OPTIMISING AND DELIVERING ECONOMIC VALUE

To deliver on our long-term objectives, partnerships with our stakeholders from inception to mine closure are vital

HIGHLIGHTS

- Revenue of R54.5 billion generated
- 42.4Mt total iron ore produced
- Increased headline earnings of R48.08 per share
- 60.6% of discretionary spend procured from BEE suppliers
- R13.7 billion in dividends paid out during 2013

CHALLENGES

- Pit constraints at Sishen mine
- After-effects of the 2012 strike at Sishen

MATERIAL ISSUE 2: PROACTIVELY ADAPTING TO A CHANGING LANDSCAPE

All of Kumba's stakeholders – including employees, contractors, government, communities and shareholders – depend and rely to varying degrees on our company's economic performance and our progressive renewal. Our performance, now and into the future, depends on a multitude of intrinsic and extrinsic factors.

We acknowledge that to deliver on our long-term objectives, partnerships with our stakeholders are vital from inception to mine closure. Co-operation derives from government providing an enabling environment, and investors' faith that we can deliver acceptable returns on capital, to communities' confidence in a sustainable future even after mining has ceased.

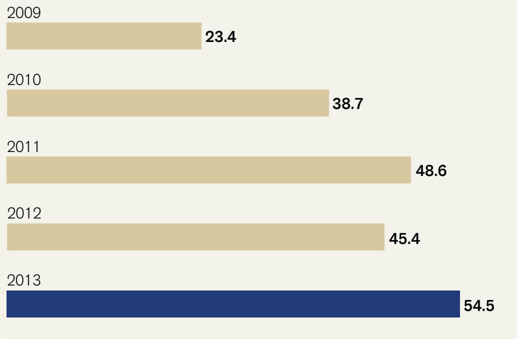
Our South African ore resources are large but finite. To achieve our objective of sustaining a long-term business we need to mine efficiently and generate revenues year-on-year that will allow us to finance extensions to our existing operations as well as explore and develop new ore resources. Simultaneously, our revenues need to be sufficient to allow us to create and distribute value in line with stakeholders' expectations.

CREATING VALUE

The value we created in 2013 was based on iron ore exports of 39.1Mt which generated export sales revenue of R47.1 billion. These exports were complemented by domestic sales of 4.6Mt worth R3.7 billion.

The value our ore sales created during 2013 was divided across a range of shareholders as shown in the following table.

Revenue
R billion



Value distributed 2013

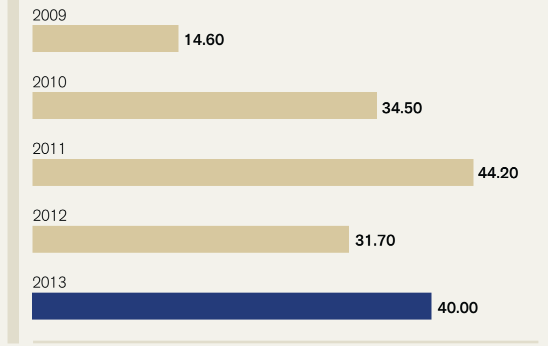
	R million
Employees	3,674
Providers of finance	278
Government	8,782
Community spend	254
Shareholders	13,707
Value re-invested	2,506
Value retained	6,593

