KUMBA IRON ORE

KUMBA IRON ORE LIMITED

INTERIM FINANCIAL RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

KEY FEATURES

- Regrettably we had **ONE** fatality at Sishen mine

- Production of **22.8 Mt**, up by 5% from **21.6 Mt** in 1H13
  - Sishen mine's production up by **5%** as recovery plan is executed
  - Strong performance at Kolomela mine continued

- Planned increase in waste mined at Sishen mine continues, up by **6%** to **86.9 Mt**

- Operating profit decreased by **14%** due to lower export iron ore prices and increased costs from mining activities

- Total sales volumes increased by **2%** to **22.5 Mt**

- **R5 billion** interim cash dividend declared to shareholders

OTHER SOURCES OF INFORMATION

Our website provides more information on our company and its performance.

www.angloamericankumba.com

COMMENTARY

Kumba Iron Ore Limited (Kumba or the group) announces its results for the six months ended 30 June 2014.

The group's safety performance remains a key priority. Regrettably, one of our colleagues tragically lost his life in April 2014 when he fell from a height while doing maintenance work on a crane at Sishen mine. The lost-time injury frequency rate (LTIFR) was 0.20 (2013: 0.15). The focus on key safety improvement drivers remains in place with continued emphasis on preventing any loss of life or injury through the implementation of critical engineering controls and greater operational discipline.

Kumba delivered a solid operational performance for the half year, with total tonnes mined up by 7% to 154.2 million tonnes (Mt) (2013: 144.0 Mt) as the production recovery plan at Sishen mine is executed and the strong performance at Kolomela mine continued. Total sales volumes increased by 2% to 22.5 Mt (2013: 22.1 Mt).

Sishen Iron ore Company (Pty) Limited (SIOC) has submitted its application for the 21.4% undivided mining right at Sishen mine. In terms of the Constitutional Court ruling, SIOC is the only party that could apply for, and be granted, the right. SIOC is engaging with the Department of Mineral Resources (DMR) to finalise the granting of the right.

The first half of 2014 saw a stable labour environment. Wage negotiations, which commenced in June 2014, are progressing and are expected to be concluded soon.

Headline earnings were 16% lower at R6.5 billion (2013: R7.7 billion), mainly as a result of realised iron ore export prices, which weakened by 17%, together with input cost pressure during the period under review, partially offset by the favourable impact of a 16% depreciation of the Rand.

Attributable and headline earnings for the period were R20.30 and R20.28 per share respectively, on which an interim cash dividend of R15.61 per share has been declared at 1.3 times cover. In line with the board's policy of reviewing the dividend at each declaration, the board increased the dividend cover from 1.2 to 1.3 for the 2014 interim dividend, after considering, amongst other factors, iron ore price volatility and the group's capital expenditure requirements.

Market overview

Global crude steel production increased by 4% to 819 Mt for the first half of 2014 (2013: 791 Mt), with China's record production of 409 Mt being 5% higher (2013: 389 Mt). In a seasonal pattern, Chinese steel mills drew down iron ore inventory levels in early 2014, reducing iron ore demand. Global seaborne iron ore supply has grown strongly and increased to around 700 Mt, driven by strong export growth of 25% from Australia, with a further 8% growth from Brazil. Chinese imports of iron ore grew strongly and displaced some of the high cost domestic material.

The strong supply of iron ore, particularly from Australia, resulted in pressure on iron prices since the beginning of 2014. Average iron ore prices in the first half of 2014 were down by 19% at $111/tonne (2013: $137/tonne). Iron ore index (CFR China 62% Fe) prices steadily declined from $134/tonne at the beginning of the year, with the index ending the first half of 2014 at $93/tonne.

Operational performance

Production summary (unaudited)

	Six months ended		
'000 tonnes	**June 2014**	June 2013	% change
Product type	**22,793**	**21,613**	**5**
Lump	14,967	13,057	15
Fines	7,826	8,556	(9)
Mine production	**22,793**	**21,613**	**5**
Sishen mine	16,995	16,114	5
DMS plant	10,983	10,717	2
Jig plant	6,012	5,397	11
Kolomela mine	5,461	5,264	4
Thabazimbi mine	337	235	43

Sishen mine

Sishen's pit continued to be mined according to the production recovery plan during the six months. The strategic redesign of the western pushbacks of the pit at Sishen mine was completed in the first half of 2014. Execution of the pit redesign plan is in progress, resulting in an improved mining plan that enables better utilisation of equipment, and the deployment of two priority pushbacks, with ~600 Mt of waste taken out from the revised life of mine plan, reducing the average life of mine stripping ratio to 4.0.

Key initiatives of the improved mining plan to achieve 37 Mt production in 2016 include:

- a focus on productivity through improved scheduling of work by implementation of the Business Process Framework;
- the Dingleton project;
- construction of two new waste dumps; and
- the five-year fleet plan and associated infrastructure.

The Dingleton project to facilitate the expansion of Sishen to the west has commenced, and construction of the houses, businesses, churches and schools is underway.

