STRATEGY

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

- maintain Kumba as an employer of choice
- motivate and engage employees to increase their level of commitment resulting in high levels of performance of individuals and teams
- facilitate the attraction and retention of top talent and those employees with critical skills
- target the market median in respect of fixed pay, with variable performance-related pay referenced to the upper quartile of the market to ensure competitiveness
- ensure the fair, equitable and consistent application of our remuneration principles and policies

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.

AIMS OF THIS REPORT

This report covers the following aspects of remuneration at Kumba:

- roles, responsibilities and constitution of Remco
- an overview of key elements of remuneration for all employees, with detailed explanations for executive directors, prescribed officers and non-executive directors
- an overview of reward policy and practices within Kumba
- details of remuneration outcomes and activities in 2013, namely remuneration paid to directors and executive management during 2013, including details of long-term incentives awarded during the year
- details of the remuneration paid to non-executive directors

REMUNERATION PHILOSOPHY AND POLICY
THE HUMAN RESOURCES, REMUNERATION AND NOMINATION COMMITTEE (REMCO)

Role of Remco and terms of reference

As a committee of the board, Remco operates under terms of reference, assisting the board with remuneration policies and programmes in line with company strategy and objectives, with a specific focus on executive and prescribed officer remuneration.

Among others things, Remco undertakes the following governance activities:

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

Membership of Remco

Remco comprises the following non-executive directors:

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

Frequency and attendance of Remco meetings

In addition to the committee members, the CEO, executive head of HR and the Anglo American Group head of reward attend meetings of Remco. Management is not involved in any decisions regarding their own remuneration.

Remco met four times during the year and attendance is presented in the following table:

Member	4 February 2013	6 May 2013	15 July 2013	8 November 2013
AJ Morgan (chairman)	√	√	√	√
GS Gouws	√	√	√	√
KT Kweyama	A	n/a	n/a	n/a
F Titi	√	√	√	√

√ Indicates attendance

A Indicates absence with an apology

n/a Indicates individual was not part of committee at the date of meeting

Abridged CVs for the members of Remco are available on page 114 and 115 of the Integrated Report 2013.

Key Remco decisions during 2013

- Approval of annual salary increases
- Retention arrangements for scarce and critical skills and high performing employees
- Appointment of the executive head of operations, as well as a new executive head of technical services
- Approval of 2012 performance incentive payments, bonus share plan awards and long-term incentive plan awards for the CEO, management and total workforce
- Approval of a consolidated reward philosophy and structure for fixed-term contract employees in order to provide a framework to attract and retain project based skills.

KUMBA'S APPROACH TO REWARD

Elements of remuneration

The table below describes the Kumba remuneration framework and structure including key elements guiding payments to all employees, including executive directors and prescribed officers, during the 2013 financial year.

	Strategic intent	Remuneration elements	Pay delivery	Eligibility
Cost to company	• Attract people with the necessary competencies (knowledge, skill, attitude) to add value to our business • Retain competent, high-performing employees who are engaged and demonstrate company values • Ensure pay is competitive and market related • Comply with legislative provisions and negotiated contractual commitments • Support high-performing individuals and teams by aligning reward with performance • Reinforce and enhance the principle that employees are key assets of our company	Basic employment cost (BEC)	Monthly salary	All employees
		Benefits	• Employer contribution to selected retirement funds • Subsidised medical aid • Life and disability insurance • Housing allowances and five-year mortgage subsidy plan • Study assistance for formal education	
		Circumstantial remuneration	Job specific Scarce skills	
Performance incentives	Aim to align achievement of production, safety and cost targets at operational level	Annual performance incentive	Cash paid on monthly, quarterly, bi-annual or annual basis, depending on circumstances at each mine	Bargaining unit employees
	Aligned to the achievement of stretch targets at company/business unit/functional/individual level. A portion of the annual cash incentive is deferred into bonus shares for long-term retention, applicable to senior managers.		The incentive is delivered in two parts: (i) annual cash incentive (ii) deferred shares under the BSP	(i) Entry-level management and above (ii) Senior management and above
Long-term incentives	• Retention of skills and achievement of direct alignment with shareholder interest • Reward employees for contribution to long-term sustainable company performance • Attract and retain key employees	Long-term incentive plan (LTIP)	Delivered in conditional shares	Executive directors
		Forfeitable shares	Delivered in forfeitable shares	Prescribed officers and selected senior managers, excluding executive directors
		Participation in employee share ownership plan: Envision	Units awarded in terms of the rules of the ownership plan	Middle management and below that do not participate in any of the other long-term incentives

EXECUTIVE DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION

Approach to reward

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

The remuneration of executive directors and prescribed officers consists of fixed and variable components that are designed to ensure 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 CEO 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 22 of this report.

Design of remuneration packages for executive directors and prescribed officers

Fixed remuneration

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

Medical aid is subsidised by 60% of the contribution, to a maximum amount determined by market comparisons. The company contributes 11.5% of pensionable salary to approved retirement funds. Risk insurance benefits include life cover and death-in-service benefits subject to the rules of the approved Kumba retirement funds.

Variable remuneration

Variable remuneration consist of two elements:

- an annual performance incentive; and
- long-term incentive plans that normally run over three years.

Annual performance incentive

Purpose	The incentive is designed to reward and motivate the achievement of agreed company financial, strategic and operational objectives, linked to key performance areas within cited employees' respective portfolios. Through the delivery of deferred bonus shares, long-term sustained performance is ensured
Eligible participants	Executive directors, prescribed officers and management employees
Elements	There are two elements to the incentive: • An annual cash payment, linked to performance during the financial year, payable at the end of the relevant financial year • An award of bonus shares based on the annual cash payment received, which is awarded after the end of the relevant financial year. The bonus shares are subject to a three-year holding period before vesting, during which they remain restricted. The bonus shares will be forfeited if the participant leaves employment during the restricted period (except in a number of limited 'good leaver' circumstances). Participants earn dividends on the bonus shares
Performance measures	Managers within Kumba are measured on business-specific strategic value drivers aligned to operational and/or mine-specific strategic priorities as approved by the board. In 2013 emphasis was placed on the following: • Operational targets, both waste mining and production, in line with LoM plan • Managing unit cash cost effectively, maximising return on investment • Achievement of safety measured on a fatality-free basis, LTIFR and leading indicators such as safety leadership • Delivering on specific stay-in-business and expansion projects • Sustainability measures in the areas of asset optimisation, people development and transformation as well as key strategic priorities in social development
Maximum value of annual performance incentive	The values of the annual performance incentive for executive directors and prescribed officers are calculated as follows: **CEO** The CEO participates in the group-wide Anglo American plc structure and his incentive is determined by measuring performance against overall company targets (75%) and specific, individual key performance measures (25%) approved by the board. This incentive is capped at 70% of basic employment cost **Chief financial officer** The chief financial officer participates in the Anglo American plc performance management standard that is linked to an Anglo American Group-wide annual performance incentive. This is based on a predetermined on-target bonus percentage of 30%, an individual performance modifier (IPM) and a business multiplier that is determined at the end of the year, taking into account business performance against the targets set for the year, relative to all Anglo American plc business units **Prescribed officers** Prescribed officers participate in the Anglo American plc performance management standard that is linked to an Anglo American Group-wide annual performance incentive. This is based on a predetermined on-target bonus percentage of 25% or 30%, an IPM and a business multiplier that is determined at the end of the year taking into account business performance against the targets set for the year **Business multiplier** The business multiplier is determined and approved by the Anglo American Group management committee by taking into consideration business performance against approved targets for the performance year. The multiplier normally ranges between 0.5 and 1.3
Maximum value of deferred bonus shares award	The maximum face value of the award is 140% of the annual performance incentive
Changes for 2014	Changes to the CEO performance incentive have been approved to align with Anglo American plc peers. This will result in 40% delivered in cash, 40% in shares deferred for three years and 20% in shares deferred for five years

Long-term incentives

The long term incentives for executive directors, prescribed officers and senior management are detailed below.

Long-term incentive plan

Description	Conditional awards of shares vesting after three years, subject to the achievement of stretched performance conditions. Full voting and dividend rights will only accrue from the vesting date
Eligible participants	Executive directors
Maximum value of the award	For 2013 the maximum annual face value of the LTIP award is 150% of base salary for the CEO and 100% of base salary for the chief financial officer
Performance measures	Two performance conditions, measured over a three year performance period, apply to each allocation: **1. Return on capital employed – 50%** • Below threshold level, 0% vests • At 95% of target (threshold), 30% vests • At budgeted on target level, 60% vests • At stretch, 105% of target, 100% vests There is linear vesting between these points **2. Total shareholder return – 50%** • Below the median of the approved peer group, 0% vests • At the median of the approved peer group, 30% vests • At the upper quartile of the approved peer group, 100% vests There is linear vesting between these points For awards made during 2011 and vesting at the end of 2013 the TSR peer group consisted of Assore, BHP Billiton, Rio Tinto, Palabora Mining, African Rainbow Minerals, Cliffs Natural Resources, Evraz Highveld Steel and MMX Mineracao e Metalicos SA Targets are approved by Remco for each allocation and no re-testing of performance conditions is allowed. Shares that do not vest after three years in terms of the performance conditions will lapse
Company limits	The aggregate limit for the BSP and LTIP is 10% of the issued share capital. Shares are purchased in the market, and not issued for purposes of settlement of the BSP or LTIP

Forfeitable shares awarded

Forfeitable shares are awarded to prescribed officers and selected senior managers. The quantum is restricted to 40% or 50% of base salary, depending on role and performance. These awards are subject to the participants remaining employed by the Anglo American Group for a period of three years from the award date. Participants will earn dividends and have voting rights from the date of award.

Executive directors' and prescribed officers' contracts of employment

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

External appointments of executive directors and prescribed officers

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

NON-EXECUTIVE DIRECTORS' FEES

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

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

Annual fees payable to non-executive directors for 2013 were approved at the AGM on 10 May 2013. Please refer to the section on Special Resolution one in the Notice of AGM, detailing the increase in non-executive directors' fees.

Fees did not increase, but are due for revision during 2014. Non-executive directors' fees for 2012/2013 were as follows:

2012/13 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
Remco	251,000	124,800

2013 EMOLUMENTS (AUDITED)

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

R'000	Base salary	Benefits (retirement and medical aid)	Cash bonus based on 2013 performance (paid March 2014)	Retention payment	Face value of BSP shares awarded in respect of 2013 performance (awarded March 2014)	Directors' fees	Committee fees	LTIP - Value earned in respect of performance period 2011-2013 (vesting 2014)	Total emoluments 2013	Total emoluments 2012
Executive directors										
NB Mbazima[1]	7,366	1,045	3,502	–	4,903	–	–	1,926	18,742	7,773
FT Kotzee[2]	3,411	544	1,432	–	2,005	–	–	–	7,392	6,272
CI Griffith[3]	–	–	–	–	–	–	–	–	–	8,009
Sub-total	**10,777**	**1,589**	**4,934**		**6,908**	**–**	**–**	**1,926**	**26,134**	**22,054**
Non-executive directors										
F Titi						1,116	–		1,116	279
ZBM Bassa						188	335		523	546
GS Gouws[4]						188	208		396	361
KT Kweyama[5]						188	88		276	70
DD Mokgatle						188	459		647	618
AJ Morgan						188	584		772	1,026
LM Nyhonyha						188	292		480	412
AM O'Neill[6]						47	–		47	–
BP Sonjica						188	208		396	232
DM Weston[7]						141	–		141	185
Sub-total						**2,620**	**2,174**		**4,794**	**3,729**
Prescribed officers										
AC Loots	2,468	330	578	–	2,139				5,515	4,989
FM Louw	2,272	306	709	–	2,196				5,483	6,051
VF Malie	1,613	219	580	–	1,502				3,914	3,107
B Mawasha[8]	1,186	153	285	4,583	2,284				8,491	–
Y Mfolo	1,827	252	548	–	1,541				4,168	4,253
LLA Mgadzah	1,705	237	273	–	1,104				3,319	3,873
SV Tyobeka	1,959	273	550	–	1,602				4,384	4,570
C van Loggerenberg[9]	761	102	180	–	–				1,043	6,084
Sub-total	**13,791**	**1,872**	**3,703**	**4,583**	**12,368**				**36,317**	**32,927**
Prescribed officers (January to February 2013)										
CC Holtzhausen[10]	284	39	–	–	–				323	3,670
A van den Brink[10]	325	44	–	–	–				369	4,982
Sub-total	**609**	**83**	**–**	**–**	**–**				**692**	**8,652**
Total	**25,177**	**3,544**	**8,637**	**4,583**	**19,276**	**2,620**	**2,174**	**1,926**	**67,937**	**67,362**

Notes

1. Emolument includes base salary of R785,970 (EUR61,500) and retirement benefits of R196,492 (25% of base salary) paid by KITSA in respect of services rendered off shore during 2013. The LTIP value earned relates to services rendered at Anglo Thermal Coal.
2. Emolument includes base salary of R766,800 (EUR60,000) and retirement benefits of R191,700 (25% of base salary) paid by KITSA in respect of services rendered off shore during 2013.
3. Resigned from Kumba and joined Anglo Platinum effective 1 September 2012, LTIP value earned disclosed by Anglo Platinum.
4. Directors' fees ceded to IDC.
5. Directors' fees ceded to Anglo American South Africa.
6. Directors' fees ceded to Anglo American Services (UK) Limited, a wholly owned subsidiary of Anglo American plc, appointed 30 September 2013.
7. Directors' fees ceded to Anglo American Services (UK) Limited, a wholly owned subsidiary of Anglo American plc, resigned 30 September 2013.
8. Billy Mawasha was appointed 1 September 2013. He was granted a retention payment to compensate him for loss of earnings at AngloGold Ashanti.
9. Christo van Loggerenberg retired on 30 April 2013.
10. The review of the Kumba executive management structure resulted in the appointment of Andrew Loots as executive head of operations with the role focusing on operational alignment and the optimisation of synergies Consequently the three general managers at the operations no longer form part of the executive management structure as they now report into this role. Pro-rata emoluments are reflected for the period January to February 2013.

The table below provides an analysis of the committee membership of the non-executive directors:

Non-executive Directors	Audit committee	Risk committee	Remco	Social and ethics committee
F Titi *			√	
ZBM Bassa	C	√		
GS Gouws		√	√	
KT Kweyama**				
DD Mokgatle	√	√		C
AJ Morgan	√	√	C	√
LM Nyhonyha	√	C		
AM O'Neill				
BP Sonjica		√		√
DM Weston				

* Chairman of the board.
** Resigned on 2 May 2013 from Remco, and on 16 May 2013 from the Social and ethics committee.
C Indicates chairman.
√ Indicates membership.