VALUE-ADDED STATEMENT

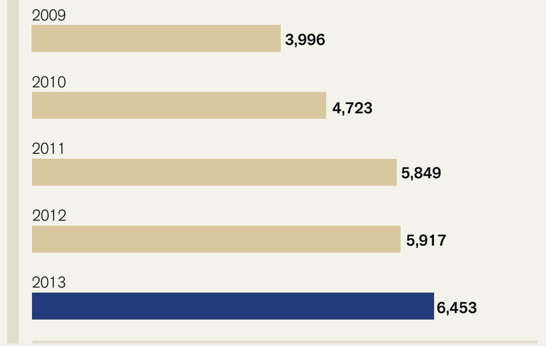
	2013		2012		2011	
	R million	%	R million	%	R million	%
Value added						
Value added by operating activities	**35,677**	**99.7**	29 532	99.7	37,702	99.4
Revenue	54,461		45,446		48,553	
Less: Cost of material and services	(18,784)		(15,914)		(10,851)	
Value added by investing activities						
Interest income	117	0.31	102	0.3	241	0.6
Total value added	**35,794**		**29,634**		**37,943**	
Value distributed						
Distributed to employees	**3,674**	**10.3**	3,466	11.7	2,777	7.3
Salaries, wages, medical and other benefits	3,039		2,709		2,408	
Share-based payments	635		756		369	
Distributed to providers of finance	**278**	**0.8**	329	1.1	99	0.3
Finance costs	278		329		346	
Finance costs capitalised					(247)	
Distributed to the state	**8,782**	**24.5**	6,272	21.2	8,908	23.5
Income tax	6,625		4,186		5,344	
Secondary tax on companies	–		959		1,802	
Mineral royalties	2,157		1,127		1,762	
Distributed to communities						
CED	254	0.7	276	0.9	191	0.5
Distributed to shareholders	**13,707**	**38.3**	18,006	60.8	17,912	47.2
Dividends to owners of the company	10,500		13,428		13,742	
Dividends to non-controlling interests	3,207		4,578		4,170	
Value reinvested	**2,506**	**7.0**	2,836	9.6	3,670	9.7
Depreciation, amortisation and impairment	2,039		1,535		997	
Deferred stripping costs capitalised	(832)		(518)			
Net discounting finance cost	118		76		59	
Share of losses of associates and joint ventures	46		0		0	
Deferred taxation	1,135		1,743		2,614	
Value retained / (distributed)	**6,593**	**18.4**	(1,551)	(5.2)	4,386	11.6
Attributable to owners	4,946		(942)		3,300	
Minority shareholders' interest	1,647		(609)		1,086	
Total value distributed	**35,794**		**29,634**		**37,943**	

OPTIMISING AND DELIVERING ECONOMIC VALUE CONTINUED

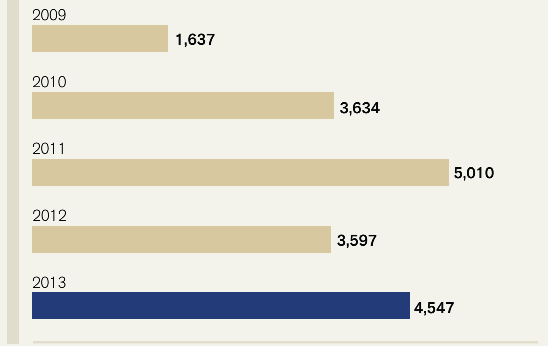
Dividends declared
(Rand per share)



Capital expenditure
(Rand million)



Dividends declared by SIOC to BEE shareholders
(Rand million)



PROCUREMENT AND SUPPLY CHAIN

2013 saw a range of achievements in Kumba's BEE procurement activities as well as a number of improvements to the company's procurement policies to meet Mining Charter requirements. During the year we made significant advances in reaching and even surpassing most of the 2013 targets required by the Charter.

At 37.8%, the Sishen mine spend was however 2.2% below the 40% target. The 2014 target is however expected to be easier to achieve, since our strategic suppliers are also implementing transformation plans.

Kumba's procurement policies are not simply motivated by legal requirements. Achieving appropriate procurement practices and targets are a material consideration for Kumba, not simply because they lead to compliance with the terms of the Mining Charter, but also because they contribute to securing the company's social and legal licences to operate.

