AngloAmerican

KUMBA IRON ORE

NEWS RELEASE

14 February 2017

Kumba Iron Ore Limited Annual results for the year ended 31 December 2016

Kumba Iron Ore Limited ('Kumba' or 'the Group') announces its results for the year ended 31 December 2016.

Themba Mkhwanazi, CEO of Kumba Iron Ore, said, "It has been a successful year for Kumba, despite challenging and volatile iron ore markets. We acted quickly to restructure the business, reset the cost base and stabilise operating performance. In addition, we were awarded the residual Sishen mining right and settled our tax matter with SARS. We can now draw a line under these issues and focus on the business.

"The rise in prices and realising full value for Kumba's premium product, together with our cost reductions, resulted in improved margins and strong cash flow generation. With total production of 41.5Mt, both Sishen and Kolomela exceeded operational guidance following a successful restructuring. Controllable costs were reduced by 34% lowering our average cash breakeven price to $29/tonne. Strong demand for our high quality product combined with excellent marketing allowed us to realise an impressive average price of $64 FOB - up 18% on last year."

"This year's excellent performance has enabled us to build a strong balance sheet and a net cash position of R6.2bn. This will support a conservative capital structure and place us, as a single commodity miner, in a strong position to deal with potential further market volatility."

Key features

- Regrettably, two fatalities
- Production of 41.5Mt, Sishen and Kolomela exceeding targets
- Substantial 34% reduction in controllable costs
- HEPS of R27.30 per share, up 131%
- Average cash breakeven price reduced to $29/tonne on the back of an average realised price of $64/tonne
- Balance sheet strengthened to net cash position of R6.2bn
- Sishen 21.4% residual mining right awarded and settlement agreement reached with SARS

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Safety

Safety remains the key priority for the Group. Regrettably two of our colleagues, Grahame Skansi and Gideon Dihaisi, lost their lives in the first half of the year. During the year, we have greatly strengthened our focus on the prevention of injuries and the elimination of fatalities, and adopted a framework to drive this objective with an emphasis on leadership, operational risk management and the implementation of critical controls. This was supported by increasing employee engagement, safer technologies, and additional leadership interventions aimed at pursuing a zero harm workplace. The total recordable case frequency rate (TRCFR), a measure of frequency of injuries, reduced to 0.78 (2015: 0.89) and the lost-time injury frequency rate (LTIFR) was 0.28 (2015: 0.23).

A pleasing set of results in a year of transition

Over the past two years Kumba implemented key interventions to reset the cost base and preserve cash. This entailed moving from a volume to a value based strategy by reconfiguring the mines to reduce the amount of waste mined and to reduce costs in all operational areas. The strong set of results delivered in 2016 reflects not only the benefit of higher iron ore prices, but the progress made in the execution of this strategy. Headline earnings per share increased by 131% to R27.30 (2015: R11.82). Basic earnings rose to R26.98 per share, compared to the R1.46 per share in 2015 which was impacted by the impairment charge relating to Sishen mine of R6bn. Normalised earnings were 108% higher than the comparative period at R27.10 per share (2015: R13.02 per share).

Sishen delivered a robust performance despite the operational challenges experienced in the first half as a result of the transition to the revised pit configuration. The new mine plan, based on a lower cost pit shell, was successfully implemented and the mine delivered against key priorities for the year, achieving a marked recovery in productivity during the second half of the year. The substantial workforce restructuring was completed and regrettably some 2,500 full-time employees and contractors left the company. This took place mainly through voluntary separation and without any work stoppages. We are pleased that overall labour relations have been stable throughout the year. The mine delivered a strong improvement in operational performance for the full year, producing 28Mt, exceeding our target of 27Mt. Waste mined of 137Mt was at the lower end of the targeted range.

Kolomela exceeded expectations yet again, producing 12.7Mt, benefitting from increased throughput as a result of further plant optimisation. The mine, which was originally designed to produce 9Mtpa, is on track to produce between 13Mt and 14Mt in 2017 without significant additional capital expenditure.

Total production for the year was 41.5Mt, a decrease of 8%, in line with planned lower mining volumes at Sishen. Export sales of 39.1Mt were achieved. Higher realised iron ore prices and robust cost management resulted in the Group's operating margin rising from 24% to 38%. Kumba realised an average FOB price of US$64/tonne in 2016 (2015: $53/tonne) due to efficient marketing activities and a greater demand for higher grade ore. This was aided by the 15% weaker average ZAR/US$ exchange rate (2016: R14.69; 2015: R12.76), partially offset by 11% lower total sales volumes of 42.5Mt (2015: 47.8Mt).