Interests of executive directors and the prescribed officers

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

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

		Granted awards			Vested awards			Outstanding awards			
Capacity and name	Number of awards at 1 Jan 2013	Granted during 2013	Date of grant	Market value on grant date R'000	Number of awards vested during 2013	Vesting date	Notional value at date of vesting R'000	Number of awards at 31 Dec 2013	Notional value of outstanding awards R'000	Earliest date of vesting of outstanding awards	Share-based payment expense R'000
Executive directors											
BSP											
NB Mbazima	–	7,488	1 Mar 2013	4,253	–	–	–	7,488	3,321	1 Mar 2016	1, 057
FT Kotzee	2,222	1,817	1 Mar 2013	1,032	740	1 Jun 2013	366	3,299	1,463	1 Jun 2014	864
LTIP											
NB Mbazima	–	19,873	1 Mar 2013	11,288	–	–	–	19,873	3,970	1 Mar 2016	1, 643
FT Kotzee	–	6,002	1 Mar 2013	3,409	–	–	–	6,002	1,199	1 Mar 2016	496
Sub-total	**2,222**	**35,180**		**19, 982**	**740**		**366**	**36,662**	**9,953**		**4,060**
Prescribed officers											
BSP											
AC Loots	11,922	3,407	1 Mar 2013	1,935	4,541	1 Mar 2013	2,579	10,788	4,784	2 Mar 2014	1, 664
FM Louw	15,346	4,693	1 Mar 2013	2,666	5,542	1 Mar 2013	3,148	14,497	6,429	2 Mar 2014	2,235
VF Malie	8,113	1,949	1 Mar 2013	1,107	3,014	1 Mar 2013	1,712	7,048	3,125	2 Mar 2014	1,147
B Mawasha[1]	–	9,054	17 Nov 2013	3,685	–	–	–	9,054	4,015	1 Mar 2014	–
Y Mfolo	2,265	2,979	1 Mar 2013	1,692	–	–	–	5,244	2,325	1 Mar 2015	816
LLA Mgadzah	9,997	2,678	1 Mar 2013	1,521	7,124	1 Nov 2013	3,712	5,551	2,462	1 Mar 2015	879
SV Tyobeka	16,767	3,203	1 Mar 2013	1,819	10,468	4 Jan 2013	6,008	9,502	4,214	2 Mar 2014	1,462
C van Loggerenberg	15,302	4,718	1 Mar 2013	2,680	20,020	1 Mar 2013	10,007	–	–	–	–
Sub-total	**79,712**	**32,681**		**17,105**	**50,709**		**27,166**	**61,684**	**27,354**		**8,203**
Total	**81,934**	**67,861**		**37,087**	**51,449**		**27,532**	**98,346**	**37,307**		**12,263**

[1] Billy Mawasha was granted sign on shares to compensate for loss of his existing share portfolio at AngloGold Ashanti.

Directors' beneficial interest in Kumba

The aggregate beneficial interest in Kumba at 31 December 2013 of the directors of the company and their immediate families (none of which has a holding greater than 1%) in the issued shares of the company are detailed below. There have been no material changes to the shareholding since 2013 and the date of approval of the annual financial statements.

	2013			2012		
Capacity and name	Number of shares	Long-term incentive scheme shares[1]	Total beneficial interest	Number of shares	Long-term incentive scheme shares[1]	Total beneficial interest
Executive Directors						
NB Mbazima	–	27,361	27,361	–	–	–
FT Kotzee	740	9,301	10,041	–	2,222	2,222
	740	**36,662**	**37,402**	**–**	**2,222**	**2,222**
Non-executive Directors						
DD Mokgatle[2]	428	–	428	428	–	428
GS Gouws[2]	213	–	213	213	–	213
	641	**–**	**641**	**641**	**–**	**641**
	1,381	**36,662**	**38,043**	**641**	**2,222**	**2,863**

Notes
1 Granted under the BSP and LTIP schemes and disclosed in the interests of directors table on the previous page.
2 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 as set out on pages 26 to 85, which comprise the consolidated and separate balance sheets as at 31 December 2013, the consolidated and separate income statements, the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and 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, excluding the US$ convenience translations of the balance sheet and income statement on pages 39 and 41.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these annual financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of annual 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 annual 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 annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual 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 annual 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 annual 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 the consolidated and separate financial position of Kumba Iron Ore Limited as at 31 December 2013, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa.

OTHER REPORTS REQUIRED BY THE COMPANIES ACT

As part of our audit of the financial statements for the year ended 31 December 2013, 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: SBF Carter
Partner
7 February 2014

National Executive: LL Bam Chief Executive AE Swiegers Chief Operating Officer GM Pinnock Audit DL Kennedy Risk Advisory NB Kader Tax TP Pillay Consulting K Black Clients and Industries JK Mazzocco Talent and Transformation CR Beukman Finance M Jordan Strategy S Gwala Special Projects TJ Brown Chairman of the Board MJ Comber Deputy Chairman of the Board

A full list of partners and directors is available on request

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

Member of Deloitte Touche Tohmatsu Limited

PRINCIPAL ACCOUNTING POLICIES

for the year ended 31 December 2013

1. GENERAL INFORMATION

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

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

2. BASIS OF PREPARATION

2.1 Accounting framework

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

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

The following principal accounting policies and methods of computation were applied by the company and the group in the preparation of the consolidated and stand-alone financial statements for the financial year ended 31 December 2013. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.2 Statement of compliance

2.2.1 Adoption of new and amended accounting standards

A complete list of new and amended accounting standards adopted during the year, which did not have a significant impact on the consolidated financial statements of the group or of the company's stand-alone accounts, is included in annexure 4.

The following interpretation has been adopted by the group for the first time for the financial year beginning on or after 1 January 2013 and had a material impact on 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 in the production phase. 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 for the benefits arising from the stripping activity, as well as how to measure these benefits both initially and subsequent to the change in accounting policy.

The adoption of the IFRIC required the company to componentise each of its mines into geographically distinct ore bodies to which the stripping activities being undertaken within that component could be allocated. This is a change from the accounting policy previously applied, in terms of which each mine was being accounted for as a single component when calculating the value of waste stripping costs to be deferred. This change has resulted in more stripping costs being deferred than under the previous accounting policy.

The IFRIC has also resulted in the company depreciating the deferred costs capitalised on a unit of production method, with reference to the ex-pit ore production from a component. Under the previous accounting policy applied, deferred stripping costs were only reversed to the extent the actual stripping ratio achieved for the current period fell below the average life of mine stripping ratio. As a result of this change, the deferred stripping asset created for each component is being depreciated in earlier periods.

The transitional provisions of IFRIC 20 requires an entity to apply this IFRIC to production stripping costs incurred on or after the beginning of the earliest period presented. The group has adopted the IFRIC for the current year, which commenced on 1 January 2013. The IFRIC is therefore applied to production stripping costs incurred on or after 1 January 2012.

A summary of the impact of this change in accounting policy on the results is set out below:

Rand million	2013 Impact of IFRIC 20 restatement	2012 As previously reported	Restated for IFRIC 20	As reported
Balance sheet impact				
Increase in assets				
Property, plant and equipment	706	24,765	493	25,258
Cost	823	30,603	504	31,107
Accumulated depreciation	(117)	(5,838)	(11)	(5,849)
Increase in equity and liabilities				
Retained earnings	391	13,716	274	13,990
Non-controlling interest	117	4,345	81	4,426
Deferred tax liabilities	198	6,697	138	6,835
Income statement impact				
Decrease in operating expenses	706	22,293	(493)	21,800
Increase in taxation – deferred tax	198	6,750	138	6,888
Increase in profit for the year	508	16,100	355	16,455
Attributable to owners of Kumba	391	12,212	274	12,486
Attributable to non-controlling interest	117	3,888	81	3,969
Earnings per share impact				
Basic earnings per share	1.22	38.02	0.85	38.87
Diluted earnings per share	1.22	37.95	0.85	38.81
Headline earnings per share	1.22	37.97	0.85	38.83

2.2.2 New accounting standards and interpretations not yet adopted
A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013. None of these had a significant effect on the consolidated financial statements of the group. These accounting standards are listed in annexure 4.

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

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

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

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

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

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

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

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

2. BASIS OF PREPARATION continued

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

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 services provided, with the segment representing a strategic business unit. The reportable operating segments derive their revenue primarily from mining, extraction, production, distribution and selling of iron ore and shipping services charged to external clients.

2.5 Events after the reporting period
Recognised amounts in the financial statements are adjusted to reflect events arising after the balance sheet date that provide evidence of conditions that existed at the balance sheet date. Events after the balance sheet that are indicative of conditions that arose after the balance sheet date are dealt with in note 31.

2.6 Comparative figures
Comparative figures are restated in the event of a change in accounting policy (refer to 2.2.1 above).

3. COMPANY FINANCIAL STATEMENTS

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

4. CONSOLIDATED FINANCIAL STATEMENTS

4.1 Basis of consolidation
The consolidated financial statements present the financial position and changes therein, operating results and cash flow information of the group. The group comprises Kumba, its subsidiaries and interests in joint arrangements and its associate.

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

Intercompany transactions, balances and unrealised profits and losses between group companies are eliminated on consolidation. In respect of joint arrangements and the associate, 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 its associate are eliminated against the investment in the associate.

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

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

BALANCE SHEET

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

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

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

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

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

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

The cost of items of property, plant and equipment is capitalised into its various components where the useful life of the 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 that it will generate future economic benefits.

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

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

Waste stripping expenses

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

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

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

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

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

4. CONSOLIDATED FINANCIAL STATEMENTS: BALANCE SHEET continued

4.3 Financial instruments

4.3.1 Financial assets

Classification

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

Financial assets at fair value through profit or loss

FVTPL financial assets are financial assets that are designated by the group as at FVTPL on initial recognition. A financial asset is designated in this category if it is managed and its performance is evaluated on a fair value basis, in accordance with documented risk management policies. Assets in this category are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet.

Recognition and measurement

Regular purchases and sales of financial instruments are recognised on the trade date, being the date in which the group becomes party to the contractual provisions of the relevant instrument. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

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

Investments held by environmental trust

These investments may only be utilised for the purposes of settling decommissioning and rehabilitation obligations relating to the group's mining operations. The investment returns are re-invested by the trust. The equity investments held by the trust has been designated as fair value through profit and loss instruments, and the bonds and cash held by the trust is classified as loans and receivables measured at amortised cost.

Trade and other receivables

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

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

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

Cash and cash equivalents

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

4.3.2 Financial liabilities (other than derivative financial instruments)

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

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

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

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

Trade and other payables

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

Interest-bearing borrowings

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

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

4.3.3 Offsetting financial instruments

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

4.4 Finance leases

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

4.5 Inventories

Inventories comprise finished products, work-in-progress, raw material and merchandise and plant spares and stores, 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.

4.6 Share capital

Ordinary shares are classified as equity instruments.

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

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

4.7 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. Dividend 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. Dividend 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.

4. CONSOLIDATED FINANCIAL STATEMENTS: BALANCE SHEET continued

4.8 Provisions

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

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

Environmental rehabilitation

Environmental rehabilitation provisions

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

Contributions to rehabilitation trust

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

Ongoing rehabilitation expenditure

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

Decommissioning provision

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

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

Employee benefits cash-settled share-based payments

Refer to the 'Employee benefits – equity compensation benefits' accounting policy note on the next page.

4.9 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.

4.10 Employee benefits

Post-employment benefits

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

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

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

The group does not provide defined employee benefits to its current employees.

Bonus plans

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

Termination benefits

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

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

Equity compensation benefits

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

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

INCOME STATEMENT

4.11 Revenue recognition

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

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

Sales of goods – iron ore

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

Shipping services

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

4.12 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. CONSOLIDATED FINANCIAL STATEMENTS: INCOME STATEMENT continued

4.13 Income from investments

Interest income

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

Dividend income

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

4.14 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.

4.15 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.

4.16 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.

4.17 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.

Current tax

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

Dividend tax

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

4.18 Earnings per share

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

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

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

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

4.19 Convenience translation from Rand to US$

The presentation currency of the group is Rand.

Supplementary US$ information is provided for convenience only. The conversion to US$ is performed as follows:

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

The resulting translation differences are included in shareholders' equity

4.20 Accounting policies adopted by the group which are not significant to the reported results for the current and comparative years

The accounting policies listed below relate to items and/or transactions that did not have a significant impact on the group's reported results for the current and comparative financial years. It also includes the group's accounting policy choices in respect of transactions which could potentially have a significant impact on the reported results but that did not occur during the years presented. The full accounting policies have been included for information purposes in annexure 5 to these annual financial statements.

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

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

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

5.1 Consolidation of special purpose entities

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

5.2 Segment reporting

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

5.3 Property, plant and equipment

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

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

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

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

Also refer to the unaudited Ore Reserves and Mineral Resources statement included in the Integrated Report 2013 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. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

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

- average LoM stripping ratio
- total expected production over the LoM

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

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

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

5.6 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 note 21).

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

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

5.9 Estimation of deemed gross sales value of revenue for calculating mineral royalty
In terms of the Mineral and Petroleum Resources Royalty Act, No. 28 of 2008 and the Mineral and Petroleum Resources Royalty Administration Act, No. 29 of 2008, the specified condition for iron ore used to calculate the mineral 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 at the specified condition of the ore extracted at the group's mines.

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

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

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

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

Opposite
Ore being stacked at the Saldanha iron ore terminal.

"THE MINING INDUSTRY, BY VIRTUE OF THE PLACE IT OCCUPIES IN OUR ECONOMY, IS IN A POSITION TO MAKE A SPECIAL CONTRIBUTION TO THE TRANSFORMATION OF OUR SOCIETY, WHICH SHOULD HAVE AS ITS CENTRAL OBJECTIVE, IMPROVING THE QUALITY OF LIFE OF ALL ITS CITIZENS."