Kumba's procurement and supply chain teams engaged with a total of 2,978 suppliers over the course of 2013. 97% of these suppliers are South African-based entities, and 15% of the total suppliers are based in and around the host communities within which we operate. The largest number of suppliers that we engaged with are those who supply us with consumables, while the highest value spend remains on the procurement of capital equipment. Services are procured through labour brokers, consultants and general service providers.

During 2013 total payments made to suppliers amounted to R23.7 billion, a 20% increase on the 2012 spend. It is pleasing that 47% of the total spend and 61% of the discretionary spend was procured from BEE partners.

Our BEE procurement targets

Fundamental to Kumba's proactive intervention in the allocation of business contracts in terms of the Mining Charter is doing it in a manner that positively supports our host communities and small and medium enterprises (SMEs). To provide perspective, while our supply chain policy is reviewed annually, our minimum BEE procurement targets for 2014 remain unchanged:

- 40% of capital goods (all capital-related purchases)
- 50% of consumer goods (all types of commodities)
- 70% of services (all consultants and professional services)

Transforming procurement

At the beginning of 2012 our supply chain department was concerned about reaching that year's targets as well as those for 2013. We had realised that, without positive intervention, we could face future difficulties in achieving the Mining Charter's targets for all purchases including those of services. Exceptions to the favouring of suppliers owned by HDSAs were permissible provided they were approved by the head of Kumba's supply chain management.

In anticipation of this, in 2013 we extended reviews of our procurement policy to determine ways of enhancing BEE exposure to our purchases so as to ensure full compliance with the Mining Charter. The outcome has been the implementation of a new preferential procurement policy which started towards the end of 2013.

The approach to focus on BEE services suppliers, which started in 2012 and included specific transformations plans, also comprised contract clauses and is the reason for the increase in the services spend for 2013.

Another measure of our commitment to supporting local communities is apparent from the proportion local purchases make up of our mines' totals. Our internal target had been set at 16%, but in 2013 the overall proportion was running at 18%, with 22% achieved at Sishen mine, 41% at Thabazimbi mine and 12% at Kolomela mine, where purchasing patterns reflect the mine's developmental stage.

BEE spend in 2013

Rand million	Consumables	Capital	Services	Total
Corporate	9.3	474.7	879.2	1,363.2
Saldanha	–	–	18.8	18.8
Sishen mine	3,070.0	1,482.4	2,595.4	7,147.8
Kolomela mine	875.8	307.2	982.9	2,165.9
Thabazimbi mine	302.7	19.5	116.0	438.2
Group	**4 257.8**	**2,283.8**	**4,592.3**	**11,133.8**

BEE spend in 2013

% of total discretionary spend per site	Consumables	Capital	Services	Total
Corporate office	26	59	63	61
Saldanha	9	–	30	30
Sishen mine	62	38	75	58
Kolomela mine	82	50	72	71
Thabazimbi mine	59	76	77	64
Group	65	43	71	61

Group BEE procurement*

%	Consumables	Capital	Services
2010	37	35	63
2011	47	44	46
2012	58	62	61
2013	**65**	**43**	**71**
2014 target	**50**	**40**	**70**

Procurement performance summary

Rand billion	2013	2012	2011	2010	2009
Total payments	**23.7**	19.8	17.3	12.3	12.5
Discretionary payments	**18.4**	15.1	13.2	9.5	8.6
BEE payments	**11.1**	9.0	6.0	3.9	3.2
BEE as a % of discretionary spend (%)	**61**	60	46	41	37

* 2009 data is not presented as the reporting data was not maintained then and insufficient information is available to make this assessment retrospectively.

Sustainability performance

OPTIMISING AND DELIVERING ECONOMIC VALUE CONTINUED

Our overall strategy had already, in 2012, included an initiative to identify and individually engage with our leading non-BEE service suppliers, communicating the importance of transformation and, in certain instances, negotiating contract clauses to ensure a supplier's transformation within a set period. This initiative was pursued vigorously in 2013. For example, Kumba's purchases of services increased from an average of 46% BEE procurement in 2011 to 71% in 2013, well above the Mining Charter's BEE guidelines.