Total tonnes mined at Sishen increased by 5% to 107.2 Mt (2013: 102.5 Mt). Total waste mined was 86.9 Mt (2013: 82.1 Mt), an increase of 6%, as internal waste mining to expose sufficient ore to achieve 35 Mt production in 2014 was ahead of schedule. Waste pre-stripping to achieve future production was impacted by excessive rainfall during the period. There has been a 50% improvement in the performance of the mining fleet to June 2014, as well an increase in floor stock. Waste mining plans for the second half of the year were completed and are being executed, which includes further ramp-up and fleet efficiency improvements.

Total iron ore production at Sishen mine increased by 5% to 17 Mt (2013: 16.1 Mt) in line with the mining plan to ramp up production to 37 Mt by 2016.

Kolomela mine

Kolomela mine continued to perform strongly. Total tonnes mined at Kolomela mine rose by 11% to 31.3 Mt (2013: 28.2 Mt), of which waste mined was 24.4 Mt (2013: 21.7 Mt), an increase of 12%. The mine produced 5.5 Mt of iron ore, an increase of 4%. A reclaimer breakdown at the mine in the first quarter of the year resulted in increased stock at the mine to 1.2 Mt at 30 June 2014. Pre-stripping of the third pit at Kolomela is in progress to maintain flexibility. The group aims to increase current production through de-bottlenecking and optimisation of the plant.

Thabazimbi mine

A major reconfiguration is planned for Thabazimbi to capture low grade opportunities and increase production to 2 million tonnes per annum (Mtpa). The project study for the reconfiguration is progressing through the feasibility phase. Waste mining at Thabazimbi mine increased by 18% to 15.4 Mt (2013: 13.0 Mt) as the mine progresses to its next phase. Production at Thabazimbi mine increased to 0.3 Mt for the six months (2013: 0.2 Mt). The mine is expected to produce ~1 Mt in 2014.

Logistics

Volumes railed on the Sishen-Saldanha Iron Ore Export Channel (IOEC) were 5% lower at 19.7 Mt (including 0.7 Mt railed to Saldanha Steel) (2013: 20.7 Mt). Volumes railed from Kolomela mine were 4.5 Mt for the six months (2013: 5.5 Mt) and were impacted by the breakdown of a reclaimer referred to above. Kumba shipped 19.3 Mt from the Saldanha port destined for the export market, down 4%.

Sales summary (unaudited)

'000 tonnes	Six months ended June 2014	Six months ended June 2013	% change
Sales volumes	**22,499**	**22,137**	**2**
Export sales	**19,710**	20,123	(2)
Domestic sales	**2,789**	2,014	38
Sishen mine	**2,484**	1,710	45
Thabazimbi mine	**305**	303	1

Sales

Total sales for Kumba for the half year were 2% higher at 22.5 Mt (2013: 22.1 Mt), mainly as a result of a 38% increase in domestic sales volumes made in terms of the new supply agreement with ArcelorMittal South Africa Limited (ArcelorMittal S.A.).

Export sales volumes were marginally down at 19.7 Mt (1H2013: 20.1 Mt). CFR sales accounted for 62% of export sales volumes (2013: 63%). Finished product inventory held at the mines and ports increased to 3.6 Mt from 2.9 Mt as at 31 December 2013 (1H2013: 3.6 Mt).

66% of total export volumes were directed to China compared to 67% during the first half of 2013. The group's lump:fine ratio was 66:34 for the period (2013: 61:39). Small variations from one period to another may be expected as a result of changes in stock levels of individual products.

Financial results

Revenue

The group's total revenue of R26.4 billion for the period was marginally higher than the R26.3 billion for the comparable period in 2013. This is mainly as a result of the 16% decline in the Rand/US$ exchange rate (1H2014: R10.68/US$1 compared to 1H2013: R9.19/US$1), 2% higher total sales volumes and R556 million higher shipping revenue, largely offset by 17% lower average realised export iron ore prices (2014: US$104/tonne; 2013: US$125/tonne).

Operating expenses

Operating expenses rose by 18% to R14.1 billion from R12 billion in the first half of 2013; principally as a result of:

- 10.2 Mt growth in total mining volumes;
- inflationary pressure on input costs from CPI of 6.2%;
- above-inflationary input cost increases in diesel, mining contractor rate, blasting material and tyre prices; and
- R541 million higher freight costs offset by 5% lower selling and distribution costs.

Unit cash costs at Sishen mine remained flat at R266 per tonne (FY2013: R267 per tonne). This is primarily as a result of input cost pressures (+R12/tonne) and higher mining volumes (+R15/tonne) being largely offset by higher production volumes (-R26/tonne). Kolomela mine incurred unit cash costs of R211 per tonne (FY2013: R182 per tonne).

Kolomela mine incurred unit cash costs of R211 per tonne (FY2013: R182 per tonne), a 16% increase. The increase was due to input cost pressures (+R8/tonne), and higher mining volumes (+R7/tonne), marginally offset by improved production volumes (-R2/tonne). In addition, drilling cost to ensure optimal placement of waste dumps, reclaimer related maintenance and exploration drilling to increase geological confidence in resources in the life of mine plan was incurred (+R16/tonne).

Operating profit

Kumba's operating profit margin for the first half of 2014 decreased by 8% to 47% (2013: 55%), 51% from mining activities (2013: 58%).

Operating profit decreased by 14% to R12.3 billion (2013: R14.3 billion). The increase in operating expenses outlined previously has impacted profitability.