Nelson Mandela, former president of South Africa, 1994 to 1999

BALANCE SHEET
as at

Rand million	Notes	31 December 2013	Restated 31 December 2012	1 January 2012
Assets				
Property, plant and equipment	2	29,922	25,258	20,878
Biological assets		6	8	6
Investments in associate and joint ventures		–	47	33
Investments held by environmental trust	3	737	673	568
Long-term prepayments and other receivables	4	605	130	95
Deferred tax assets	10	920	842	658
Non-current assets		**32,190**	**26,958**	**22,238**
Inventories	5	5,171	4,136	3,864
Trade and other receivables	6	6,124	4,332	3,537
Current tax assets		–	76	32
Cash and cash equivalents	7	1,053	1,527	4,742
Current assets		**12,348**	**10,071**	**12,175**
TOTAL ASSETS		**44,538**	**37,029**	**34,413**
Equity and liabilities				
Shareholders' equity		20,831	15,238	15,833
Non-controlling interest	22	6,353	4,426	4,759
Total equity		**27,184**	**19,664**	**20,592**
Liabilities				
Interest-bearing borrowings	8	2,234	3,200	–
Provisions	9	1,809	1,420	901
Deferred tax liabilities	10	7,888	6,835	4,942
Non-current liabilities		**11,931**	**11,455**	**5,843**
Short-term portion of interest-bearing borrowings	8	615	2,669	3,191
Short-term portion of provisions	9	355	26	11
Trade and other payables	11	3,888	3,012	4,556
Current tax liabilities		565	203	220
Current liabilities		**5,423**	**5,910**	**7,978**
Total liabilities		**17,354**	**17,365**	**13,821**
TOTAL EQUITY AND LIABILITIES		**44,538**	**37,029**	**34,413**

BALANCE SHEET – US$ CONVENIENCE TRANSLATION

(unaudited supplementary information)

as at

US$ million	31 December 2013	Restated 31 December 2012	1 January 2012
Assets			
Property, plant and equipment	2,861	2,920	2,552
Biological assets	1	1	1
Investments in associate and joint ventures	–	6	4
Investments held by environmental trust	70	79	69
Long-term prepayments and other receivables	58	15	12
Deferred tax assets	88	99	80
Non-current assets	**3,078**	**3,120**	**2,718**
Inventories	494	488	472
Trade and other receivables	585	511	433
Current tax assets	–	9	4
Cash and cash equivalents	101	180	580
Current assets	**1,180**	**1,188**	**1,489**
TOTAL ASSETS	**4,258**	**4,308**	**4,207**
Equity and liabilities			
Shareholders' equity	1,992	1,765	1,936
Non-controlling interest	607	512	582
Total equity	**2,599**	**2,277**	**2,518**
Liabilities			
Interest-bearing borrowings	214	377	–
Provisions	173	167	110
Deferred tax liabilities	754	790	604
Non-current liabilities	**1,141**	**1,334**	**714**
Short-term portion of interest-bearing borrowings	59	315	390
Short-term portion of provisions	34	3	1
Trade and other payables	371	355	557
Current tax liabilities	54	24	27
Current liabilities	**518**	**697**	**975**
Total liabilities	**1,659**	**2,031**	**1,689**
TOTAL EQUITY AND LIABILITIES	**4,258**	**4,308**	**4,207**
Exchange rate			
Translated at closing Rand/US$ exchange rate	10.46	8.48	8.18

INCOME STATEMENT
for the year ended 31 December

Rand million	Notes	2013	Restated 2012
Revenue	12	54,461	45,446
Operating expenses	13	(26,076)	(21,800)
Operating profit	14	**28,385**	**23,646**
Finance income	17	117	102
Finance costs	17	(396)	(405)
Loss from equity accounted joint venture		(46)	–
Profit before taxation		**28,060**	**23,343**
Taxation	18	(7,760)	(6,888)
PROFIT FOR THE YEAR		**20,300**	**16,455**
Attributable to:			
Owners of Kumba		15,446	12,486
Non-controlling interest		4,854	3,969
		20,300	**16,455**
Earnings per share for profit attributable to the owners of Kumba (Rand per share)	19		
Basic		48.09	38.87
Diluted		48.03	38.81

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December

Rand million	2013	Restated 2012
Profit for the year	**20,300**	**16,455**
Other comprehensive income for the year [1]	570	155
Exchange differences on translation of foreign operations	570	193
Net effect of cash flow hedges	–	(38)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**20,870**	**16,610**
Attributable to:		
Owners of Kumba	15,917	12,615
Non-controlling interest	4,953	3,995
	20,870	**16,610**

[1] There is no tax attributable to items included in other comprehensive income.

INCOME STATEMENT – US$ CONVENIENCE TRANSLATION

(unaudited supplementary information)

for the year ended 31 December

US$ million	2013	Restated 2012
Revenue	5,661	5,549
Operating expenses	(2,711)	(2,722)
Operating profit	**2,950**	**2,827**
Finance income	12	12
Finance costs	(41)	(49)
Loss from equity accounted joint venture	(5)	–
Profit before taxation	**2,916**	**2,790**
Taxation	(807)	(824)
PROFIT FOR THE YEAR	**2,109**	**1,966**
Attributable to:		
Owners of Kumba	1,605	1,491
Non-controlling interest	504	475
	2,109	**1,966**
Earnings per share for profit attributable to the owners of Kumba (US$ per share)		
Basic	5.00	4.64
Diluted	4.99	4.63
Exchange rate		
Translated at average Rand/US$ exchange rate	9.62	8.19

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December

Rand million	Share capital and share premium (note 20)	Treasury shares (note 20)	Equity-settled share-based payments reserve (note 21)	Foreign currency translation reserve	Cash flow hedge accounting reserve	Retained earnings	**Shareholders' equity**	Non-controlling interest (note 22)	**TOTAL EQUITY**
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 (Restated – refer to accounting policy note 2.2.1)	–	–	–	147	(18)	12,486	**12,615**	3,995	**16,610**
Dividends paid	–	–	–	–	–	(13,516)	**(13,516)**	(4,490)	**(18,006)**
Other	–	–	–	1	–	–	**1**	(1)	**–**
Restated balance at 31 December 2012	**371**	**(492)**	**822**	**571**	**(24)**	**13,990**	**15,238**	**4,426**	**19,664**
Shares issued during the year	2	–	–	–	–	–	**2**	–	**2**
Net movement in treasury shares under employee share incentive schemes	–	(178)	–	–	–	–	**(178)**	–	**(178)**
Equity-settled share-based payments expense	–	–	504	–	–	–	**504**	120	**624**
Vesting of shares under employee share incentive schemes	–	–	(90)	–	–	(1)	**(91)**	–	**(91)**
Total comprehensive income for the year	–	–	–	439	32	15,446	**15,917**	4,953	**20,870**
Dividends paid	–	–	–	–	–	(10,561)	**(10,561)**	(3,146)	**(13,707)**
Balance at 31 December 2013	**373**	**(670)**	**1,236**	**1,010**	**8**	**18,874**	**20,831**	**6,353**	**27,184**

Dividend per share

(Rand per share)	**2013**	2012
Interim	20.10	19.20
Final *	19.94	12.50
	40.04	**31.70**

* The final dividend for 2013 was declared subsequent to the year end and is presented for information purposes only.

EQUITY-SETTLED SHARE-BASED PAYMENTS RESERVE

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

FOREIGN CURRENCY TRANSLATION RESERVE

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

CASH FLOW 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	2013	Restated 2012
Cash flows from operating activities			
Cash receipts from customers		53,532	44,731
Cash paid to suppliers and employees		(24,178)	(20,043)
Cash generated from operations	23	**29,354**	**24,688**
Net finance costs paid	24	(161)	(227)
Taxation paid	25	(6,171)	(5,215)
		23,022	**19,246**
Cash flows from investing activities			
Additions to property, plant and equipment	27	(6,453)	(5,917)
Investment in associate and joint ventures		(17)	(14)
Investments held by environmental trust		–	(45)
Proceeds from disposal of non-current assets		37	37
Deconsolidation of subsidiary		5	3
		(6,428)	**(5,936)**
Cash flows from financing activities			
Shares issued		2	5
Purchase of treasury shares		(265)	(261)
Vesting of Envision share scheme		–	(968)
Dividends paid to owners of Kumba	26	(10,500)	(13,428)
Dividends paid to non-controlling shareholders	26	(3,207)	(4,578)
Interest-bearing borrowings raised		2,000	5,869
Interest-bearing borrowings repaid		(5,332)	(3,191)
		(17,302)	**(16,552)**
Net decrease in cash and cash equivalents		(708)	(3,242)
Cash and cash equivalents at beginning of year	7	1,527	4,742
Exchange differences on translation of cash and cash equivalents		234	27
CASH AND CASH EQUIVALENTS AT END OF YEAR	7	**1,053**	**1,527**

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

1 SEGMENT REPORTING

The Kumba executive committee considers the business principally according to the nature of the products and service provided, with the identified segments each representing a strategic business unit. The 'Other' segment comprises corporate, administration, technical and project studies and other expenditure not allocated to the reported segments.

The total reported segment revenue comprises revenue from external customers, and is measured in a manner consistent with that disclosed in the income statement. The performance of the operating segments are assessed based on earnings before interest and tax (EBIT), which is consistent with 'Operating profit' in the financial statements. Finance income and finance costs are not allocated to segments, as treasury activity is managed on a central group basis.

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

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

	Products[1]				Services		
Rand million	Sishen mine	Kolomela mine	Thabazimbi mine	Logistics[2]	Shipping operations	Other	Total
2013							
Income statement:							
Revenue (from external customers)	36,685	13,022	1,079	–	3,675	–	**54,461**
EBIT	24,888	9,296	301	(4,538)	(72)	(1,490)	**28,385**
The following significant items are included in EBIT:							
Depreciation	1,441	570	1	5	–	22	**2,039**
Staff costs	2,121	482	364	20	5	682	**3,674**
Balance sheet:							
Total segment assets	177	66	75	398	–	478	**1,194**
Cash flow statement:							
Additions to property, plant and equipment							
Expansion capex	484	285	8	108	–	247[3]	**1,132**
Stay-in-business capex	3,933	564	1	–	–	–	**4,498**
Deferred stripping	637	186	–	–	–	–	**823**
Restated 2012							
Income statement:							
Revenue (from external customers)	33,001	8,239	1,014	–	3,192	–	**45,446**
EBIT	23,559	5,945	(25)	(4,065)	(30)	(1,738)	**23,646**
The following significant items are included in EBIT:							
Depreciation	1,033	471	3	–	–	27	**1,534**
Staff costs	2,000	495	345	–	8	618	**3,466**
Balance sheet:							
Total segment assets	168	153	130	491	–	244	**1,186**
Cash flow statement:							
Additions to property, plant and equipment							
Expansion capex	677	1,518	–	–	–	–	**2,195**
Stay-in-business capex	2,971	195	–	–	–	–	**3,166**
Deferred stripping	409	109	–	–	–	–	**518**

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

[2] Inter-segment revenue is no longer reported for the logistics segment as was the case for the year ended 31 December 2012 in the Annual Financial Statements 2012. The reason for this being that the group's executive committee, as the CODM, reviews the segment's performance with reference only to volumes railed and rail tariffs achieved.

[3] The R247 million capital expenditure allocated to the 'Other' segment is in respect of an information management systems upgrade being rolled out group wide. This expenditure has not been allocated to the various segments.

Reconciliation of reportable segments' assets to total assets

Rand million	2013	2012
Segment assets	1,194	1,186
WIP inventory, plant spares and stores	3,977	2,950
Inventories per balance sheet	**5,171**	**4,136**

GEOGRAPHICAL ANALYSIS

Revenue from external customers:

2013

	Rm	
South Africa	3,672	7%
China	35,154	65%
Rest of Asia	10,587	19%
Europe	4,926	9%
MENA	122	–

2012

	Rm	
South Africa	2,832	6%
China	28,277	62%
Rest of Asia	9,889	22%
Europe	4,322	10%
MENA	126	–

Non-current assets

All non-current assets, excluding prepayments, investments in associate and joint ventures and deferred tax assets, are located in South Africa, with the exception of R2 million located in Singapore (2012: R1 million in China).

2 PROPERTY, PLANT AND EQUIPMENT

Rand million	Land	Mineral properties	Residential buildings	Buildings and infrastructure	Machinery, plant and equipment	Mineral exploration, site preparation and development	Assets under construction	Total
2013								
Cost								
Restated balance at beginning of year	278	621	1,055	3,243	20,103	595	5,212	**31,107**
Additions (refer to note 27)								
Capital acquisitions	33	–	16	153	251	–	5,177	**5,630**
Deferred stripping	–	–	–	–	–	823	–	**823**
Finance lease assets (refer to note 8)	–	–	–	–	280	–	–	**280**
Changes in decommissioning provision (refer to note 9)	–	–	(2)	4	4	–	4	**10**
Disposals and scrapping	–	–	(20)	(4)	(75)	–	(11)	**(110)**
Derecognition of assets	(5)	–	–	–	–	–	–	**(5)**
Transfers between asset classes	24	–	1,254	1,462	3,129	(5)	(5,864)	**–**
Exchange differences on translation	–	–	–	*	–	–	–	*
Balance at 31 December 2013	**330**	**621**	**2,303**	**4,858**	**23,692**	**1,413**	**4,518**	**37,735**
Accumulated depreciation								
Restated balance at beginning of year	–	252	74	290	5,167	66	–	**5,849**
Depreciation	–	20	63	163	1,676	117	–	**2,039**
Disposals and scrapping	–	–	(1)	(3)	(71)	–	–	**(75)**
Transfers between asset classes	–	–	–	(1)	3	(2)	–	**–**
Balance at 31 December 2013	*	**272**	**136**	**449**	**6,775**	**181**	**–**	**7,813**
Carrying amount at 31 December 2013	**330**	**349**	**2,167**	**4,409**	**16,917**	**1,232**	**4,518**	**29,922**
2012								
Cost								
Balance at beginning of year	228	621	461	2,884	17,153	77	3,839	**25,263**
Additions (refer to note 27)								
Capital acquisitions	–	–	9	1	110	–	5,223	**5,343**
Deferred stripping – as restated	–	–	–	–	–	518	–	**518**
Changes in decommissioning provision (refer to note 9)	–	–	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	–	–	–	*	–	–	–	*
Restated balance at 31 December 2012	**278**	**621**	**1,055**	**3,243**	**20,103**	**595**	**5,212**	**31,107**
Accumulated depreciation								
Balance at beginning of year	–	232	51	155	3,894	53	–	**4,385**
Depreciation – as restated	–	20	25	135	1,342	13	–	**1,535**
Disposals and scrapping	–	–	(2)	–	(69)	–	–	**(71)**
Restated balance at 31 December 2012	**–**	**252**	**74**	**290**	**5,167**	**66**	**–**	**5,849**
Restated carrying amount at 31 December 2012	**278**	**369**	**981**	**2,953**	**14,936**	**529**	**5,212**	**25,258**

* Value is less than R1 million.