On the larger scale of capital spending, in 2013 our revised purchasing policy particularly and deliberately targeted multi-national original equipment manufacturers of capital goods to encourage their own outsourcing to HDSA-owned local manufacturers. Still in this sector, the target purchasing figures differ at each of our three mines: 50% at Kolomela, 47% at Thabazimbi and 39% at Sishen.

Our experiences and successes in persuading original equipment manufacturers to outsource to local manufacturers have been shared with our major shareholder, Anglo American plc, and with the DMR. We believe that more might be achieved and our focus on this continues.

Another initiative in 2013 was to hold discussions with the Chamber of Mines and other South African mining groups on how to best encourage multi-national suppliers to contribute to Kumba's social fund. There were no contributions in 2013, but we expect to see a lot of movement in 2014.

The major fundamental change to our preferential procurement policy has been to set aside a large part of our business for BEE SMEs. On the occasions when they are not price competitive, we enter into post-tender negotiations as a means of assisting the BEE companies to improve their competitiveness. Throughout 2013 we underwent a process of introducing sub-contracting clauses into our standard tender documents. The objective is to ensure that successful tenders are based in part on the tenderer's sub-contracting to local suppliers.

Discussions with SMEs and local suppliers have revealed that cash flow can be a significant challenge facing many of them. While our standard payment terms are 30 days from receipt of invoice or statement, preferential procurement means that we will consider favourable payment terms and conditions to alleviate cash-flow constraints where appropriate.

Local procurement

Local procurement forms a crucial part of Kumba's overall preferential procurement policies. This reflects our policy of improving the well-being of our host communities, thereby underpinning our social licence to operate. The policy is mutually beneficial – for the community and the company. Although our procurement policies are aimed at promoting local procurement, we will not lose focus on our governance standards. We shall continue to work in close partnership with local suppliers to help them achieve the high governance standards we set for ourselves.

Throughout our entire supply chain there exists opportunities for local procurement stretching from the exploration stage to the post-closure stage of our operations. The opportunities, too, extend from small to large multi-national suppliers.

LOCAL PROCUREMENT COMMITMENTS

We and our parent company, Anglo American plc, have firm commitments for enhancing local procurement and will ensure our guidelines and standards will be firmly embedded in the workplace. We will:

- Allocate appropriate resources to build internal capacity to enable local procurement
- Clearly articulate the mutual benefits of local procurement and our standards and requirements of suppliers
- Ensure that our payment terms accommodate SMEs' needs
- Continue to support commercially viable local businesses
- Continue to expect suppliers to work with us to improve procurement outcomes across our supply chain
- Set targets for local procurement, and measure and report our progress

THE SUPPLIER SUSTAINABLE DEVELOPMENT CODE

Kumba's commitments to responsible sourcing and supply chain management are aligned with the supplier sustainable development code established by our parent, Anglo American plc, for its suppliers worldwide. This code is founded on five pillars that govern the suppliers' own sustainable development behaviour:

1. **Employment and labour rights:** Our suppliers shall commit to fair labour practices and ensure that their conditions of service comply with all applicable laws and industry standards. Specifically, suppliers shall not make use of exploitative child labour; shall not tolerate forced, bonded or involuntary prison labour; and shall not tolerate inhumane treatment of workers. Suppliers shall respect workers' rights to freedom of association; operate fair and appropriate terms of employment; eliminate unfair discrimination and ensure that, where provided, workers' accommodation is clean, safe and supplies basic needs.
2. **Safety and health:** This includes having appropriate policies to protect the safety and health of the supplier's workforce, and striving to eliminate work-related fatalities, injuries and health impairment towards the Zero Harm vision. Apart from the requirement to comply with all appropriate legislation, suppliers working on company sites must comply with our safety standards as well as with standards consistent throughout the Anglo American Group detailed in The Anglo Safety Way, The Anglo Fatal Risk Standards and The Anglo Occupational Health Way. We also encourage suppliers to collaborate with us in identifying opportunities for improving safety and minimising occupational health impacts.
3. **Environment:** We expect suppliers to strive to achieve best practices and materials stewardship. This includes having appropriate environmental policies; complying with all legislation and regulation when providing services to the company; and, when supplying services on a group site, complying with the appropriate standards set out in The Anglo Environmental Way.
4. **HIV/AIDS:** Suppliers are encouraged to join the company in the fight against HIV/AIDS in areas where the disease is prevalent. This shall include striving to eliminate any stigma attached to the diseases; having clear policies for addressing HIV/AIDS issues; and having prevention and treatment initiatives.
5. **Ethics and corporate citizenship:** We require that suppliers be good corporate citizens within the communities in which they operate. This includes supporting the principles of the Universal Declaration of Human Rights. Suppliers are encouraged to respect human dignity and individual rights in their communities; contribute to the economic, social and educational well-being of their communities; have regard to the impacts on communities of employment practices; recognise and sympathetically handle indigenous communities' cultural heritages and traditions; and conform to the Voluntary Principles on Security and Human Rights.

Sustainability performance

01 The e-learning centre at Thabazimbi mine uses programmed computer-based training to prepare haul truck operators for the real thing. Johanah Mataboge, senior instructor, shows John Motshabi, haul truck operator, how the system works.

02 Frans Neels, receptionist, is one of a number of disabled people employed at Kolomela mine.

01

02

OPTIMISING AND DELIVERING ECONOMIC VALUE CONTINUED

We collaborate with and enjoy the benefits of the Anglo American Group's centralised in-house and outsourced auditing of suppliers' sustainable development. Suppliers are regularly fully informed of our group's standards.

Audits carried out in 2013 identified eight prospective suppliers as having unacceptable labour practices. They will undergo further screening in 2014. However for 2013 as a whole, no contraventions of the supplier sustainable development code were noted among our existing suppliers.

Kumba has held discussions on its preferential procurement policies with approximately 100 of its lead suppliers. A central part of these discussions was on collaborative approaches and, by the end of 2013, we were evaluating the suppliers' inputs ahead of possible implementation in 2014.

COMMUNITY DEVELOPMENT

Kumba's approach to CED is founded on the principle of developing and leaving behind economically vibrant, sustainable communities in the areas that we operate. For further information on our CED projects see page 76 to 81 of this report.

In 2013, Kumba's CED expenditure amounted to R253.7 million (2012: R276 million) and covered SLP commitments.

We recognise that the communities in which our mines operate play an important role in our success, especially as we draw the vast majority of our employees locally. In 2013 Kumba and SIOC-CDT together spent more than R500 million on our communities; R254 million from Kumba and R333 million through 63 new projects approved by the SIOC-CDT.

The SIOC-CDT has more than 361,000 beneficiaries in five communities. It holds a 3% shareholding in SIOC, which is valued at about R5.6 billion, with dividends declared to the trust from SIOC amounting to R523 million in 2013 (2012: R414 million paid) for its community development projects.

Since its establishment the SIOC-CDT has received R2.5 billion in dividends (including the final 2013 dividend of R261 million to be paid in March 2014) and has funded 203 projects in local communities to the value of R1 billion.

Kumba's employee share ownership empowerment scheme, Envision, continues to give employees the opportunity to share in the success of the company. In terms of the scheme rules, qualifying employees are allocated units in Envision and receive dividends twice a year.

The second five-year phase of Envision commenced in November 2011 and will mature in 2016. Employees will have access to further financial training during the next few years in preparation for this .

During 2013 Envision made dividend payments of R48 million in March and R95 million in August, which translate to a cash payment of approximately R19,100 per participating employee after tax.