Cash flow

The group continued to generate substantial cash from its operations, with R15.3 billion generated during the six months. These cash flows were used to pay taxation of R2.4 billion, royalties of R0.9 billion and aggregate dividends of R8.5 billion during the six months. The group's working capital position remains healthy, ensuring sufficient reserves to cover short-term positions.

At 30 June 2014 the group had a net debt position of R687 million (2013: R2.3 billion net cash).

Capital expenditure

Capital expenditure of R3.3 billion was incurred: R2.8 billion on stay-in-business (SIB) activities (including deferred stripping), and R643 million on expansion projects. The group expects total capital expenditure for 2014 to be in the range of R7.5 billion to R8.2 billion. Capital expenditure in 2015 and 2016 will include the results of the finalisation of the Sishen fleet plan for the next 5 years, as well as the construction activities related to the Dingleton project, which is expected to cost an estimated R4.2 billion over a four to six year period. The level of sustainable SIB capex in future, is expected to average around R1.7 billion per annum through the cycle. This excludes once-off capital items, namely the ramp up in the mining fleet at Sishen and related infrastructure, which relates to the growth of the mine.

Ore reserves and mineral resources

There have been no material changes to the ore reserves and mineral resources as disclosed in the 2013 Kumba Integrated Report.

Growth

The group remains focused on delivering on its growth strategy, targeting an additional ~5 Mt in South Africa over the next three to five years, through incremental growth at Sishen and Kolomela. The projects in support of the growth target are in various stages of study and subject to internal approval. The project pipeline remains dependent on available rail line capacity, among other factors, and Kumba continues to work together with Transnet to determine an optimum solution for incremental expansion of the IOEC.

The exploration programme in Liberia under the joint venture with Jonah Capital was completed. The programme was found not to be economic and therefore closed. The group's long-term growth strategy remains unchanged with the focused assessment of various opportunities in target countries in Central and West Africa continuing.

Outlook

In China, recent data are consistent with a recovery in economic growth – which should hold at around 7% to 7.5% over the next 18 months – following the authorities' targeted stimulus measures in the spring. China's housing market and the financial system remain fragile and there are concerns around the impact of the government's high-profile anti-corruption campaign.

Iron ore prices are expected to remain at current levels in the third quarter of the year, though restocking by steel mills and a slowdown in Chinese domestic iron ore production in their winter is expected to support prices towards the end of the year. Lump premiums are expected to increase to approach the marginal cost of sintering in the second half of the year.

The production outlook for Sishen mine in 2014 remains at around 35 Mt. The Sishen pit, however, remains constrained, therefore the planned waste ramp up is continuing as part of the strategy to improve mining flexibility over the longer term. It is expected that waste tonnages will reach ~220 Mt for the year as a whole.

At Kolomela mine, 2014 output remains at approximately 10 Mt in line with the mine's production design capacity, with waste mined at approximately 40 to 50 Mt.

Export sales volumes for the year are expected to be in line with 2013 levels. Domestic sales volumes are anticipated to be 6.25 Mt for the year in line with the supply agreement with ArcelorMittal S.A.

It remains the group's intent to continue to pay excess cash to its shareholders, after considering growth and investment opportunities, while remaining within its committed debt facilities.

Profitability remains sensitive to iron ore export prices and the Rand/US$ exchange rate.

Appointment of company secretary

The board of Kumba announced the appointment of Ms Avanthi Parboosing as company secretary with effect from 28 July 2014. She will be replacing Mr Kevin Lester, Head of Legal Anglo American South Africa, who has been acting as company secretary on a temporary basis from 1 March 2014. The board expresses gratitude to Mr Lester for his contribution to the company during this time.

The presentation in support of the company's results for the six months ended 30 June 2014 is available on the company's website www.angloamericankumba.com.

SALIENT FEATURES AND OPERATING STATISTICS

for the period ended

	Note	Unaudited 6 months 30 June 2014	Unaudited 6 months 30 June 2013	Unaudited 12 months 31 December 2013
Share statistics ('000)	6			
Total shares in issue		322,086	322,086	322,086
Weighted average number of shares		320,745	321,150	321,187
Diluted weighted average number of shares		321,378	321,745	321,596
Treasury shares		1,275	875	1,445
Treasury shares (Rand million)		590	409	665
Market information				
Closing share price (Rand)		339	461	443
Market capitalisation (Rand million)		109,187	148,353	142,829
Market capitalisation (US$ million)		10,264	14,910	13,655
Net asset value (Rand per share)		65.65	60.42	64.68
Capital expenditure (Rand million)				
Incurred	5	3,281	2,322	6,453
Contracted		2,901	2,318	600
Authorised but not contracted		3,434	1,551	4,943
Finance lease commitments		268	339	300
Operating commitments				
Operating lease commitments		25	60	27
Shipping services		11,316	9,228	12,222
Economic information				
Average Rand/US Dollar exchange rate (ZAR/US$)		10.68	9.19	9.62
Closing Rand/US Dollar exchange rate (ZAR/US$)		10.64	9.95	10.46
Sishen mine FOR unit cost				
Unit cost (Rand per tonne)		319.7	287.8	325.3
Cash cost (Rand per tonne)		266.5	238.9	266.9
Unit cost (US$ per tonne)		29.9	31.3	33.8
Cash cost (US$ per tonne)		25.0	26.0	27.7
Kolomela mine FOR unit cost				
Unit cost (Rand per tonne)		272.2	229.9	241.0
Cash cost (Rand per tonne)		211.0	172.5	181.8
Unit cost (US$ per tonne)		25.5	25.0	25.0
Cash cost (US$ per tonne)		19.8	18.8	18.9
Thabazimbi mine FOR unit cost				
Unit cost (Rand per tonne)		1,368.0		
Cash cost (Rand per tonne)		985.0		
Unit cost (US$ per tonne)		128.1		
Cash cost (US$ per tonne)		92.3		