2 PROPERTY, PLANT AND EQUIPMENT continued

Rand million	2013	2012
Capital commitments		
Capital commitments include all items of capital expenditure for which specific board approval has been obtained up to balance sheet date. Capital expenditure will be financed principally from borrowing facilities and cash generated from operations. Capital expenditure still in the study phase of the project pipeline for which specific board approvals have not yet been obtained are excluded.		
Capital expenditure contracted for plant and equipment	600	772
Capital expenditure authorised for plant and equipment but not contracted	4,943	1,335
Capital commitments for Thabazimbi mine will be financed by ArcelorMittal SA:		
Capital expenditure contracted for plant and equipment	–	7
Capital expenditure authorised for plant and equipment but not contracted	18	16
Assets held under finance lease arrangement (refer to note 8)		
The group entered into a finance lease in respect of heavy mining equipment during the year under review. These assets are included in property, plant and equipment.		
Cost	280	–
Accumulated depreciation	(35)	–
Carrying amount	**245**	**–**

Additional disclosures

During the year the group scrapped fully depreciated assets with an original cost of R12.3 million (2012: R52.8 million).

The group generated proceeds from the disposal of items of property, plant and equipment of R36.7 million (2012: R37.4 million).

The estimated replacement value of assets for insurance purposes and assets under construction at cost amounts to R40.1 billion (2012: R35.6 billion).

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

None of the assets are encumbered as security for any of the group's liabilities, nor is the title to any of the assets restricted, except for the finance lease arrangement noted above.

3 INVESTMENTS HELD BY ENVIRONMENTAL TRUST

Rand million	2013	2012
Balance at beginning of year	673	568
Contributions	–	45
Growth in environmental trusts	64	60
Comprising:	**737**	**673**
Equity investments	475	355
Cash investments	236	265
Bonds	26	53

No cash contributions were made to the environmental trust during 2013 as all shortfalls related to the group's decommissioning and rehabilitation obligations were funded by way of financial guarantees (refer to note 28).

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

Rand million	2013	2012
Maturity profile of the investments held by environmental trust		
2 to 5 years	–	242
More than 5 years *	737	431

* The use of these assets is restricted, and they may only be realised for settling environmental rehabilitation and decommissioning activities. As these activities are scheduled to commence at the end of the LoM, the maturity profile of these investments are considered to be more than 5 years from the date of these annual financial statements.

Financial risk management

Refer to note 33 for financial risk management disclosures.

4 LONG-TERM PREPAYMENTS AND OTHER RECEIVABLES

Rand million	2013	2012
Long-term receivables	491	1
Prepayments	114	129
	605	**130**
Maturity profile of long-term prepayments and other receivables		
1 to 2 years	20	18
2 to 5 years	42	51
More than 5 years *	543	61
	605	**130**

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

5 INVENTORIES

Rand million	2013	2012
Finished products	1,194	1,186
Work-in-progress	3,104	2,245
Plant spares and stores	873	705
	5,171	**4,136**

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

6 TRADE AND OTHER RECEIVABLES

Rand million	2013	2012
Trade receivables	5,024	3,100
Prepayments	143	74
Other receivables	956	1,123
Derivative financial instruments (refer to note 33)	1	35
	6,124	**4,332**

Credit risk

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

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

Significant concentrations of credit risk

R2,877 million (2012: R2,329 million) or 57% (2012: 75%) of the total outstanding trade receivables balance of R5,024 million (2012: R3,100 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 2013. At 31 December 2013 one customer's balance accounted for 14% of the outstanding trade receivables balance. The account is with a customer with whom the group has a long standing relationship and has an excellent credit record.
The receivable was settled in full in January 2014.

The historical level of customer default is minimal and as a result the credit quality of year end receivables is considered to be high. Past due receivables at year end were settled in February 2014, and no debts were written off during the year under review (2012:R nil).

Rand million	2013	2012
Trade receivables credit risk exposure by geographical area		
South Africa	410	212
Europe	463	461
Asia	4,151	2,427
China	2,872	887
Japan	990	1,073
Rest of Asia	289	467
	5,024	**3,100**
Trade receivables credit risk exposure by currency		
Rand	410	217
US$	4,614	2,883
	5,024	**3,100**
Ageing of trade receivables		
Not past due	5,018	3,100
Past due but not impaired: 31 to 60 days	6	–
	5,024	**3,100**

Other receivables

Other receivables mainly comprise of VAT receivables of R805 million (2012: R922 million).

7 CASH AND CASH EQUIVALENTS

Rand million	2013	2012
Cash	**1,053**	**1,527**
Currency analysis of cash and cash equivalents		
Rand	120	128
US$	925	1,389
Euro	8	7
Other	–	3
	1,053	**1,527**

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

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

8 INTEREST-BEARING BORROWINGS

Rand million	2013	2012
Long-term interest-bearing borrowings	2,234	3,200
Current interest-bearing borrowings	615	2,669
	2,849	**5,869**
Reconciliation		
Balance at beginning of year	5,869	3,191
Interest-bearing borrowings raised	2,000	5,869
Finance lease raised during the year	312	–
Interest-bearing borrowings repaid (including finance lease repayments)	(5,332)	(3,195)
Deferred transaction cost recognised	–	4
	2,849	**5,869**
Maturity profile of interest-bearing borrowings		
Within 1 year	615	2,669
1 to 2 year	234	–
2 to 3 years	2,000	3,200
	2,849	**5,869**

				Outstanding balance	
Rand million	Maturity date	Interest rate at 31 December	Facility	2013	2012
Unsecured loans					
Revolving syndicated facility at a variable interest rate of Jibar plus a margin which varies based on the period of the borrowings. Maturity date 2 January 2018	**2018**	2013: 7.1% 2012: n/a	10,900	2,000	–
Term facility at a floating interest rate of 3-month Jibar + 165 basis points, reset quarterly but payable semi-annually. This facility was settled during the year and available at year end as a short-term call loan facility [1]	–	2013: n/a 2012: 8.4%	–	–	3,200
Call loan facility at floating call rates [2]	**Open**	2013: 6.0%	9,050	568	2,669
Fair value at end of year			**19,950**	**2,568**	**5,869**
Carrying value at end of year			**19,950**	**2,568**	**5,869**

[1] A new committed debt facility of R10.9 billion was negotiated effective 27 November 2013 and replaced the R6.0 billion which was in place 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.

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

The 3-month Jibar rate at 31 December 2013 was 5.22% (2012: 5.13%).

Financial covenants
The group is in compliance with its debt covenants (Total debt/earnings before interest, tax, depreciation and amortisation (EBITDA); and EBITDA/Net interest expense). This was also the case in 2012.

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

Finance lease arrangement

Included in interest-bearing borrowings is a finance lease entered into during 2013 in respect of heavy mining equipment:

Rand million	2013	2012
Minimum future lease payment		
Within 1 year	65	–
1 to 2 years	235	–
	300	–
Less: future finance charges	(19)	–
Present value of lease liability	**281**	–
Comprising		
Current lease liability	47	–
Non-current lease liability	234	–

9 PROVISIONS

Rand million	Employee benefits cash-settled share-based payments	Environmental rehabilitation	Decommis-sioning	Other	Total
2013					
Non-current provisions	5	1,497	307	–	**1,809**
Current portion of provisions	21	–	–	334	**355**
Total provisions	**26**	**1,497**	**307**	**334**	**2,164**
Balance at beginning of the year	29	1,141	276	–	**1,446**
Notional interest (refer to note 17)	–	95	23	–	**118**
Increase in provision charged to income statement	–	261	(2)	224	**483**
Reclassified from other payables	–	–	–	251	**251**
Capitalised to property, plant and equipment (refer to note 2)	–	–	10	–	**10**
Utilised during the year	(15)	–	–	(141)	**(156)**
Cash-settled share-based payments	12	–	–	–	**12**
Balance at 31 December 2013	**26**	**1,497**	**307**	**334**	**2,164**
Expected timing of future cash flows					
Within 1 year	21	–	–	334	**355**
2 to 5 years	5	–	–	–	**5**
More than 5 years	–	1,497	307	–	**1,804**
	26	**1,497**	**307**	**334**	**2,164**
Estimated undiscounted obligation	**26**	**2,346**	**525**	**334**	**3,231**
2012					
Non-current provisions	3	1,141	276	–	**1,420**
Current portion of provisions	26	–	–	–	**26**
Total provisions	**29**	**1,141**	**276**	**–**	**1,446**
Balance at beginning of the year	12	710	190	–	**912**
Notional interest (refer to note 17)	–	60	16	–	**76**
Increase in provision charged to income statement	–	371	–	–	**371**
Capitalised to property, plant and equipment (refer to note 2)	–	–	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**

9 PROVISIONS continued

Cash-settled share-based payments
At 31 December the current provision represents amounts payable to deceased beneficiaries on the Envision phase 2 share scheme (refer to annexure 3). The non-current provision represents amounts payable to beneficiaries of 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
The carrying value of the assets held by the Kumba Iron Ore Rehabilitation Trust amounted to R737 million at 31 December 2013 (2012: R673 million) (refer to note 3). The balance of the obligation is funded by way of financial guarantees (refer to note 28).

Other
Other provisions relate to rail and port activities.

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 R255 million (2012: R218 million) or a decrease of R216 million (2012: R182 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 R67 million (2012: R52 million) or a decrease of R64 million (2012: R54 million) in the carrying value of the provision.

Change in accounting estimate
The LoM plan on which accounting estimates are based only includes proved and probable ore reserves as disclosed in Kumba's annual ore reserves and mineral resources statement. The estimated remaining life of mine of Thabazimbi mine was increased to ten years, a seven year increase from that previously reported. There has been no change to the life of mine plans of the Sishen or Kolomela mines for purposes of calculating the provisions for the year under review. Management has revised the estimated rehabilitation and decommissioning provisions for Thabazimbi mine.

Management has also revised the estimated rehabilitation and decommissioning provisions at Sishen, Kolomela and Thabazimbi as a result of changes in assumptions on the discount rate and inflation rate used to calculate the provisions for the three mines.

The resultant increases in the provisions are summarised as follows:

Rand million	Environmental rehabilitation	Decommis-sioning	Total
Amount of the closure cost	261	8	**269**
Revised estimates of closure costs	371	10	**381**
Expected timing of future cash flows	(110)	(2)	**(112)**

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 2013 of R201 million and 63 cents, respectively. The change in closure costs estimates in the decommissioning provision has been capitalised to the related property, plant and equipment (refer to note 2).

10 DEFERRED TAX

Rand million	2013	Restated 2012
Deferred tax assets		
Reconciliation		
Balance at beginning of year	842	658
Foreign exchange translation differences	160	34
Current year net (utilisation)/charge	(82)	150
	920	**842**
Expected timing		
Deferred tax assets to be recovered after 12 months	835	738
Deferred tax assets to be recovered within 12 months	85	104
	920	**842**
Deferred tax assets attributable to the following temporary differences:		
Estimated tax losses	920	819
Other	–	23
Total deferred tax assets	**920**	**842**

Based on management's most recent forecast financial information the balance recognised is supported by sufficient future taxable profits anticipated to be generated. The group had R265 million of unused tax losses for which no deferred tax asset was recognised at 31 December 2013 (2012: R nil) as it is considered improbable that it will be recovered by sufficient future taxable profits.

Rand million	2013	Restated 2012
Deferred tax liabilities		
Reconciliation		
Balance at beginning of year	6,835	4,942
Prior year adjustment	30	(20)
Current year charge per the income statement	1,023	1,913
	7,888	**6,835**
Expected timing		
Deferred tax liabilities to be recovered after 12 months	7,196	6,235
Deferred tax liabilities to be recovered within 12 months	692	600
	7,888	**6,835**
Deferred tax liabilities attributable to the following temporary differences:		
Property, plant and equipment	7,415	6,585
Environmental rehabilitation provision	(419)	(319)
Decommissioning provision	(30)	(24)
Environmental rehabilitation trust asset	206	188
Leave pay accrual	(60)	(55)
Other	776	460
Total deferred tax liabilities	**7,888**	**6,835**

11 TRADE AND OTHER PAYABLES

Rand million	2013	2012
Trade payables	2,393	1,710
Other payables	1,281	1,103
Leave pay accrual	214	197
Derivative financial instruments (refer to note 33)	–	2
	3,888	**3,012**
Currency analysis of trade and other payables		
Rand	3,413	2,913
Euro	7	10
US$	462	88
Other	6	1
	3,888	**3,012**

12 REVENUE

Rand million	2013	2012
Sale of iron ore	50,786	42,254
Services rendered – shipping	3,675	3,192
	54,461	**45,446**
Sale of iron ore		
Domestic – South Africa	3,672	2,832
Export	47,114	39,422
China	31,479	25,085
Rest of Asia	10,587	9,889
Europe	4,926	4,322
Middle East and Africa	122	126
	50,786	**42,254**

13 OPERATING EXPENSES

Rand million	Notes	2013	Restated 2012
Operating expenditure by function			
Production costs		16,303	13,547
Movement in work-in-progress inventories		(884)	(382)
Cost of goods produced		**15,419**	**13,165**
Movement in finished product inventories		1,141	441
Finance gains	16	(830)	(148)
Other		(62)	(60)
Cost of goods sold		**15,668**	**13,398**
Mineral royalty		2,157	1,127
Selling and distribution costs		4,538	4,065
Distribution costs		4,245	3,800
Selling costs		293	265
Cost of services rendered – shipping		3,747	3,222
Sub-lease rentals received		(34)	(12)
Operating expenses		**26,076**	**21,800**
Cost of goods sold comprises:			
Staff costs		3,674	3,466
Salaries and wages		2,693	2,423
Equity-settled share-based payments		623	724
Cash-settled share-based payments		12	32
Termination benefits		3	6
Pension and medical aid contributions	15	343	281
Outside services		3,514	2,447
Raw materials and consumables		3,437	2,770
Deferred stripping costs capitalised		(832)	(518)
Depreciation of property, plant and equipment	2	2,039	1,535
Mineral properties		20	20
Residential buildings		63	25
Buildings and infrastructure		163	135
Machinery, plant and equipment		1,676	1,342
Mineral exploration, site preparation and development		117	13
Repairs and maintenance		1,577	1,122
Legal		71	66
Professional fees		382	395
Technical services and project studies		694	766
General expenses		1,382	1,243
Net finance gains	16	(830)	(148)
Energy costs		305	293
Own work capitalised		(2)	(98)
Net movement in finished product and work-in-progress inventories		257	59
Cost of goods sold		**15,668**	**13,398**

14 SIGNIFICANT ITEMS INCLUDED IN OPERATING PROFIT

Rand million	2013	Restated 2012
Operating profit includes the following amounts, some of which are also included in the analysis of operating expenses disclosed in the previous note:		
Staff costs		
Employee expenses	3,039	2,710
Share-based payments expenses	635	756
Directors' emoluments (refer to remuneration report on page 22)	22	18
Executive directors		
– Emoluments received as directors of the company	12	8
– Bonuses and cash incentives	5	6
Non-executive directors – emoluments received as directors of the company	5	4
Prescribed officers remuneration (excluding executive directors – refer to remuneration report on page 22)	33	26
Depreciation of property, plant and equipment (refer to note 2)	2,039	1,535
Finished product inventories write-off	–	135
Operating lease rental expenses		
Equipment	146	104
Property	87	73
Borrowings facility fee	–	4
Auditors' remuneration		
Audit fees	7	9
Other services	2	3
Research and development cost	2	1
Net profit on disposal of investment	(5)	(3)
Net profit on disposal or scrapping of property, plant and equipment	(2)	(21)
Net profit on disposal of property, plant and equipment	(2)	(23)
Reconditioned spares scrapped	–	2
Operating sub-lease rentals received		
Property	(19)	(12)
Equipment	(15)	–

15 EMPLOYEE BENEFITS: DEFINED CONTRIBUTION FUNDS

15.1 Retirement fund

At the end of 2013 and 2012 the following independent funds providing pension and other benefits were in existence:

– Kumba Iron Ore Selector Pension Fund and Kumba Iron Ore Selector Provident Fund, and

– Iscor Employees Umbrella Provident Fund.