Envision will receive a further dividend of R268 million from the final SIOC dividend in March 2014, out of which a cash distribution of R94 million will be paid to about 6,800 participating employees.

TECHNOLOGY DEVELOPMENT AND BENEFICIATION

It is important to note that Kumba is the world's only major iron ore producer that beneficiates and upgrades its ore prior to sale.

We have overcome the problem of producing a saleable product from previously discarded B-grade ore from the deeper Sishen pit by building and operating the jig plant. Our next challenge is to extend this to the C-grade ore and we are currently testing ultra-high dense medium separation (UHDMS) technology at Sishen and Thabazimbi mines. Once the technology is proven we will be in a position to move forward to the project feasibility stage at both mines.

Most countries would like to nurture their steel and downstream industries as these have significant economic benefits including employment, technology development, skills development, and availability of a variety of locally produced goods supporting infrastructure development and consumers. South Africa is no exception and government is keen to encourage this industry. Through our supply agreement with ArcelorMittal SA, we will continue to contribute to sustaining and developing the local steel industry. In addition we will continue to carry out research and support other research activities aimed at economic utilisation of the various types of iron ore available in this country, using less electricity, and using the types of coal available here to make steel.

PAYMENTS TO AND FROM GOVERNMENT

Our approach to tax is important to many of our stakeholders who have a particular interest in the taxes we pay, the governments to whom these payments are made and ultimately what happens to those tax revenues. We believe that our approach to tax should reflect a balance of stakeholder expectations, from investors and governments to communities and NGOs. Our approach, combined with our business principles and desire to be the development partner of choice, inform our group tax strategy which, in turn specifically supports the principles of transparency and active engagement with our stakeholders.

Mining remains a relatively high-risk, long-term investment, requiring significant capital outlay. In the globally competitive environment in which we operate there is a need for governments and companies to take a holistic approach to balancing the risks and rewards of responsible investment.

Maintaining this balance is particularly challenging at times when the mining sector is under pressure from lower commodity prices and rising costs. The tax regime forms an important part of this equation, and it influences the domestic and international competitiveness of the mining sector, particularly in a capital constrained world.

South Africa, through the Davis Tax Committee, is evaluating the tax regime and will make recommendations for tax reform. We are heartened to see that the committee's terms of reference specifically identify, as key considerations, the challenges facing the mining sector and the need to remain competitive to secure growth and job creation.

In terms of transparency, in recent years we have seen a move from voluntary tax disclosures to mandatory requirements such as the European Union Accounting Directive of 2013. We support the principle of transparency, the Extractive Industries Transparency Initiative and other new transparency requirements when they are measured, meaningful and meet a clear objective around improving the ability of stakeholders to understand the value generated by our businesses, and how that value benefits our stakeholders. More information on Anglo American plc's approach to taxation can be found in the Anglo American Sustainable Development Report 2013 at www.angloamerican.com.

We believe that our approach to tax should reflect a balance of stakeholder expectations

PAYMENTS TO THE SOUTH AFRICAN GOVERNMENT

Kumba's payments to the South African government include corporate income tax, mineral royalties, duties on imports and exports, payroll taxes and dividend payments withholding taxes.

The company pays a skills levy equivalent to 1% of our employees' pay to the South African Revenue Service who distributes the amount to the relevant sector education and training authorities (SETA) and to the government's training initiative, the Skills Development Fund.

Payments made and collected on behalf of the South African government in 2013 (R million)

Corporate income tax	**6,272**
Mineral royalties	**2,073**
Payroll tax	**1,020**
Skills levy	**31**
Other	**7**
Total	**9,403**

Global taxes borne and collected in 2013 (R million)

Taxes borne	Corporate income taxes, mineral royalties, import and export duties, and other taxes which are a cost to the group	**8,820**
Taxes collected	Payroll taxes, withholding taxes and other taxes that are collected and remitted to government, but are not a cost to the group	**1,033**
Total		**9,853**

Sustainability performance