Controllable costs reduced by 34% driven by a 24% decrease in operating expenditure to R25.4bn and 65% lower capital expenditure of R2.4bn. As a result, free cash flow generation increased by 181% to R16.7bn, strengthening the balance sheet to a net cash position of R6.2bn. Kumba's average cash breakeven price for the year reduced to $29/tonne from $49/tonne in 2015, below the guided range of $32 - $40/tonne.

The tough decisions taken to reset the cost base, stabilise operating performance and improve financial health, have made the company more resilient and better positioned to cope with volatile market conditions. Going forward the Group is targeting further improvements in productivity rates and reductions in operating costs. Ongoing headwinds, such as cost inflation, achieving the required improvement in operational performance at Sishen and the rising strip ratio, make further progress from the current base essential.

Regulatory update

Sishen 21.4% residual mining right award

In October 2016, the Department of Mineral Resources (DMR) granted the residual 21.4% undivided share of the mining right for the Sishen mine to Kumba's subsidiary, Sishen Iron Ore Company (Pty) Ltd (SIOC) following the completion of an internal appeal process, as prescribed by section 96 of the Minerals and Petroleum Resources Development Act (MPRDA).

As a result of the grant of the residual 21.4% undivided share, SIOC is now the sole and exclusive holder of the right to mine iron ore and quartzite at the Sishen mine. This residual mining right will be incorporated into the 78.6% Sishen mining right that SIOC successfully converted in 2009.

The consent to amend SIOC's mining right, by the inclusion of the residual 21.4% undivided share, is subject to various conditions. The conditions, where applicable, will ultimately form part of the conditions to the Sishen mining right. These include the requirement for the continuation of the existing Export Parity Price based supply agreement between SIOC and ArcelorMittal SA Limited (AMSA) in its role as a strategic South African steel producer, as well as SIOC's continued support of skills development, research and development and initiatives to enable preferential procurement.

Settlement agreement with SARS

The Group has concluded an agreement with the South African Revenue Service (SARS) to settle a dispute relating to assessments received for the years 2006 to 2010 inclusive, and the tax treatment of the relevant issues in the years 2011 to 2015 inclusive, for a full and final total settlement amount of R2.5bn.

An amount of R1.5bn had previously been provided for in the Group's annual financial statements for the tax years up to 2015, and an additional R1.0bn has been accounted for in 2016 in respect of this settlement agreement. The settlement will be paid in full in Q1 2017, with appropriate adjustments made for current advance payments held on account.

The 2016 tax charge has been computed on a basis that is consistent with the settlement agreement.

As a responsible corporate citizen, our policy is to be tax compliant in all jurisdictions in which we operate.

Dividend

In line with the Board's policy of declaring excess cash, the declaration of a dividend is reviewed at each interim and annual reporting period, taking into account, amongst other things, the Group's net funding position. The Board remains cognisant of the volatility in certain uncontrollable market factors, such as iron ore prices, which are expected to be under pressure from continued supply growth, as well as exchange rates and freight rates.

While the reinstatement of the dividend is a key priority for the Group, the Board concluded that it would be prudent to remain ungeared over the short to medium term whilst the period of price volatility continues. Furthermore, in order to maintain balance sheet flexibility in the context of the Anglo American portfolio review, the Board has decided not to declare a final 2016 dividend, but will review this again during the course of 2017.

Unwind of Envision

On 10 November 2016, the second phase of SIOC's employee share ownership scheme trust, Envision, came to an end. As a result of the weighted average share price being below the strike price on vesting date, none of the shares vested to beneficiaries of the Trust. Consequently there was no capital distribution to employees. However, over Envision's second tenure of 5 years, the Trust received

R1.58bn in dividends, of which R557m was distributed to employees (~R75,000 per employee after tax).