CONDENSED GROUP BALANCE SHEET

as at

Rand million	Note	Reviewed 30 June 2014	Reviewed 30 June 2013	Audited 31 December 2013
Assets				
Property, plant and equipment	5	32,038	26,944	29,922
Biological assets		5	8	6
Investments held by environmental trust		781	691	737
Long-term prepayments and other receivables		627	322	605
Deferred tax assets		850	946	920
Non-current assets		34,301	28,911	32,190
Inventories		5,128	4,464	5,171
Trade and other receivables		3,375	3,264	6,124
Current tax asset		–	87	–
Cash and cash equivalents		3,039	2,685	1,053
Current assets		11,542	10,500	12,348
Total assets		**45,843**	**39,411**	**44,538**
Equity				
Shareholders' equity		21,144	19,460	20,831
Non-controlling interest		6,421	5,878	6,353
Total equity		27,565	25,338	27,184
Liabilities				
Interest-bearing borrowings	7	2,000	262	2,234
Provisions	4	1,861	1,741	1,809
Deferred tax liabilities		8,768	7,480	7,888
Non-current liabilities		12,629	9,483	11,931
Short-term portion of interest-bearing borrowings	7	1,726	96	615
Short-term portion of provisions		296	30	355
Trade and other payables		2,826	3,675	3,888
Current tax liabilities		801	789	565
Current liabilities		5,649	4,590	5,423
Total liabilities		**18,278**	**14,073**	**17,354**
Total equity and liabilities		**45,843**	**39,411**	**44,538**

CONDENSED GROUP INCOME STATEMENT

for the period ended

Rand million	Note	Reviewed 6 months 30 June 2014	Reviewed 6 months 30 June 2013	Audited 12 months 31 December 2013
Revenue		26,429	26,299	54,461
Operating expenses	8	(14,124)	(11,960)	(26,076)
Operating profit		12,305	14,339	28,385
Finance income		35	30	117
Finance costs		(181)	(168)	(396)
Loss from equity accounted joint venture		(2)	(34)	(46)
Profit before taxation		12,157	14,167	28,060
Taxation		(3,584)	(4,002)	(7,760)
Profit for the period		**8,573**	**10,165**	**20,300**
Attributable to:				
Owners of Kumba		6,511	7,759	15,446
Non-controlling interest		2,062	2,406	4,854
		8,573	**10,165**	**20,300**
Earnings per share for profit attributable to the owners of Kumba (Rand per share)				
Basic		20.30	24.16	48.09
Diluted		20.26	24.12	48.03

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

for the period ended

Rand million	Reviewed 6 months 30 June 2014	Reviewed 6 months 30 June 2013	Audited 12 months 31 December 2013
Profit for the period	8,573	10,165	20,300
Other comprehensive income for the period, net of tax	46	350	570
Exchange differences on translation of foreign operations	46	351	570
Net effect of cash flow hedges	–	(1)	–
Total comprehensive income for the period	**8,619**	**10,515**	**20,870**
Attributable to:			
Owners of Kumba	6,547	8,038	15,917
Non-controlling interest	2,072	2,477	4,953
	8,619	**10,515**	**20,870**

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

for the period ended

Rand million	Note	Reviewed 6 months 30 June 2014	Reviewed 6 months 30 June 2013	Audited 12 months 31 December 2013
Total equity at the beginning of the period		27,184	19,664	19,664
Changes in share capital and premium	6			
Shares issued during the period		–	1	2
Treasury shares issued to employees under employee share incentive schemes		74	79	87
Purchase of treasury shares		–	–	(265)
Changes in reserves				
Equity-settled share-based payment		228	234	504
Vesting of shares under employee share incentive schemes		(74)	(83)	(91)
Total comprehensive income for the period		6,547	8,038	15,917
Dividends paid		(6,462)	(4,047)	(10,561)
Changes in non-controlling interest				
Total comprehensive income for the period		2,072	2,477	4,953
Dividends paid		(2,050)	(1,079)	(3,146)
Movement in non-controlling interest in reserves		46	54	120
Total equity at the end of the period		**27,565**	**25,338**	**27,184**
Comprising				
Share capital and premium (net of treasury shares)	6	(223)	(41)	(297)
Equity-settled share-based payment reserve		1,398	971	1,236
Foreign currency translation reserve		1,047	842	1,010
Cash flow hedge reserve		8	(15)	8
Retained earnings		18,914	17,703	18,874
Shareholders' equity		21,144	19,460	20,831
Attributable to the owners of Kumba		20,281	18,670	19,977
Attributable to the non-controlling interest		863	790	854
Non-controlling interest		6,421	5,878	6,353
Total equity		**27,565**	**25,338**	**27,184**
Dividend (Rand per share)				
Interim *		15.61	20.10	20.10
Final				19.94