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

	2013		2012	
	Working members (number)	Employer contributions (Rand million)	Working members (number)	Employer contributions (Rand million)
Kumba Iron Ore Selector Pension and Provident Funds	2,770	129	2,513	101
Iscor Employees Umbrella Provident Fund	4,609	82	3,442	70
	7,379	**211**	**5,955**	**171**

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

15.2 Medical funds

The group contributes to medical aid schemes for the benefit of permanent employees and their dependants. The contributions charged against income amounted to R132 million (2012: R110 million). The group has no obligation to fund post-retirement medical aid contributions for current or retired employees.

16 NET FINANCE GAINS

Rand million	2013	2012
Finance gains/(losses) recognised in operating profit		
Net gains/(losses) on derivative financial instruments		
Realised	(181)	30
Unrealised	(32)	(5)
Net foreign currency gains/(losses)		
Realised	879	124
Unrealised	100	(59)
Fair value gains on financial instruments	64	58
	830	**148**

17 NET FINANCE COSTS

Rand million	Notes	2013	2012
Interest expense – borrowings		(262)	(329)
Finance leases	8	(16)	–
Notional interest on non-current provisions	9	(118)	(76)
Finance costs		(396)	(405)
Interest received on cash and cash equivalents		117	102
		(279)	**(303)**

18 TAXATION

Rand million	2013	Restated 2012
Taxation expense		
Current taxation	6,625	4,186
Deferred taxation	1,135	1,743
STC	–	959
	7,760	**6,888**
Charges to/(release from) the income statement		
South African normal taxation		
Current year	6,593	4,174
Prior year	34	(5)
Foreign taxation		
Current year	26	39
Prior year	(28)	(22)
STC	–	959
Income taxation	**6,625**	**5,145**
Deferred taxation	**1,135**	**1,743**
Current year	1,105	1,763
Prior year	30	(20)
Taxation expense	**7,760**	**6,888**

Reconciliation of taxation rate	**%**	%
Taxation as a percentage of profit before taxation	27.7	29.5
Taxation effect of:		
Disallowable expenditure	(2.6)	(0.2)
Exempt income	0.1	1.3
Deferred tax asset raised in the current year on unrecognised taxation losses brought forward	–	1.3
Rate difference between South African and foreign subsidiaries' tax rates	2.5	0.1
STC	–	(4.2)
Prior year overprovision	0.3	0.2
Equity-settled share-based payments	0.1	0.1
Foreign exchange translation differences	(0.1)	(0.1)
Standard taxation rate	**28.0**	**28.0**

19 EARNINGS AND HEADLINE EARNINGS PER SHARE

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

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

Rand million	2013	Restated 2012
Profit attributable to equity holders of Kumba	**15,446**	**12,486**
Number of shares		
Weighted average number of ordinary shares in issue	321,186,591	321,223,241
Potential dilutive effect of outstanding share options	408,972	530,586
Diluted weighted average number of ordinary shares in issue	**321,595,563**	**321,753,827**

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:

	2013		Restated 2012	
Rand million	Gross adjustment	Net attributable	Gross adjustment	Net attributable
Profit attributable to equity holders of Kumba	15,446	15,446	12,486	12,486
Net (profit)/loss on disposal or scrapping of property, plant and equipment	(2)	2	(21)	(11)
Net profit on disposal of investment	(5)	(5)	(3)	(3)
	15,439	15,443	12,462	12,472
Taxation effect of adjustments	3		6	
Non-controlling interest in adjustments	1		4	
Headline earnings	**15,443**	**15,443**	**12,472**	**12,472**

Rand	2013	Restated 2012
Attributable earnings per share		
Basic	48.09	38.87
Diluted	48.03	38.81
Headline earnings per share		
Basic	48.08	38.83
Diluted	48.02	38.76
Dividend per share	40.04	31.70
Interim	20.10	19.20
Final *	19.94	12.50

* The final dividend for 2013 was declared subsequent to the year end and is presented for information purposes only.

20 SHARE CAPITAL AND SHARE PREMIUM (INCLUDING TREASURY SHARES)

Number of shares	2013	2012
Authorised		
Ordinary shares of R0.01 each	500,000,000	500,000,000
Issued		
Ordinary shares of R0.01 each	322,085,974	322,058,624
Reconciliation of issued shares		
Number of shares at beginning of year	322,058,624	322,058,624
Number of ordinary shares issued	27,350	–
Number of shares at end of year	**322,085,974**	**322,058,624**
Shares held in reserve reconciliation (unissued shares)		
Authorised shares at the beginning of year not issued	177,941,376	177,941,376
Shares issued	(27,350)	–
Unissued shares	**177,914,026**	**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.

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

Number of shares	2013	2012
Reconciliation of treasury shares held		
Number of treasury shares at beginning of year	1,064,531	1,075,970
Number of shares purchased	660,923	473,435
Shares issued to employees under the Long-Term Incentive Plan, Kumba Bonus Share Plan and Share Appreciation Rights Scheme	(251,570)	(400,542)
Net movement in shares held by Kumba Iron Ore Management Share Trust	(29,358)	(84,332)
Number of treasury shares at end of year	**1,444,526**	**1,064,531**

All treasury shares are held in respect of employee share schemes and are available for utilisation for the purposes of these schemes, as disclosed in note 21. At 31 December 2013, all treasury shares are held as conditional share awards under the Kumba Bonus Share Plan (2012: 1,035,173 shares).

Rand million	2013	2012
Reconciliation of share capital and premium (net of treasury shares)		
Balance at beginning of year	(121)	30
Total shares issued for cash consideration	2	5
Shares issued – share premium	2	–
Net movement in shares held by Kumba Iron Ore Management Share Trust	–	5
Net movement in treasury shares under employee share incentive schemes	(178)	(156)
Purchase of treasury shares under employee share incentive schemes *	(265)	(261)
Shares issued to employees under employee share incentive schemes	87	105
	(297)	**(121)**
Comprising:		
Share capital	3	3
Share premium	370	368
Treasury shares	(670)	(492)

* The average price paid for the purchase of the shares was R413 per share (2012: R551 per share).

21 EQUITY-SETTLED SHARE-BASED PAYMENTS RESERVE

	Unrecognised		Recognised	
Rand million	2013	2012	2013	2012
Balance at beginning of year			822	307
Equity-settled share-based payments expense	1,562	1,887	504	579
Employee share incentive schemes:				
– Envision phase 2	1,405	1,748	516	624
– Bonus Share Plan (BSP)	151	132	102	96
– Long-term Incentive Plan (LTIP)	6	7	6	4
Non-controlling interest	–	–	(120)	(145)
Vesting of shares under employee share incentive schemes			(90)	(64)
Balance at end of year			**1,236**	**822**

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

22 NON-CONTROLLING INTEREST

Rand million	2013	Restated 2012
Balance at beginning of year	4,426	4,759
Profit for the year	4,854	3,969
Exxaro	4,096	3,272
SIOC Community Development Trust	614	491
Envision	144	206
Dividends paid	(3,146)	(4,490)
Exxaro	(2,664)	(3,801)
SIOC Community Development Trust	(399)	(571)
Envision	(144)	(206)
Recoupment of Envision dividend *	61	88
Interest in movement in equity reserves	219	188
Equity-settled share-based payments reserve	120	145
Vesting of shares under share incentive scheme (excluding Envision)	–	18
Foreign currency translation reserve	131	45
Cash flow hedge accounting reserve	(32)	(20)
Balance at end of year	**6,353**	**4,426**

* The recoupment of the Envision dividend of R61 million (2012: R88 million) arises from SIOCs participation as an income beneficiary in Envision.

23 CASH GENERATED FROM OPERATIONS

Rand million	2013	Restated 2012
Operating profit	28,385	23,646
Adjusted for:		
Foreign exchange differences on translation of foreign operations	(676)	35
Depreciation of property, plant and equipment	2,039	1,535
Movement in provisions	327	356
Unrealised foreign currency revaluations and fair value adjustments	(129)	3
Reconditionable spares used	–	2
Profit on disposal or scrapping of property, plant and equipment	(2)	(23)
Profit on disposal of investments	(5)	(3)
Acquisition of environmental trust assets	–	45
Movement in non-current financial assets and prepayments	(471)	(81)
Finished product inventory write-off	–	135
Equity-settled share-based payments expenses	623	724
Cash-settled share-based payments provision	12	32
Cash flows from operations	**30,103**	**26,406**
Working capital movements		
Increase in inventories	(856)	(481)
Increase in trade and other receivables	(929)	(715)
Increase/(decrease) in trade and other payables	1,036	(522)
	29,354	**24,688**

24 NET FINANCE COSTS PAID

Rand million	Note	2013	2012
Net financing costs as per income statement		279	303
Adjusted for:			
Notional interest on non-current provisions	9	(118)	(76)
		161	**227**

25 TAXATION PAID

Rand million	2013	2012
Net taxation liabilities at beginning of year	127	188
Income taxation per the income statement (refer to note 18)	6,625	5,145
Translation of taxation for foreign operations	(16)	9
Net current taxation liabilities per balance sheet	(565)	(127)
Taxation paid	**6,171**	**5,215**
Comprising:		
South Africa	6,272	5,012
Foreign	(101)	203
	6,171	**5,215**

26 DIVIDENDS PAID

Rand million	Note	2013	2012
Dividends paid to owners of Kumba		10,500	13,428
Recoupment of Envision dividend	22	61	88
Dividends per the statement of changes in equity		**10,561**	**13,516**
Dividends paid to non-controlling shareholders		3,207	4,578
Recoupment of Envision dividend	22	(61)	(88)
Dividends per the statement of changes in equity		**3,146**	**4,490**

27 ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

Rand million	2013	Restated 2012
Investment to maintain operations	1,132	3,204
Investment to expand operations	4,498	2,195
Deferred stripping costs capitalised	823	518
Additions per the cash flow statement	**6,453**	**5,917**
Movement in capital creditor	–	(56)
Additions per note 2	**6,453**	**5,861**

28 GUARANTEES AND LEGAL PROCEEDINGS

28.1 Financial guarantees for environmental obligations

Rand million	2013	2012
Guarantees		
Environmental trust closure liability guarantees to the DMR	2,035	853
Operational guarantees to the DMR	21	21
	2,056	**874**

During the year ended 31 December 2013, the group negotiated additional financial guarantee facilities for the group's environmental rehabilitation and decommissioning obligations to the DMR with Lombard Insurance Group (one of the approved insurance providers by the DMR), Rand Merchant Bank and the Standard Bank of South Africa Limited to the total value of R1,182 million (2012: R nil).

Included in this amount are financial guarantees for the environmental rehabilitation and decommissioning obligations of the group to the DMR in respect of Thabazimbi mine of R331 million (2012: R nil). ArcelorMittal SA has guaranteed this full amount by means of bank guarantees issued in favour of SIOC (Refer notes 4 and 33.2). A further R88 million of financial guarantees were negotiated after 31 December 2013. ArcelorMittal SA issued additional guarantees in favour of SIOC for this amount.

28.2 Legal proceedings

21.4% undivided share of the Sishen mining right

On 28 March 2013 the Supreme Court of Appeal (SCA) dismissed the appeals of the DMR and ICT against the decision of the North Gauteng High Court, which, inter alia, confirmed that SIOC became the exclusive holder of the mining rights at the Sishen mine in 2008 when the DMR converted SIOC's old order rights, and further set aside the grant of a prospecting right to ICT by the DMR. The SCA held that as a matter of law and as at midnight on 30 April 2009, SIOC became the sole holder of the mining right to iron ore in respect of the Sishen mine, after ArcelorMittal SA failed to convert its undivided share of the old order mining right.

Both ICT and the DMR lodged applications for leave to appeal against the SCA to the Constitutional Court. The Constitutional Court hearing was held on 3 September 2013.

On 12 December 2013, the Constitutional Court granted the DMR's appeal in part against the SCA judgment. In a detailed judgment, the Constitutional Court clarified that SIOC, when it lodged its application for conversion of its old order right, converted only the right it held at that time (being a 78.6% undivided share in the Sishen mining right).

The Constitutional Court further held that ArcelorMittal SA retained the right to lodge its old order right (21.4% undivided share) for conversion before midnight on 30 April 2009, but failed to do so. As a consequence of such failure by ArcelorMittal SA, the 21.4% undivided right remained available for allocation by the DMR. The Constitutional Court ruled further that, based on the provisions of the MPRDA, only SIOC can apply for and be granted the residual 21.4% undivided share of the Sishen mining right. The grant of the mining right may be made subject to such conditions considered by the minister to be appropriate, provided that the proposed conditions are permissible under the MPRDA. SIOC had previously applied for this 21.4%, and continues to account for 100% of what is mined from the reserves at Sishen mine.

SIOC has however, in compliance with the Constitutional Court order, submitted a further application to be granted this mining right in 2014.

As a further consequence of this finding, the ruling setting aside the prospecting right granted by the DMR to ICT also stands.

The findings made by the Constitutional Court are favourable to both SIOC and the DMR. SIOC's position as the only competent applicant for the residual right, protects SIOC's interests. The DMR's position as custodian of the mineral resources on behalf of the nation, and the authority of the DMR to allocate rights, has also been ratified by the Court.

ArcelorMittal SA Supply Agreement
The dispute between SIOC and ArcelorMittal SA regarding the contract mining agreement had been referred to arbitration in 2010. In December 2011, the parties agreed to delay the arbitration proceedings until the final resolution of the mining rights dispute.