Thabazimbi transfer to AMSA

SIOC and AMSA announced that they have entered into an agreement to transfer Thabazimbi mine to AMSA. The agreement is expected to become effective in the first half of 2017. Upon the transaction becoming effective, the employees, assets and liabilities will transfer to AMSA at a nominal purchase consideration plus the assumed liabilities of which 96% is already AMSA's contractual liability. These liabilities include the mine's social closure plan based on the identified need of the Thabazimbi community. If the conditions are not satisfied by 28 April 2017 (or a later date agreed to by the companies), the agreement will lapse and SIOC will proceed with the closure of the mine.

The transfer would simplify the current arrangement by making AMSA solely responsible for Thabazimbi's closure and rehabilitation.

The Thabazimbi mine assets and related liabilities that will transfer to AMSA have been presented separately in the balance sheet as assets and liabilities of the disposal group held for sale at 31 December 2016 (refer to note 10 in the summarised consolidated financial statements).

Market overview

Iron ore prices (Platts 62% Fe CFR China) improved from previous lows of US$38.50/dmt in mid-December 2015 to US$79.65/dmt by the end of 2016, approximately doubling from the beginning of the year. The average index iron ore price for the year increased by 5.3% to US$58/dmt. The price rise has been supported by a moderate recovery in Chinese crude steel production and easing supply growth from Australia and Brazil. The average lump premium also benefitted, increasing by 6.1% during 2016 to US$0.15/dmtu by year end, on the back of greater demand for direct charge materials and increased environmental inspections in China which primarily targeted sintering capacity.

Seaborne supply growth, although moderating, in combination with subdued growth in crude steel production is expected to put pressure on prices going forward.

Operational performance

Production summary (unaudited)

	' 000 tonnes		% change
	December 2016	December 2015	
Total	**41,476**	**44,878**	**(8)**
- Lump	26,802	29,003	(8)
- Fines	14,674	15,875	(8)
Mine production	**41,476**	**44,878**	**(8)**
- Sishen Mine	28,380	31,393	(10)
DMS Plant	17,432	20,261	(13)
Jig Plant	10,948	11,132	(4)
- Kolomela Mine	12,726	12,054	6
- Thabazimbi Mine	370	1,431	(74)

Sishen mine

Sishen delivered a robust performance despite a challenging first half. During the year a new mine plan, based on a lower cost pit shell, was finalised and successfully implemented. The workforce restructuring was completed without interruption and mining was stabilised at higher second half run rates.

The mine produced 28.4Mt (2015: 31.4Mt) for the full year, a decrease of 10% with total tonnes mined reducing by 32% to 178.3Mt (2015: 261.4Mt) in line with the new plan. The higher production resulted from improved mining productivity, access to low strip ratio ore and higher plant yields during the second half. Waste removal was within the lower end of the targeted range (135-150Mt) at 137Mt (2015: 222Mt), impacted by equipment efficiencies. Run rates have been stable, stockpiles built up and contractor capacity is in place to ensure targets are met.

The Sishen modular plant progressed to feasibility phase and is expected to be commissioned in 2018, and will produce 0.7Mt over the life of mine, with indicative capital expenditure of around R400m.

Kolomela mine

Kolomela continued to surpass expectations producing 12.7Mt (2015: 12.1Mt) an increase of 5%, as efficiencies and throughput in the plant continued to improve. The mine is on track to produce between 13Mt and 14Mt for 2017. Total tonnes mined increased by 6% to 64Mt (2015: 60.6Mt), including 50.2Mt of waste (2015: 45.7Mt), an increase of 10%, in line with higher production.

The mine plan at Kolomela was optimised, which included the ramping up of production, and the deferral of mining at the third pit. The modular plant was also commissioned in the third quarter and is on track to deliver ~0.7Mt in 2017.

The drive to increase plant throughput will continue at Kolomela using the Operating Model and technology benefits. The mine is targeting a 20% improvement in fleet efficiency for 2017 to offset cost inflation. Kolomela's life of mine decreased from 21 to 18 years as a result of the planned ramp-up in production.

Logistics

Total ore railed was 39.8Mt, a decrease of 2.6Mt in line with lower production from Sishen. Although, higher production rates were achieved in the second half, this resulted in rail and port constraints, which were exacerbated by the planned maintenance shutdown in the third quarter. Rail volumes included 0.1Mt purchased from third party producers. Kumba shipped 38.7Mt from the Saldanha Port for the export market, an 11% decrease from the 43.5Mt in 2015.