** The interim dividend was declared after 30 June 2014 and has not been recognised as a liability in this interim financial report. It will be recognised in shareholders' equity in the year ending 31 December 2014.*

CONDENSED GROUP CASH FLOW STATEMENT

for the period ended

Rand million	Note	Reviewed 6 months 30 June 2014	Reviewed 6 months 30 June 2013	Audited 12 months 31 December 2013
Cash generated from operations		15,340	17,092	29,354
Net finance costs paid		(70)	(80)	(161)
Taxation paid		(2,382)	(2,756)	(6,171)
Cash flows from operating activities		**12,888**	**14,256**	**23,022**
Additions to property, plant and equipment	5	(3,281)	(2,322)	(6,453)
Investments in other financial assets		(2)	–	(17)
Proceeds from the disposal of property, plant and equipment		30	17	37
Proceeds from disposal of investments		–	–	5
Cash flows from investing activities		**(3,253)**	**(2,305)**	**(6,428)**
Shares issued	6	–	1	2
Purchase of treasury shares	6	–	–	(265)
Dividends paid to owners of Kumba		(6,422)	(4,047)	(10,500)
Dividends paid to non-controlling shareholders		(2,090)	(1,079)	(3,207)
Net interest-bearing borrowings raised/(repaid)	7	877	(5,831)	(3,332)
Cash flows from financing activities		**(7,635)**	**(10,956)**	**(17,302)**
Net increase/(decrease) in cash and cash equivalents		2,000	995	(708)
Cash and cash equivalents at beginning of period		1,053	1,527	1,527
Exchange differences on translation of cash and cash equivalents		(14)	163	234
Cash and cash equivalents at end of period		**3,039**	**2,685**	**1,053**

HEADLINE EARNINGS

for the period ended

Rand million	Reviewed 6 months 30 June 2014	Reviewed 6 months 30 June 2013	Audited 12 months 31 December 2013
Reconciliation of headline earnings			
Profit attributable to owners of Kumba	6,511	7,759	15,446
Net profit on disposal and scrapping of property, plant and equipment	(3)	(13)	(2)
Net profit on disposal of investment	–	(5)	(5)
	6,508	**7,741**	**15,439**
Taxation effect of adjustments	1	4	3
Non-controlling interest in adjustments	(4)	3	1
Headline earnings	**6,505**	**7,748**	**15,443**
Headline earnings (Rand per share)			
Basic	20.28	24.13	48.08
Diluted	20.24	24.08	48.02
The calculation of basic and diluted earnings and headline earnings per share is based on the weighted average number of ordinary shares in issue as follows:			
Weighted average number of ordinary shares	320,745,287	321,149,798	321,186,591
Diluted weighted average number of ordinary shares	321,377,681	321,745,418	321,595,563

The adjustment of 632,394 at 30 June 2014 (30 June 2013: 595,620) shares to the weighted average number of ordinary shares is as a result of the vesting of share options previously granted under the various employee share incentive schemes.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL REPORT

for the six months ended 30 June 2014

1. CORPORATE INFORMATION

Kumba is a limited liability company incorporated and domiciled in South Africa. The main business of Kumba, its subsidiaries, joint ventures and associates is the exploration, extraction, beneficiation, marketing, sale, and shipping of iron ore. The group is listed on the JSE Limited (JSE).

The condensed consolidated financial report of Kumba and its subsidiaries for the six months ended 30 June 2014 was authorised for issue in accordance with a resolution of the directors on 18 July 2014.

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements has been prepared, under the supervision of FT Kotzee CA(SA), chief financial officer, and in accordance with International Financial Reporting Standard, IAS 34 *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by Financial Reporting Standards Council, and the requirements of the South African Companies Act No 71 of 2008.

The condensed consolidated interim financial report has been prepared in accordance with the historical cost convention except for certain financial instruments, share-based payments and biological assets which are stated at fair value, and is presented in Rand, which is Kumba's functional and presentation currency.

3. ACCOUNTING POLICIES

The accounting policies and methods of computation applied in the preparation of these interim financial statements are in terms of International Financial Reporting Standards and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements.

No new standards, amendments to published standards or interpretations which became effective for the year commencing on 1 January 2014 had an effect on the reported results or the group accounting policies.

The group did not early adopt any new, revised or amended accounting standards or interpretations.

The accounting standards, amendments to issued accounting standards and interpretations, which are relevant to the group but not yet effective at 30 June 2014, are being evaluated for the impact of these pronouncements.

4. CHANGE IN ESTIMATES

The life of mine plan on which accounting estimates are based, only includes proved and probable ore reserves as disclosed in Kumba's 2013 annual ore reserves and mineral resources statement.

Management has revised the estimated rehabilitation and decommissioning provisions for the three mines. Management has also revised the Sishen and Thabazimbi life of mine used to calculate the mines' provisions. This resulted in a decrease of the provisions, offset by the notional interest raised for the period.