Interim Pricing Agreements were implemented to 31 December 2013.

In November 2013, SIOC and ArcelorMittal SA entered into a new Supply Agreement regulating the sale and purchase of iron ore between the parties which became effective from 1 January 2014. This agreement, subject to certain express conditions, is contemplated to endure until the end of life-of-mine for the Sishen mine. The conclusion of this agreement settled the arbitration and the various other disputes between the companies.

Following the Constitutional Court ruling, the sale of iron ore from SIOC to ArcelorMittal SA will remain regulated by the recently concluded Supply Agreement.

Lithos Corporation Proprietary Limited (Lithos)
Lithos was claiming US$421 million from Kumba for damages in relation to the Falémé project in Senegal. On 9 April 2013 judgment was handed down in the matter and Kumba's application for absolution from the instance was upheld. Lithos' claim was dismissed with costs. An application by Lithos to seek leave to appeal against that judgment was dismissed by the High Court on 20 May 2013.

On 18 June 2013, Lithos launched an application to apply for leave to appeal to the SCA. Kumba opposed this application. On 3 September 2013, the Supreme Court of Appeal dismissed Lithos' application for leave to appeal, with costs. The process to recover a contribution towards legal costs from Lithos is underway.

29 COMMITMENTS

Rand million	2013	2012
Operating lease commitments		
The future minimum lease payments under non-cancellable operating leases are as follows:		
Property		
Within 1 year	27	6
Between 1 and 2 years	11	39
2 to 5 years	–	9
	38	**54**
Plant and equipment		
Within 1 year	10	24
Between 1 and 2 years	5	9
2 to 5 years	–	5
	15	**38**
Other		
2 to 5 years	**–**	**1**
Total operating lease commitments	**53**	**93**

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

30 CONTINGENT ASSET AND LIABILITIES

30.1 Contingent asset: Falémé Project

Kumba initiated arbitration proceedings against La Société des Mines De Fer Du Sénégal Oriental (Miferso) and the State 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 settlement agreement was revised in June 2013. The parties agreed that the precise terms of the settlement agreement will remain confidential.

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 two-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.

30.2 Other

There have been no other significant changes in the contingent assets and liabilities disclosed at 31 December 2012.

31 EVENTS AFTER THE REPORTING PERIOD

31.1 Dividends

A final dividend of R19.94 per share was approved on 7 February 2014 from profits accrued during the financial year ended 31 December 2013. The total dividend for the year amounted to R40.04 per share. The estimated total cash flow of the final Kumba dividend, payable on 17 March 2014, is R12.9 billion.

31.2 SWEP rail properties

Significant progress has been made in the progression SWEP. Project development remains within budget, and construction activities have been completed. A major milestone in the development of the project was the relocation of the Transnet railway line from its previous position, to the far western extent of the SIOC property. The relocation of the railway line was completed in May 2013.

As a consequence of Transnet having previously held the surface rights over the SWEP rail properties, the rail properties were excluded from the Sishen Mining Right area. SIOC applied to the DMR to obtain the necessary rights in relation to the rail properties in October 2013.

SIOC was granted this mining right in February 2014, giving SIOC access to the approximately 33% of the Sishen reserve included in the LoM plan which is located on either side of the affected area. This portion of the reserve, which had been classified as probable, can now be reclassified as proven. The Company will accordingly proceed with the implementation of its mining plan and will start waste stripping in the affected area from the second half of 2014.

31.3 Other

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.

32 RELATED PARTY TRANSACTIONS

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

Shareholders

The principal shareholders of the company are detailed under 'Shareholder analysis' on page 86.

Ultimate holding company

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

Subsidiaries of ultimate holding company

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

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

Holding company

ASAC holds a 69.72% interest in the company (2012: 69.72%).

Fellow subsidiaries

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

Subsidiaries of the company

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

Associate and joint ventures

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

Entities with significant influence over SIOC

Exxaro is SIOC's 19.98% (2012: 19.98%) BEE shareholder. Details of dividends paid to Exxaro as well as its proportionate share of earnings for the year is detailed in note 22 of the group financial statements.

Special purpose entities

The group controls the following special purpose entities which are consolidated:

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

Directors, senior management and prescribed officers

Details relating to directors' and the group's executive committee remuneration and shareholdings (including share options) are disclosed in the remuneration report on pages 17 to 24.

Material related party transactions:

Rand million	2013	2012
Purchase of goods and services and finance charges		
Subsidiaries of ultimate holding company	4,262	119
Shipping services	4,058	–
Finance cost[1]	204	119
Fellow subsidiaries	397	378
Corporate operations (including shared services)	187	61
Technical services	72	161
Aircraft services	68	83
Research	68	46
Other	2	–
Scaw metals	–	27
Entities with significant influence over SIOC[2]	46	126
	4,705	**623**
Sale of goods and services and finance income		
Subsidiaries of ultimate holding company[3]	96	83
Fellow subsidiaries	1	18
	97	**101**
Amounts owing to related parties (after eliminating intercompany balances)		
Subsidiaries of ultimate holding company		
Interest-bearing borrowings	568	5,869
Derivative financial instruments	1	2
Trade payables	356	–
Fellow subsidiaries		
Interest payable[1]	1	27
Trade payables	71	40
	997	**5,938**
Amounts owing by related parties (after eliminating intercompany balances)		
Subsidiaries of ultimate holding company	575	272
Interest receivable	5	–
Cash and cash equivalents	572	237
Derivative financial instruments	–	35
Fellow subsidiaries		
Trade receivables	3	3
Associate and joint ventures		
Loans	83	47
	663	**322**

[1] Interest was accrued at an average rate of 6.63% p.a. (2012: 6.25% p.a.) on interest-bearing borrowings from AASAF.

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

[3] Interest was earned at an average rate of 4.96% (2012: 5.45%) on cash deposits held with AASAF.

32 RELATED PARTY TRANSACTIONS continued

Rand million	2013	2012
Shipping services commitments		
The future commitments under contracts for affreightment are as follows:		
Within 1 year	1,201	988
Between 1 and 2 years	1,477	986
2 to 5 years	4,725	2,957
More than 5 years	4,819	3,831
	12,222	**8,762**

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

Deregistration of subsidiaries

Groler Investments Limited was deregistered during 2013. A gain of R5 million was recognised when the entity was deconsolidated from the group.

Mineco Limited, Oreco Leasing Limited and Vulcan leasing Limited was also deregistered and deconsolidated from the group during the year under review, with no impact on the results reported for the year under review.

Subsidiaries with significant non-controlling interests

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

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

Exxaro Resources Limited	19.98%
SIOC Community Development Trust	3.00%
Envision Trust	3.09%

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

Rand million	2013	Restated 2012
Profit for the year allocated to non-controlling interest	4,854	3,969
Accumulated non-controlling interests at 31 December	6,353	4,426

Summarised financial information of SIOC

Rand million	2013	Restated 2012
Income statement		
Revenue	47,264	37,870
Operating expenses	(21,404)	(17,776)
Operating profit	25,860	20,094
Net financing income	(322)	(372)
Income from investments	3,161	2,477
Profit before taxation	28,699	22,199
Taxation	(7,257)	(6,540)
Profit for the year	**21,442**	**15,659**
Balance sheet		
Non-current assets	36,985	30,636
Current assets	6,744	5,680
Total assets	**43,729**	**36,316**
Shareholders' equity	27,529	18,634
Non-current liabilities	11,390	11,976
Current liabilities	4,810	5,706
Total equity and liabilities	**43,729**	**36,316**
Cash flow statement		
Cash flows utilised in operating activities	11,580	485
Cash flows from investing activities	(6,429)	(6,310)
Cash flows from financing activities	(4,998)	1,710
Net increase/(decrease) in cash and cash equivalents	**153**	**(4,115)**

33 FINANCIAL RISK MANAGEMENT

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

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

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

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

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

33.1 Measurement basis of financial instruments

		Fair value through profit or loss (FVTPL)		Amortised cost	
Rand million	Notes	Held for trading	Designated as FVTPL	Loans and receivables	Total
2013					
Financial assets					
Investments held by the environmental trust	3	–	475	262	**737**
Trade receivables	6	–	–	5,024	**5,024**
Other receivables (excluding VAT and prepayments)	4, 6	–	–	642	**642**
Derivative financial instruments	6	1	–	–	**1**
Cash and cash equivalents	7	–	–	1,053	**1,053**
Financial liabilities					
Interest-bearing borrowings	8	–	–	(2,849)	**(2,849)**
Trade payables	11	–	–	(2,393)	**(2,393)**
Other payables	11	–	–	(1,495)	**(1,495)**
		1	**475**	**244**	**720**
2012					
Financial assets					
Investments held by the environmental trust	3	–	355	318	**673**
Trade receivables	6	–	–	3,100	**3,100**
Other receivables (excluding VAT and prepayments)	4, 6	–	–	202	**202**
Derivative financial instruments	6	35	–	–	**35**
Cash and cash equivalents	7	–	–	1,527	**1,527**
Financial liabilities					
Interest-bearing borrowings	8	–	–	(5,869)	**(5,869)**
Trade payables	11	–	–	(1,710)	**(1,710)**
Other payables	11	–	–	(1,300)	**(1,300)**
Derivative financial instruments	11	(2)	–	–	**(2)**
		33	**355**	**(3,732)**	**(3,344)**

33 FINANCIAL RISK MANAGEMENT continued

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

33.2.1 Credit risk policy: Investments, cash and cash equivalents and derivatives
The group's policy is to strictly limit exposure to financial institutions by reference to published short-term and long-term credit ratings from recognised credit rating agencies.

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

Investments held by the environmental trust
The trustees of the environmental trust continuously review the investment strategy of the trust with its investment advisors to ensure that the strategy remains appropriate in light of changing market conditions. No outside manager of the trust's funds may simultaneously act as custodian for the securities under its management.

33.2.2 Credit risk policy: Trade receivables
During 2013, the group developed its existing policy for the management of counterparty risk associated with trade receivables originating from export and domestic sales contracts. This policy seeks to minimise the risk of financial loss should customers become unable to meet their obligations to the group. It defines the requirement for sanctions and compliance reviews, the application of secure payment terms, primarily letters of credit from acceptable banks, as well as credit risk assessments and the establishment of credit limits prior to contracting. Credit limits are reviewed and approved at least annually and the group's exposure to its counterparties is regularly monitored at the appropriate level.

33.2.3 Credit risk exposure

Rand million	2013	2012
Trade receivables	5,024	3,100
Cash and cash equivalents	1,053	1,527
Investments made by the environmental trust	737	673
Other receivables *	642	202
Guarantees issued in favour of the group *	331	–
Derivatives	1	35

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

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

33.3 Liquidity risk
Liquidity risk is the risk that the group will be unable to meet its financial obligations as they become due.

The objectives of the group's liquidity risk management processes are to maintain adequate cash and credit facilities to meet all short-term obligations and ensure that the group can meet all known and forecasted strategic commitments. The Kumba treasury function must maintain cash and committed facilities to meet at least 125% of all known and forecast commitments for the next 18 months using debt instruments as deemed appropriate. As a general rule, it is the group's policy that no security be provided, however exceptions are allowed on a case by case basis where it is required for a transaction to proceed. Facilities creating security or encumbrances over assets need the prior consent of the group's chief financial officer. The group's credit facilities are detailed under note 8. Kumba was not in breach of any of its financial covenants during the year. The group had undrawn committed long-term borrowing and uncommitted short-term facilities at 31 December 2013 of R17.4 billion (2012: R9.0 billion).

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

Maturity profile of the group's financial instruments:

Rand million	Notes	Within 1 year	1 to 2 years	3 or more years	Total
2013					
Financial assets					
Investments held by the environmental trust	3	–	–	737	**737**
Trade receivables	6	5,024	–	–	**5,024**
Other receivables (excluding VAT and prepayments)	4, 6	151	–	491	**642**
Derivative financial instruments	6	1	–	–	**1**
Cash and cash equivalents	7	1,053	–	–	**1,053**
Financial liabilities					
Interest-bearing borrowings	8	(633)	(235)	(2,000)	**(2,868)**
Trade payables	11	(2,393)	–	–	**(2,393)**
Other payables	11	(1,495)	–	–	**(1,495)**
		1,708	**(235)**	**(772)**	**701**
2012					
Financial assets					
Investments held by the environmental trust	3	–	–	673	**673**
Trade receivables	6	3,100	–	–	**3,100**
Other receivables (excluding VAT and prepayments)	4, 6	201	–	1	**202**
Derivative financial instruments	6	35	–	–	**35**
Cash and cash equivalents	7	1,527	–	–	**1,527**
Financial liabilities					
Interest-bearing borrowings	8	(2,669)	–	(3,200)	**(5,869)**
Trade payables	11	(1,710)	–	–	**(1,710)**
Other payables	11	(1,300)	–	–	**(1,300)**
Derivative financial instruments	11	(2)	–	–	**(2)**
		(818)	**–**	**(2,526)**	**(3,344)**

33.4 Market risk

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

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

33.4.1 Foreign exchange risk

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

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

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

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

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

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

33 FINANCIAL RISK MANAGEMENT continued

33.4.1 Foreign exchange risk continued

The average US$/rand exchange rate for 2013 of US$1: R9.62 (2012: US$1: R8.19) 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: R10.46 (2012: US$1: R8.48) The group's financial instrument exposure to currency risk, excluding derivatives, is summarised below:

Rand million	Notes	Rand	US$	Euro	Other
2013					
Financial assets					
Investments held by the environmental trust	3	737	–	–	–
Trade receivables	6	410	4,614	–	–
Other receivables (excluding VAT and prepayments)	4, 6	642	–	–	–
Cash and cash equivalents	7	120	925	8	–
Financial liabilities					
Interest-bearing borrowings	8	(2,849)	–	–	–
Trade and other payables	11	(3,413)	(462)	(7)	(6)
Net exposure	12	**(4,353)**	**5,077**	**1**	**(6)**
2012					
Financial assets					
Investments held by the environmental trust	3	673	–	–	–
Trade receivables	6	217	2,883	–	–
Other receivables (excluding VAT and prepayments)	4, 6	202	–	–	–
Cash and cash equivalents	7	128	1,389	7	3
Financial liabilities					
Interest-bearing borrowings	8	(5,869)	–	–	–
Trade and other payables	11	(2,909)	(88)	(10)	(1)
Net exposure		**7,558**	**4,184**	**(3)**	**2**

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

	Notional amount		Market value at 31 December	Recognised fair value in profit or loss
	FC million	Rand million	Rand million	Rand million
2013				
FECs related to future commitments for the import of capital equipment				
US$	2	19	18	1
		19	**18**	**1**
2012				
FECs related to the repatriation of foreign cash receipts				
US$	60	538	510	28
FECs related to future commitments for the import of capital equipment				
US$	4	(33)	(36)	3
Euro	1	(5)	(7)	2
Other	*	(2)	(2)	–
		498	**465**	**33**

* Value is less than FC1 million.