Sales summary (unaudited)

Sales summary			
	' 000 tonnes		% change
	December 2016	December 2015	vs
Total	**42,484**	**47,837**	**(11)**
- Export sales	39,061	43,560	(10)
- Domestic sales	3,423	4,277	(20)
Sishen mine	2,735	2,966	(8)
Thabazimbi mine	688	1,311	(48)

Sales

Total sales decreased by 11% to 42.5Mt (2015: 47.8Mt). Export sales of 39.1Mt were achieved, 10% lower as a result of planned lower production at Sishen. China accounted for 64% (2015: 63%) of the export sales portfolio and CFR sales accounted for 70%. The Group's lump:fine sales ratio was 64:36 for the period (2015: 65:35). Domestic sales to AMSA amounted to 3.4Mt (2015: 4.3Mt).

Finished product stock reduced from 4.7Mt at the end of 2015 to a more optimal level of 3.5Mt at 31 December 2016.

Financial results

Impairment assessment

In the prior year, the Group recognised an impairment charge of R6bn with respect to the property, plant and equipment of Sishen mine. Given that market conditions have improved in the current year, it was considered appropriate to re-assess Sishen mine for impairment at 31 December 2016.

Despite the short-term volatility in iron ore prices, continued supply growth is expected to put pressure on long-term iron ore prices. In this context, no portion of the impairment charge previously recognised was reversed.

Refer to note 5 in the summarised consolidated financial statements which detail the key assumptions applied in preparing the impairment calculation.

Discontinued operation

Following the decision to close the Thabazimbi mine in 2015, mining activities ceased in September 2015 and the remaining plant operations ceased on 31 March 2016. The Thabazimbi operation is therefore classified as a discontinued operation for the year ended 31 December 2016, and as a result, the comparative figures have been restated to present the discontinued operation separately from continuing operations.

Revenue

The Group's total revenue of R40.8bn for the period increased by 13% from R36.1bn in 2015, mainly as a result of the increase in average realised FOB iron ore prices (2016: US$64/tonne; 2015: US$53/tonne), and the weaker average ZAR/US$ exchange rate (2016: R14.69; 2015: R12.76). This was partially offset by 11% lower total sales volumes of 42.5Mt (2015: 47.8Mt). Capesize freight rates from Saldanha to China averaged $6.81/tonne for the year, a 15% decrease, resulting in a R665m decrease in freight revenue.

Operating expenses

Operating expenses, excluding impairments and royalties, decreased by 10% as a result of the stringent cost control measures implemented. Mining costs decreased by 17% in real terms from lower mining volumes, fuel prices and contractors' rates. This was offset by a decrease in the capitalisation of deferred stripping costs due to lower waste volumes and strip ratio at Sishen.

Unit cash costs at Sishen mine decreased by 5% to R296/tonne, (2015: R311/tonne), driven by the 38% decrease in waste mined. The lower mining volumes were partially offset by lower production volumes, lower deferred stripping and input cost pressures. Cost escalation was contained below inflation principally as a result of lower fuel prices.

Kolomela mine incurred unit cash costs of R201/tonne (2015: R178/tonne), a 13% increase. Higher mining volumes and lower deferred stripping were the main contributors. Cost escalation was contained well below inflation at 3% as a result of lower diesel prices and cost of blasting material, which was partially offset by higher production.

Operating profit

Operating profit of R15.3bn increased by 78% (2015: R8.6bn excluding the impairment charge). Kumba's operating profit margin increased to 38% (2015: 24%), 41% from mining activities (2015: 27%). The weakening of the ZAR/US$ exchange rate and the increase in iron ore prices for the year contributed to the increase in profitability.

Cash flow

The Group's cash generated from operations increased by 24% from R13.8bn in 2015 to R17.2bn. The cash was used to pay income tax of R3.4bn (2015: R0.6bn) and capital expenditure of R2.4bn (2015: R6.8bn) was incurred. The increase in the income tax paid in 2016 was as a result of higher profitability and the lower capital expenditure incurred during the year. At 31 December 2016 the Group had a net cash position of R6.2bn (2015: net debt position of R4.6bn). The Group's working capital position remains healthy and included an increase of R2.1bn in trade and other receivables on the back of higher realised prices.