The effect of this change is detailed below:

Rand million	Reviewed 30 June 2014
Increase in environmental rehabilitation provision	(13)
Decrease in decommissioning provision	(3)

The change in estimate in the environmental rehabilitation provision was applied prospectively from 1 January 2014 and resulted in a increase in attributable profit and basic, diluted and headline earnings per share for the period ended 30 June 2014 of R13 million and 3 cents, respectively. The change in estimate in the decommissioning provision has been capitalised to the related property, plant and equipment.

The revised Sishen and Thabazimbi life of mine plans extended the useful lives of certain classes of fixed assets. The change was applied prospectively from the date on which the revised life of mine plans were approved.

5. PROPERTY, PLANT AND EQUIPMENT

Rand million	Reviewed 30 June 2014	Reviewed 30 June 2013	Audited 31 December 2013
Capital expenditure	**3,281**	**2,322**	**6,453**
Expansion	438	451	1,132
Stay in business (SIB)	2,200	1,465	4,498
Deferred stripping	643	406	823
Transfers from assets under construction to property, plant and equipment	**893**	**2,074**	**5,864**

Expansion capital expenditure comprised of the expenditure on the Dingleton project and the upgrade of the group's financial systems. SIB capital expenditure to maintain operations was principally for the acquisition of heavy mining equipment, infrastructure and housing developments.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL REPORT

for the six months ended 30 June 2014

6. SHARE CAPITAL AND SHARE PREMIUM

Reconciliation of share capital and share premium (net of treasury shares):

Rand million	Reviewed 30 June 2014	Reviewed 30 June 2013	Audited 31 December 2013
Balance at beginning of period	(297)	(121)	(121)
Total shares issued for cash consideration	–	1	2
Shares issued – share premium	–	–	2
Net movement in shares held by Kumba Iron Ore Management Share Trust	–	1	–
Net movement in treasury shares under employee share incentive schemes	74	79	(178)
Purchase of treasury shares	–	–	(265)
Shares issued to employees	74	79	87
Share capital and share premium	**(223)**	**(41)**	**(297)**

Reconciliation of number of shares in issue:

Number of shares	Reviewed 30 June 2014	Reviewed 30 June 2013	Audited 31 December 2013
Balance at beginning of period	322,085,974	322,058,624	322,058,624
Ordinary shares issued	–	27,350	27,350
Balance at end of period	**322,085,974**	**322,085,974**	**322,085,974**
Reconciliation of treasury shares held:			
Balance at beginning of period	1,444,526	1,064,531	1,064,531
Shares purchased	-	8,573	660,923
Shares issued to employees under the Long-Term Incentive Plan, Kumba Bonus Share Plan and Share Appreciation Rights Scheme	(169,202)	(207,494)	(251,570)
Net movement in shares held by Kumba Iron Ore Management Share Trust	-	9,870	(29,358)
Balance at end of period	**1,275,324**	**875,480**	**1,444,526**

All treasury shares are held as conditional awards under the Kumba Bonus Share Plan (30 June 2013: 836,252 shares).

7. INTEREST-BEARING BORROWINGS

Kumba's net debt/(cash) position at the balance sheet dates was as follows:

Rand million	Reviewed 30 June 2014	Reviewed 30 June 2013	Audited 31 December 2013
Interest-bearing borrowings	3,726	358	2,849
Cash and cash equivalents	(3,039)	(2,685)	(1,053)
Net debt/(cash)	**687**	**(2,327)**	**1,796**
Total equity	**27,565**	**25,338**	**27,184**
Interest cover (times)	**90**	**108**	**102**

Movements in interest-bearing borrowings are analysed as follows:

Rand million	Reviewed 30 June 2014	Reviewed 30 June 2013	Audited 31 December 2013
Balance at the beginning of the period	2,849	5,869	5,869
Interest-bearing borrowings raised	9,969	8,290	2,000
Interest-bearing borrowings repaid	(9,068)	(14,121)	(5,332)
Finance lease (repaid)/raised	(24)	320	312
Balance at the end of the period	**3,726**	**358**	**2,849**

At 30 June 2014, R2.0 billion of the R10.9 billion long-term debt facility had been drawn down and R1.5 billion of the total short-term uncommitted facilities of R9.1 billion had been drawn down. Kumba was not in breach of any of its financial covenants during the period. The group had undrawn long-term borrowings and uncommitted short-term facilities of R16.5 billion (June 2013: R15 billion).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL REPORT

for the six months ended 30 June 2014

8. SIGNIFICANT ITEMS INCLUDED IN OPERATING PROFIT

Operating expenses is made up as follows:

Rand million	Reviewed 6 months 30 June 2014	Reviewed 6 months 30 June 2013	Audited 12 months 31 December 2013
Production costs	8,396	6,914	15,411
Movement in inventories	479	153	257
Finished products	336	497	1,141
Work-in-progress	143	(344)	(884)
Cost of goods sold	8,875	7,067	15,668
Mineral royalty	835	904	2,157
Selling and distribution costs	2,208	2,324	4,538
Cost of services rendered – shipping	2,222	1,681	3,747
Sublease rent received	(16)	(16)	(34)
Operating expenses	**14,124**	**11,960**	**26,076**
Operating profit has been derived after taking into account the following items:			
Employee expenses	1,754	1,454	3,039
Share-based payment expenses	276	303	635
Depreciation of property, plant and equipment	1,134	918	2,039
Deferred waste stripping costs capitalised	(643)	(406)	(823)
Net profit on disposal and scrapping of property, plant and equipment	(3)	(13)	(2)
Net profit on disposal of investment	–	–	(5)
Finance gains	(228)	(562)	(830)

9. RELATED PARTY TRANSACTIONS

During the period, Kumba, in the ordinary course of business, entered into various sale, purchase and service transactions with associates, joint ventures, fellow subsidiaries, its holding company and Exxaro Resources Limited. These transactions were subject to terms that are no less favourable than those offered by third parties.