Sensitivity analysis

A movement in the exchange rate against the US$ of 5%, with all other variables held constant, would have increased/(decreased) profit or loss and equity by the amounts shown below, based on the net US$ denominated financial instrument balances at 31 December 2013. The analysis has been performed on the same basis for 2012.

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

Rand million	Impact on comprehensive income and shareholders' equity	
	Increase	Decrease
2013		
US$	**242**	**(267)**
2012		
US$	199	(220)

33.4.2 Interest rate risk

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

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

Sensitivity analysis

Changes in market interest rates affect the interest income or expense of floating rate financial instruments. A change in the market interest rate of 50 basis points, with all other variables held constant, would have increased/(decreased) profit or loss and equity by the amounts shown below, based on the net floating rate financial instrument balances at 31 December 2013. The analysis has been performed on the same basis for 2012.

	Impact on comprehensive income and shareholders' equity	
Rand million	Increase	Decrease
2013		
Floating interest rate instrument	(6)	6
2012		
Floating interest rate instrument	(28)	28

33.4.3 Commodity price risk

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

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

33.5 Fair value estimation

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

Rand million	Level 1 [1]	Level 2 [2]	Level 3 [3]
2013			
Equity investments held by the environmental trust	475	–	–
Derivative financial assets	1	–	–
Derivative financial liabilities	–	–	–
	476	**–**	**–**
2012			
Equity investments held by the environmental trust	355	–	–
Derivative financial assets	35	–	–
Derivative financial liabilities	(2)	–	–
	388	**–**	**–**

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

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

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

There were no transfers between level 1 and level 2 during the financial years disclosed.

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

33.6 Capital management

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

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

Rand million	2013	Restated 2012
Long-term interest-bearing borrowings	2,234	3,200
Short-term interest-bearing borrowings	615	2,669
	2,849	5,869
Cash and cash equivalents	(1,053)	(1,527)
Net debt	**1,796**	**4,342**
Total equity	**27,184**	**19,664**

BALANCE SHEET

for the year ended 31 December

Rand million	Notes	2013	2012
Assets			
Investments in subsidiaries	1	1,361	1,557
Deferred tax assets	2	1	1
Non-current assets		**1,362**	**1,558**
Current tax assets		–	2
Cash and cash equivalents	3	177	123
Current assets		**177**	**125**
TOTAL ASSETS		**1,539**	**1,683**
Equity and liabilities			
Share capital and premium	4	368	366
Reserves		1,025	1,187
Total equity		**1,393**	**1,553**
Loans from subsidiary companies	1	21	32
Other payables		119	98
Current tax liabilities		6	–
Current liabilities		**146**	**130**
Total liabilities		**146**	**130**
TOTAL EQUITY AND LIABILITIES		**1,539**	**1,683**

INCOME STATEMENT

for the year ended 31 December

Rand million	Notes	2013	2012
Net operating expenses	5	(9)	(15)
Operating loss		**(9)**	**(15)**
Finance income		39	62
Income from investments	6	9,856	14,068
Profit before taxation		**9,886**	**14,115**
Taxation	7	(17)	(23)
PROFIT FOR THE YEAR		**9,869**	**14,092**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**9,869**	**14,092**

The company did not have any non-owner changes in equity during the year other than the profit for the year, therefore no separate statement of other comprehensive income is presented for the years ended 31 December 2013 and 2012.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December

Rand million	Share capital (note 4)	Share premium (note 4)	Equity-settled share-based payment reserve	Retained earnings	TOTAL EQUITY
Balance at beginning of year	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**
Shares issued during the period	–	2	–	–	**2**
Equity-settled share-based payments	–	–	479	–	**479**
Vesting of shares under employee share incentive schemes	–	–	(12)	2	**(10)**
Total comprehensive income for the year	–	–	–	9,869	**9,869**
Dividends paid	–	–	–	(10,500)	**(10,500)**
Balance at 31 December 2013	**3**	**365**	**1,284**	**(259)**	**1,393**

CASH FLOW STATEMENT
for the year ended 31 December

Rand million	Notes	2013	2012
Cash flows from operating activities			
Cash inflow from operations	8	24	20
Finance income		39	62
Income from investments	6	9,856	14,068
Taxation paid	9	(9)	(2)
Dividends paid		(10,500)	(13,430)
		(590)	**718**
Cash flows from investing activities			
Net decrease/(increase) in loans to subsidiaries		667	(720)
		667	**(720)**
Cash flows from financing activities			
Share capital issued	4	2	–
(Decrease)/increase in loans from subsidiaries	1	(11)	14
Vesting of shares under employee share incentive schemes		(14)	(36)
		(23)	**(22)**
Net increase/(decrease) in cash and cash equivalents		54	(24)
Cash and cash equivalents at beginning of year		123	147
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	**177**	**123**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December

1 INVESTMENTS IN SUBSIDIARIES

Rand million	2013	2012
Shares at cost	3	3
Share-based payment expenditure *	1,244	773
Long-term loans to subsidiaries	114	781
Short-term loans from subsidiaries	(21)	(32)
Net investments in subsidiaries	**1,340**	**1,525**

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

2 DEFERRED TAX ASSET

Rand million	2013	2012
Balance at beginning of year	1	1
Balance at end of year	**1**	**1**
Deferred tax asset attributable to the following temporary differences:		
Leave pay accrual	1	1
	1	**1**

Investments in subsidiaries are accounted for at cost.

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

3 CASH AND CASH EQUIVALENTS

Rand million	2013	2012
Cash	**177**	**123**
Currency analysis of cash and cash equivalents		
Rand	**177**	**123**

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	2013	2012
Authorised		
500,000,000 ordinary shares of R0.01 each	**500,000,000**	**500,000,000**
Issued		
Ordinary shares of R0.01 each	**322,085,974**	**322,058,624**
Reconciliation of issued shares		
Number of shares at beginning of year	322,058,624	322,058,624
Number of ordinary shares issued	27,350	–
Number of shares at end of year	**322,085,974**	**322,058,624**

Rand million	2013	2012
Reconciliation of share capital and premium		
Share capital	5	3
Share premium	363	363
	368	**366**

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

Kumba Iron Ore Limited company

5 OPERATING (EXPENSES) /INCOME

Rand million	2013	2012
Costs by nature		
Salaries and wages	(16)	(23)
Equity-settled share-based payments	(12)	(11)
Pension,medical and termination costs	(2)	(1)
General charges	(1)	–
Cost recoveries	22	20
	(9)	**(15)**
The above costs are stated after including:		
Directors' remuneration (Refer to remuneration report on page 22)	22	18
Executive Directors		
Emoluments received as directors of the company	12	8
Bonuses and cash incentives	5	6
Non-executive directors – emoluments as directors of the company	5	4

6 INCOME FROM INVESTMENTS

Rand million	2013	2012
Dividends received from subsidiaries	**9,856**	**14,068**

7 TAXATION

Rand million	2013	2012
Charge to income: SA Normal tax		
Current year	17	23
	17	**23**

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

8 CASH INFLOW FROM OPERATIONS

Rand million	2013	2012
Operating loss	(9)	(15)
Adjusted for:		
Share-based payment expense	12	11
Working capital movements:		
Increase in other payables	21	24
Cash flows from operating activities	**24**	**20**

9 NORMAL TAXATION PAID

Rand million	2013	2012
Current tax asset at beginning of year	(2)	(23)
Amounts charged to the income statement	17	23
Amount paid during the year	(9)	(2)
Current tax asset/(liability) at end of year	**6**	**(2)**

10 RELATED PARTY TRANSACTIONS

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

Holding company

Anglo American plc is Kumba's ultimate holding company. The interest in the group is held through a 69.72% holding by Anglo South Africa Capital Proprietary Limited (2012: 69.72%).

Subsidiaries

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

Shareholders

The principal shareholders of the company are detailed under 'Shareholder analysis' on page 86.

Material related party transactions

Rand million	2013	2012
Purchase of goods and services and finance charges		
Holding company [1]	*	*
Purchase of goods and services		
SIOC [2]	23	–
Sale of goods and services and finance income		
SIOC [2]	55	72
Amounts owing (to)/from related parties		
SIOC	(21)	(32)
Main Street 576 Proprietary Limited	62	62
Dividends paid to/(by) Kumba		
SIOC	9,855	14,066
Holding company	(7,318)	(9,037)

* Value is less than R1 million.
[1] Goods and services comprise directors fees paid directly to Anglo Operations Limited for Mr David Weston and Ms Khanyisile Kweyama.
[2] Goods and services comprise a management fee charged by Kumba to SIOC and finance income earned on dividends payable by SIOC to Kumba.

11 EVENTS AFTER THE REPORTING PERIOD

Dividend

A final cash dividend of R19.94 per share was declared on 11 February 2014 from profits accrued during the financial year ended 31 December 2013. The total dividend for the year amounted to R40.04 per share. The estimated total cash flow of the final Kumba dividend of R19.94 per share, payable on 17 March 2014, is R6.4 billion.

SWEP rail properties

Significant progress has been made in the progression SWEP. Project development remains within budget, and construction activities have been completed. A major milestone in the development of the project was the relocation of the Transnet railway line from its previous position, to the far western extent of the SIOC property. The relocation of the railway line was completed in May 2013.

As a consequence of Transnet having previously held the surface rights over the SWEP rail properties, the rail properties were excluded from the Sishen Mining Right area. SIOC applied to the DMR to obtain the necessary rights in relation to the rail properties in October 2013.

SIOC was granted this mining right in February 2014, giving SIOC access to the approximately 33% of the Sishen reserve included in the LoM plan which is located on either side of the affected area. This portion of the reserve, which had been classified as probable, can now be reclassified as proven. The Company will accordingly proceed with the implementation of its mining plan and will start waste stripping in the affected area from the second half of 2014.

Other

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

ANNEXURE 1: Investments in subsidiaries

for the year ended 31 December

Rand '000	Country of incorporation[1]	Principle place of business[1]	Nature of business[2]	Percentage holding	Nominal issued capital	Investments at cost 2013	Investments at cost 2012	Loans to/(from) subsidiaries 2013	Loans to/(from) subsidiaries 2012
DIRECT INVESTMENTS									
Sishen Iron Ore Company Proprietary Limited	RSA	RSA	A	74	100	3,009	3,009	(21,351)	664,156
Main Street 576 Proprietary Limited	RSA	RSA	E	100	100	*	*	62,027	61,525
KIO Investment Holdings Proprietary Limited	RSA	RSA	E	100	1 000	–	–	51,913	23,054
						3,009	**3,009**	**92,589**	**748,735**

* Value is less than R1,000.

INDIRECT SUBSIDIARIES

	Country of incorporation[1]	Principle place of business[1]	Nature of business[2]	Percentage holding
Groler Investments Limited	SWL	SWL	E	#
Kumba Hong Kong Limited	HK	HK	B	100
Kumba Hong Kong Shipping Limited	HK	HK	C	100
Kumba International BV	NE	NE	B	100
Kumba International Trading SA	LUX	LUX	B	100
Kumba Iron Ore Holdings SARL	NE	LUX	E	100
KIO Exploration Liberia SARL	LUX	LUX	E	100
Kumba Singapore Pte Limited	SNG	SNG	B	100
Sibelo Resources Development Proprietary Limited	RSA	RSA	D	50
Mineco Limited	MAU	MAU	F	#
Oreco Leasing Limited	MAU	MAU	F	#
Sishen South Mining Proprietary Limited	RSA	RSA	F	100
Vulcan Leasing Limited	MAU	MAU	F	#
Kathu Solar Park Proprietary Limited[3]	RSA	RSA	F	100

Investments deregistered during the year.

SPECIAL PURPOSE ENTITIES[4]

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

1 RSA – South Africa, NE – Netherlands, SWL – Switzerland, HK – Hong Kong, LUX – Luxembourg, SNG – Singapore, MAU – Mauritius.
2 A – Mining, B – Iron ore marketing and sales, C – Shipping charter, D – Exploration, E – Investment holding, F – Dormant, G – Mine closure fund, H – Share incentive scheme administrator.
3 Shelf company acquired by SIOC.
4 Controlled by Kumba.

ANNEXURE 2: Investments in joint arrangements, associate and other investments

for the year ended 31 December

Rand '000	Country of incorporation[1]	Principle place of business[1]	Nature of business[2]	Number of shares held	Percentage holding	Investment at cost	Group loan balance 2013	Group loan balance 2012	Company loan balance 2013	Company loan balance 2012
ASSOCIATE										
Unlisted										
Manganore Iron Mining Limited	RSA	RSA	B	25,000	50	50	–	–	–	–
INCORPORATED JOINT VENTURES										
Unlisted										
Polokwane Iron Ore Company Proprietary Limited	RSA	RSA	A	4,000	50	3,740	55,389	47,125	–	–
Safore Proprietary Limited	RSA	RSA	B	400	40	–	–	–	–	–
Sishen Shipping Proprietary Limited	RSA	RSA	B	400	40	–	–	–	–	–
Anglo American Kumba Exploration Liberia Limited	LIB	LIB	A	25,000	50	26	27,832	–	–	–
						3,766	**83,221**	**47,125**	**–**	**–**

[1] RSA – South Africa, LIB – Liberia.
[2] A – Mining, B – Dormant.

Rand '000	Group loan balance 2013	Group loan balance 2012	Company loan balance 2013	Company loan balance 2012
Directors' valuation of investments at 31 December				
Unlisted investments in associates	–	–	–	–
Unlisted investments in joint ventures	83,221	47,125	–	–

The financial year-end for Manganore Iron 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.

ANNEXURE 3: Equity-settled share-based payment schemes

for the year ended 31 December 2013

EMPLOYEE SHARE INCENTIVE SCHEMES

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

- Envision
- Bonus Share Plan
- Long-term Incentive Plan (executive directors)
- Share Appreciation Rights Scheme (No longer in use)
- Management Share Option Scheme (No longer in use)

1) ENVISION

Description of scheme:

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

The acquisition of the interest in SIOC by Envision was funded by SIOC company in terms of a contribution agreement. Envision was structured as a ten-year scheme, divided into two capital appreciation periods. The first capital appreciation period vested on 17 November 2011. The second capital appreciation period commenced on 10 November 2011 with the issue of 3.09% in the share capital of SIOC to the Envision trust, on the same terms and conditions as the first phase.