Rand million	Reviewed 6 months 30 June 2014	Reviewed 6 months 30 June 2013	Audited 12 months 31 December 2013
Interest earned on short-term deposits[1] with Anglo American SA Finance Limited[2] (AASAF) during the period	27	20	96
Weighted average interest rate	5.37%	4.94%	4.96%
Short-term deposit held with Anglo American Capital plc[2]	2,447	2,200	572
Interest earned on facility during the period	*	*	*
Interest-bearing borrowing from AASAF	1,469	49	568
Interest paid on borrowings during the period	5	77	204
Weighted average interest rate	6.34%	6.51%	6.63%
Trade payable owing to Anglo American Marketing Limited[2] (AAML)	242	88	356
Shipping services provided by AAML	2,277	1,779	4,058
Dividends paid to Exxaro Resources Limited	1,736	914	1,750

[1)] There were no short-term deposits placed with AASAF on the reporting dates for all periods presented.

[2)] Subsidiaries of the ultimate holding company.

** Interest earned on the deposit is insignificant and is earned at prevailing market rates.*

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL REPORT

for the six months ended 30 June 2014

10. SEGMENTAL REPORTING

The total reported segment revenue is measured in a manner consistent with that disclosed in the income statement. The performance of the operating segments are assessed based on a measure of earnings before interest and taxation (EBIT), which is measured in a manner 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 assets.

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

	Products[1]			Services			
Rand million	Sishen mine	Kolomela mine	Thabazimbi mine	Logistics	Shipping operations	Other	Total
Reviewed six months ended 30 June 2014							
Income statement							
Revenue from external customers	18,744	4,790	777	–	2,118	–	**26,429**
EBIT[2]	12,237	3,080	(77)	(2,208)	(104)	(623)	**12,305**
Significant items included in EBIT:							
Depreciation	813	303	3	3	–	12	**1,134**
Staff costs	1,175	274	200	13	–	368	**2,030**
Balance sheet							
Total segment assets	183	214	130	422	–	226	**1,175**
Cash flow statement							
Additions to property, plant and equipment							
Expansion capex[3]	261	62	–	–	–	115	**438**
Stay-in-business capex[4]	1,798	372	–	1	–	29	**2,200**
Deferred stripping	335	92	216	–	–	–	**643**

Rand million	Products[1] Sishen mine	Kolomela mine	Thabazimbi mine	Services Logistics	Shipping operations	Other	Total
Reviewed six months ended 30 June 2013							
Income statement							
Revenue from external customers	18,124	6,091	522	–	1,562		**26,299**
EBIT	13,598	4,493	82	(2,324)	(119)		**15,730**
Significant items included in EBIT:							
Depreciation	631	273	1	2	–	11	**918**
Staff costs	996	226	174	–	3	358	**1,757**
Balance sheet							
Total segment assets	135	80	106	574	–	216	**1,111**
Cash flow statement							
Additions to property, plant and equipment							
Expansion capex[3]	54	208	–	106	–	83	**451**
Stay-in-business capex	1,375	66	–	–	–	24	**1,465**
Deferred stripping	323	83	–	–	–	–	**406**
Audited year ended 31 December 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)	**28,835**
Significant items 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[3]	484	285	8	108	–	247	**1,132**
Stay-in-business capex	3,933	564	1	–	–	–	**4,498**
Deferred stripping	637	186	–	–	–	–	**823**

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

2) 0.7Mt of Sishen ore sold to ArcelorMittal S.A. was priced at a Thabazimbi Floor Price (TFP) stipulated in the Supply Agreement. This resulted in R139 million of additional revenue for the segment, when compared to the revenue that it would have earned on these tonnes if sold at the Sishen price applied to the balance of the domestic sales.

3) The capital expenditure allocated to the 'Other' segment is in respect of an information management systems upgrade rolled out groupwide. This expenditure has not been allocated to the various segments.

4) Thabazimbi mine's stay-in-business and expansion capex is derecognised, as these assets are deemed to be leased to ArcelorMittal S.A. based on the terms of the Supply Agreement (IFRIC 4 adjustment).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL REPORT

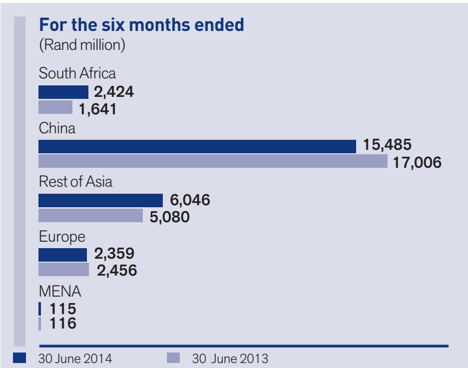
for the six months ended 30 June 2014

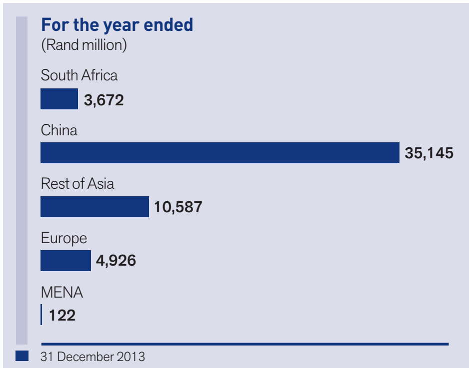
10. SEGMENTAL REPORTING CONTINUED

Rand million	Reviewed 30 June 2014	Reviewed 30 June 2013	Audited 31 December 2013
Reconciliation of segments' assets to total inventory:			
Segment assets	1,175	1,111	1,194
WIP inventory, plant spares and stores	3,953	3,353	3,977
Inventory per balance sheet	5,128	4,464	5,171

Geographical analysis of revenue and non-current assets

Total revenue from external customers





Non-current assets

All non-current assets, excluding prepayments, investments in associates and joint ventures and deferred tax assets, are located in South Africa, with the exception of R2 million located in Singapore (June 2013: R2 million).

11. 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. The terms of the agreement are continued to be met and the amount is no longer material.

12. GUARANTEES

During the period ended 30 June 2014, the group negotiated additional financial guarantee facilities of R88 million for the group's environmental rehabilitation and decommissioning obligations to the DMR with Rand Merchant Bank.

The total guarantees issued for environmental closure liabilities at 30 June 2014 are R2.1 billion (June 2013: R986 million; December 2013: R2.1 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 R419 million (2013: R'nil). ArcelorMittal S.A. has guaranteed this full amount by means of bank guarantees issued in favour of SIOC.

13. LEGAL PROCEEDINGS

There have been no significant changes to the legal matters reported on for the year ended 31 December 2013. SIOC has not yet been awarded the 21.4% Sishen mining right, which it applied for following the Constitutional Court judgment on the matter in December 2013.

14. OTHER

As at 30 June 2014, the South African tax authorities were in the process of reviewing certain of the group's tax matters. The board believes that these matters have been appropriately treated in the results for the period ended 30 June 2014.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL REPORT

for the six months ended 30 June 2014

15. CORPORATE GOVERNANCE

The group subscribes to the Code of Good Corporate Practices and Conduct and complies with the recommendations of the King III Report. Full disclosure of the group's compliance is contained in the 2013 Integrated Report.

16. EVENTS AFTER THE REPORTING PERIOD

No further material events have occurred between the end of the reporting period and the date of the release of these reviewed condensed consolidated financial statements.

17. INDEPENDENT AUDITORS' REVIEW REPORT

The auditors, Deloitte & Touche, have issued their unmodified review report on the condensed consolidated interim financial report for the six months ended 30 June 2014. The review was conducted in accordance with ISRE 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A copy of their unmodified review report is available for inspection at the company's registered office.

Any reference to future financial performance included in this announcement has not been reviewed or reported on by the company's auditors.

On behalf of the board

F Titi
Chairman

NB Mbazima
Chief executive

18 July 2014
Pretoria

NOTICE OF INTERIM CASH DIVIDEND

At its Board meeting on 18 July 2014 the directors approved a gross interim cash dividend of 1,561 cents per share on the ordinary shares from profits accrued during the period ended 30 June 2014. The dividend has been declared from income reserves.

The dividend will be subject to a dividend withholding tax of 15% for all shareholders who are not exempt from or do not qualify for a reduced rate of withholding tax. The net dividend payable to shareholders subject to withholding tax at a rate of 15% amounts to 1,326.85000 cents per share.

The issued share capital at the declaration date is 322,085,974 ordinary shares.

The salient dates are as follows:

• Date of declaration	Tuesday, 22 July 2014
• Last day for trading to qualify and participate in the interim dividend (and change of address or dividend instructions)	Friday, 8 August 2014
• Trading ex-dividend commences	Monday, 11 August 2014
• Record date	Friday, 15 August 2014
• Dividend payment date	Monday, 18 August 2014

Share certificates may not be dematerialised or rematerialised between Monday, 11 August 2014 and Friday, 15 August 2014, both days inclusive.

By order of the Board

KN Lester
Acting company secretary

18 July 2014
Pretoria

ADMINISTRATION

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Republic of South Africa
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SPONSOR TO KUMBA:

RAND MERCHANT BANK (a division of FirstRand Bank Limited)

DIRECTORS:

Non-executive: F Titi (chairman), ZBM Bassa, GS Gouws, KT Kweyama, DD Mokgatle, AJ Morgan, LM Nyhonyha, AM O'Neill, BP Sonjica

Executive: NB Mbazima (chief executive), FT Kotzee (chief financial officer)

ACTING COMPANY SECRETARY:

KN Lester

COMPANY REGISTRATION NUMBER:

No 2005/015852/06
Incorporated in the Republic of South Africa

INCOME TAX NUMBER:

9586/481/15/3

JSE code: KIO

ISIN: ZAE000085346

('Kumba' or 'the company' or 'the group')

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