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

Movement in the number of share awards granted:

	Number of share options (Phase 2)	Weighted average option price (Rand)
Balance at beginning of year	23,478,401	22.84
Share options issued	2,278,970	22.84
Share options forfeited	(1,088,216)	22.84
Balance at 31 December 2013	**24,669,155**	**22.84**
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**

	Number of share options	Expiry date
Vesting period of share options granted		
Within 5 years	24,669,155	2016

Valuation of scheme:

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

	Phase 2
Fair value assumptions	
SIOC share price on date of grant (Rand)	170.29
Weighted average exercise price – SIOC share (Rand)	170.11
Annualised expected volatility – awards before 31 May 2012 (%)	45.00
Annualised expected volatility – awards after 31 May 2012 (%)	41.00
Expected share option life (years)	5
Expected dividend yield (%)	5.25
Risk-free interest rate (%)	7.07

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

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

2) BONUS SHARE PLAN (BSP)

Description of scheme:

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

Movement in the number of share awards granted:

	2013 award	2012 award	2011 award	2010 award	2009 award
Balance at beginning of year	–	254,711	206,677	204,627	1,922
Bonus shares awarded	286,887	–	–	–	–
Awards exercised [1]	(8,564)	(10,601)	(9,627)	(4,037)	–
Awards exercised on vesting	–	–	(532)	(200,590)	(1,922)
Awards forfeited	(13,513)	(13,953)	(8,362)	–	–
Balance at 31 December 2013	**264,810**	**230,157**	**188,156**	**–**	**–**
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**

[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	188,156	2014
1 to 2 years	230,157	2015
2 to 5 years	264,810	2016

Valuation of scheme:

The share awards granted under the BSP are considered equity-settled.

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

	2013 award	2012 award	2011 award	2010 award	2009 award
Fair value assumptions					
Share price on date of grant (Rand)	550.68	452.45	439.82	346.68	172.60
Expected share option life (years)	3	3	3	3	3
Expected dividend yield (%)	5.25	5.25	5.25	6.94	10.28

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

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

3) LONG-TERM INCENTIVE PLAN (LTIP)

Description of scheme:
Senior employees receive annual grants of conditional awards of Kumba shares.

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

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

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

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

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

Movement in the number of conditional awards granted:

	Number of conditional awards				
	2013 award	2012 award	2011 award	2010 award	2009 award
Balance at beginning of year		16,214	17,960	20,562	–
Conditional awards issued	25,875	–	–	–	–
Conditional awards forfeited	–	–	–	(10,281)	–
Conditional awards vested	–	–	–	(10,281)	–
Balance at 31 December 2013	**25,875**	**16,214**	**17,960**	**–**	**–**
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**	**–**

	Number of conditional awards	Expiry date
Vesting period of conditional awards granted		
Less than 1 year	17,960	2014
1 to 2 years	16,214	2015
2 to 5 years	25,875	2016

Valuation of scheme:
The conditional awards granted under the LTIP are considered equity-settled.

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

	2013 award	2012 award	2011 award	2010 award	2009 award
Fair value assumptions					
Share price on date of grant (Rand)	**550.68**	527.00	439.82	361.97	172.06
Annualised expected volatility (%)	**30.60**	34.21	46.55	45.00	51.66
Expected share option life (years)	**3**	3	3	3	3
Expected dividend yield (%)	**3.00**	5.25	5.25	6.94	10.28
Risk-free interest rate (%)	**6.16**	6.39	7.08	6.50	6.14

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

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

4) SHARE APPRECIATION RIGHTS SCHEME (SARS)

Description of scheme:

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

The vesting of the rights is subject to specific performance conditions. The duration and specific nature of the conditions as determined by the Remco 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 Remco the extent to which the performance conditions have been met. On resignation or termination of employment all unexercised (vested and unvested) rights will lapse on the date of cessation of employment.

Movement in the number of rights granted:

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

[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	25,320	2014
2 to 5 years	247.30 – 332.06	34,704	2015

Valuation of scheme:

The rights granted under the SARS are considered equity-settled.

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

	2008 award	2007 award
Fair value assumptions		
Share price on date of grant (Rand)	332.06	126.50
Weighted average exercise price (Rand)	332.06	124.27
Annualised expected volatility (%)	38.95	37.20
Expected share option life (years)	5.5	4.5
Expected dividend yield (%)	6.30	2.66
Risk-free interest rate (%)	9.12	7.66

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

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

5) MANAGEMENT SHARE OPTION SCHEME

Description of scheme:

Prior to the unbundling of Kumba Resources, senior employees and directors of SIOC 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. 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. Share options not exercised lapse by the seventh anniversary of the offer date.

All remaining options that were issued under this scheme was exercised during 2013 and no options are outstanding at 31 December 2013.

Movement in the number of share options granted:

	Number of share options	Option price range (Rand)
Balance at beginning of year	56,960	15.38 – 97.74
Share options forfeited	(56,960)	15.38 – 97.74
Balance at 31 December 2013	**–**	**15.38 – 97.74**
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**

Number of share options	2013	2012
Vesting period of share options granted		
Already vested	**56,960**	**56,960**

Valuation of scheme:

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.

	Before unbundling	After 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 awards is based on South African government bonds.

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

ANNEXURE 4: NEW AND AMENDED ACCOUNTING STANDARDS
for the year ended 31 December 2013

4.1 NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

The following standards have been adopted by the group for the first time for the financial year beginning on or after 1 January 2013 and did not have a significant impact on the group:

Amendment to IAS 1 *Presentation of financial statements*
The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). Currently all items presented in 'other comprehensive income' are subsequently reclassifiable to profit or loss.

IFRS 10 *Consolidated financial statements*
IAS 27 *Separate financial statements*
IFRS 10 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 revised IAS 27 deals only with the accounting for subsidiaries, associates and joint ventures in the separate financial statements of the parent company after the control provisions of IAS 27 had been included in IFRS 10.

The application of these standards did not result in any changes to the group's consolidated financial statements.

IFRS 11 *Joint arrangements*
IAS 28 *Investments in associates and joint ventures*
IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. Proportional consolidation of joint ventures is no longer allowed. The revised IAS 28 sets out the requirements for applying the equity method of accounting to investments in joint ventures and associates.

The application of IFRS 11 resulted in the group's 50% joint investment in the Polokwane Iron Ore Company Proprietary Limited being classified as a joint venture relationship. This entity was previously proportionately consolidated into the group. Under the new standard the entity has been consolidated into the group applying the equity method of accounting as prescribed by IAS 28.

The impact of the adoption of the standard was not significant for the financial year ended 31 December 2012. The standard has therefore been applied prospectively from 1 January 2013. A loss of R46 million was recognised for the year. This resulted in no investment balance being recognised in the balance sheet, as the losses for the year were greater than the group's interest in the entity.

IFRS 12 *Disclosures of interests in other entities*
IFRS 12 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 has not had an effect on the reported results or the group accounting policies for the year ended 31 December 2013 and will not affect the reported results of the group.

It will, however, result in additional disclosure being provided in the notes to the annual financial statements for the financial year ended 31 December 2013. The following amendments to the disclosures in the notes to the annual financial statements were made:

1) Significant judgements and assumptions made in determining the nature of an interest in another entity is disclosed. This is relevant for the SPEs which is consolidated into the group as subsidiaries;

2) Summarised financial information for SIOC has been presented, as it has non-controlling interests which are significant to the group, and the proportion of ownership interest held by these non-controlling interests; and

3) As the standard only requires disclosure of detailed information on associates and joint venturers to the extent that they are material to the group, no note was prepared on associates and joint venturers, as was done in previous financial years.

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, which are largely aligned between IFRSs and US GAAP, 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 adoption of IFRS 13 does not have a significant impact on Kumba's reported results, due to the limited use of fair value methodology in measuring assets and liabilities.

Annual improvements to IFRSs — 2009 to 2011 cycle
The group adopted the amendments to five issued accounting standards issued by the IASB as part of its Annual Improvements to IFRSs for the 2009 to 2011 cycle. These amendments did not have a significant impact on the reported results or the group accounting policies.

4.2 NEW AND AMENDED STANDARDS NOT YET ADOPTED BY THE GROUP

A number of new standards and amendments to standards and interpretations are in issue but are not effective for annual periods beginning on 1 January 2013, and have not been applied in preparing these consolidated financial statements:

IFRS 9 *Financial instruments*
The standard addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments.

IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

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 liabilities as the majority of financial assets and financial liabilities are carried at amortised cost. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRIC 21 *Levies*
IFRIC 21 sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognised. The group is not currently subjected to significant levies so the impact on the group is not material.

Other
There are no other standards, amendments to standards or IFRIC interpretations that have been issued but are not yet effective that is expected to have an impact on the group's results.

ANNEXURE 5: ACCOUNTING POLICIES ADOPTED BY THE GROUP WHICH ARE NOT SIGNIFICANT TO THE REPORTED RESULTS FOR THE CURRENT AND COMPARATIVE YEARS

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

5.1 CONSOLIDATED FINANCIAL STATEMENTS

5.1.1 Disposal of subsidiaries

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

5.1.2 Associates

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

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

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

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

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

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

5.1.3 Joint arrangements

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

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

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

5.1.4 Business combinations

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

The consideration transferred for the acquisition of a subsidiary is the fair 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 re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability 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 re-measured, and its subsequent settlement is accounted for within equity.

5.1 CONSOLIDATED FINANCIAL STATEMENTS continued

5.1.5 Goodwill

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

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

5.2 IMPAIRMENT

5.2.1 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.

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.

5.2.2 Impairment of financial assets

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

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

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

5.3 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

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

- the hedge transaction is expected and assessed to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk;
- the effectiveness of the hedge can be reliably measured throughout the duration of the hedge;
- the hedging relationship is adequately documented at the inception of the hedge; 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 non-financial asset or non-financial liability, the associated gain or loss is transferred from the cash flow hedge accounting reserve and included in the initial measurement of the cost of the underlying asset or liability on the transaction date. For hedges that do not result in the recognition of a non-financial asset or liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects profits or loss.

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

5.4 BIOLOGICAL ASSETS

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

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

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

5.5 POST-EMPLOYMENT BENEFITS

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

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

SHAREHOLDER ANALYSIS

Register date: 27 December 2013

Issued Share Capital: 322,085,974

	Number of shareholdings	%	Number of shares	%
Shareholder spread				
1 – 1,000 shares	19,152	89.82	4,160,171	1.29
1,001 – 10,000 shares	1,835	8.60	5,269,106	1.64
10,001 – 100,000 shares	272	1.28	7,950,398	2.47
100,001 – 1,000,000 shares	54	0.25	17,050,623	5.29
1,000,001 shares and over	10	0.05	287,655,676	89.31
	21,323	**100.00**	**322,085,974**	**100.00**
Distribution of shareholders				
Banks/Brokers	268	1.26	23,618,205	7.33
Close Corporations	170	0.80	93,494	0.03
Endowment funds	48	0.23	53,253	0.01
Individuals	17,406	81.63	6,886,335	2.14
Insurance companies	35	0.16	1,102,323	0.34
Investment companies	15	0.07	320,046	0.10
Medical schemes	8	0.04	27,821	0.01
Mutual funds	252	1.18	6,442,130	2.00
Nominees and trusts	2,547	11.94	3,481,812	1.08
Other corporations	77	0.36	36,468	0.01
Private companies	376	1.76	225,880,042	70.13
Public companies	13	0.06	42,024,826	13.05
Retirement funds	106	0.50	11,393,765	3.54
Share trusts	2	0.01	725,454	0.23
	21,323	**100.00**	**322,085,974**	**100.00**
Public/Non-public shareholders				
Non-public shareholders	12	0.06	268,589,290	83.39
Directors of the company	3	0.02	266,034,530	82.60
Strategic holdings	2	0.01	1,381	0.00
Related holdings	7	0.03	2,553,379	0.79
Public shareholders	21,311	99.94	53,496,684	16.61
	21,323	**100.00**	**322,085,974**	**100.00**

BREAKDOWN OF NON-PUBLIC HOLDINGS

	Number of shares	%
Directors of the company		
GS Gouws	213	0.00
FT Kotzee (chief financial officer)	740	0.00
DD Mokgatle	428	0.00
	1,381	**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	12.88
	266,034,530	**82.60**
Related holdings		
Mercantile Shareholder Nominees – Exxaro	1,434,647	0.45
Kumba Bonus Share Plan Trust	725,454	0.23
Exxaro Resources Limited (No 8)	88,985	0.03
Sishen Iron Ore Company Proprietary Limited	304,218	0.09
Sishen Iron Ore Company Proprietary Limited: Bonus Share Plan	244,573	0.08
Sishen Iron Ore Company Proprietary Limited: Forfeitable Share Plan	33,770	0.01
Sishen Iron Ore Company Proprietary Limited: Long-term Incentive Plan	25,875	0.01
SIOC Employee Share Participation Scheme	75	0.00
	2,553,379	**0.79**

BREAKDOWN OF BENEFICIAL SHAREHOLDERS HOLDING 1% OR MORE

Anglo South Africa Capital Proprietary Limited	**224,535,915**	**69.72**
Industrial Development Corporation of South Africa Limited	**41,498,615**	**12.88**
Government Employees Pension Fund	**8,859,966**	**2.75**
Government Employees Pension Fund – Public Investment Corporation	8,722,319	2.71
Government Employees Pension Fund – Mergence Investment Managers	81,747	0.03
Government Employees Pension Fund – Sentio Capital Management	44,100	0.01
Government Employees Pension Fund – JM Busha Asset Managers	11,800	0.00
BlackRock	**6,180,104**	**1.92**
BlackRock Global Funds World Mining	4,167,551	1.29
iShares MSCI Emerging Markets Index Fund	613,439	0.19
BlackRock World Mining Trust	500,000	0.16
BlackRock Index Selection Fund	174,847	0.05
iShares MSCI South Africa Index Fund	158,171	0.05
Other funds	566,096	0.18
JP Morgan	**3,289,766**	**1.02**
JP Morgan Funds – Emerging Markets Equity Fund	1,201,950	0.37
JP Morgan Emerging Markets Equity Fund	683,589	0.21
Commingled Pension Trust Fund (Emerging Markets Equity Focused)	663,410	0.21
JPMorgan Fund ICVC – JPM Emerging Markets Fund	415,294	0.13
JP Morgan Funds – Africa Equity Fund	136,990	0.04
Other funds	188,533	0.06
	284,364,366	**88.29**

ADMINISTRATION

COMPANY REGISTRATION NUMBER

2005/015852/06
JSE share code: KIO
ISIN code: ZAE000085346

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SPONSOR

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INVESTOR RELATIONS

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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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