Expansion capital expenditure of R0.9bn focused on the Dingleton relocation project and R1.2bn was spent on stay-in-business (SIB) activities, including heavy mining equipment and infrastructure, and R0.3bn deferred stripping was capitalised. Capital expenditure for 2017, including deferred stripping, is expected to be in the range of R2.6bn to R2.8bn, and between R3.5bn and R3.7bn for 2018, excluding unapproved projects.

Ore reserves and mineral resources

The following changes are reported to the ore reserves and mineral resources relative to that disclosed in the 2015 Kumba Integrated Report.

As at 31 December 2016, Kumba, from a 100% reporting perspective, had access to ore reserves of 744Mt (at 59.7% Fe) at its two mining operations (Sishen and Kolomela), a 16% net decrease from 2015.

Sishen mine's ore reserves reduced by 18% (120.5Mt) This is in line with the guidance provided in the 2015 resource and reserve statement which indicated that reserves were expected to reduce by ~150Mt as a result of the selection of a smaller, but more cost effective, pit layout for the Sishen life of mine. Commensurately, the mineral resources reduced by 19% (98.6Mt). A larger reduction in mineral resources was offset by the inclusion of 213Mt of lower grade mineral resources, following the approval of the prefeasibility study for the Sishen low grade project.

Kolomela's ore reserves decreased by 10%, primarily due to production. The Kolomela mineral resources increased by 8% due to the re-allocation of ore reserves to mineral resources associated with a decrease in the Kapstevel South pit layout size.

As indicated in 2015, Thabazimbi mine's production ceased in 2016, and the mineral resources have been removed from the portfolio as Kumba can no longer demonstrate reasonable prospects for eventual economic extraction.

Kumba's estimated mineral resources, in addition to its ore reserves at the two operations and the Zandrivierspoort magnetite project, totalled 1.1 billion tonnes (at 46.5% Fe), a year-on-year decrease of 8%.

Mining Charter

Significant uncertainty remains around the draft Mining Charter III process which may impact future empowerment of mining companies and granting of new mining rights. The Chamber of Mines is actively engaging in order to obtain greater clarity as to the future requirements and Kumba continues to closely monitor these developments.

Changes in Directorate

The following non-executive directors have stepped down from the board in 2016:

- Mr T O'Neill as non-executive director on 6 February 2016
- Mr LM Nyhonyha as independent non-executive director on 31 December 2016

The Board thanks the directors for their contributions and guidance during their respective tenures and wishes them all the best in their future endeavours.

The Chief executive officer and executive director of the Company, Mr Norman Mbazima stepped down with effect from 30 August 2016.

The Board thanks Mr Mbazima for his impeccable leadership over the last four years, which coincided with tumultuous times for the mining sector and a steep decline in the iron ore price. He responded swiftly to these challenges, and displayed the sort of temperament, technical insight and integrity which attracted the support of staff and stakeholders even as he led the Company through major changes. We wish him every success as he focuses on the wider imperatives of Anglo American in South Africa.

The Company announced the following appointments to the board:

- Mr TM Mkhwanazi as executive director and Chief executive on 1 September 2016
- Mr SG French as non-executive alternate director on 1 November 2016
- Ms NS Dlamini as non-executive director on 1 November 2016.

The Board welcomes Mr Themba Mkhwanazi to his new role as Chief executive of Kumba.
Mr Mkhwanazi was previously the CEO of Anglo American's thermal coal business in South Africa. He has extensive experience in the resources industry, including 18 years in South Africa, as well as in the USA and Australia. Sishen and Kolomela are world class assets, and the Board believes that Mr Mkhwanazi's proven technical, sales and management experience will add great value and will help secure the long-term future of these high quality iron ore mines.

Outlook

The global and local macro-economic and socio-political environment remains challenging despite the recent rise in iron ore prices. Given the current volatility and the long-term iron ore price outlook, cash preservation remains the overriding priority at this stage. Improving productivity, alongside ongoing strict cost discipline and the realisation of appropriate pricing for the company's high quality products are very compelling levers to generate attractive returns with low risk for shareholders. The core focus for 2017 will therefore be to step up these initiatives from current levels, supported by the Operating Model and technology improvements, in order to realise the full potential of the assets, provide confidence in delivery and enhance profitability.

These initiatives are expected to increase mining efficiencies, improve geological confidence and mine to plan compliance, build buffer stockpiles, enhance plant efficiencies and maintain the product quality focus. Clear and concise plans are in place to deliver the required improvement.

The Group will continue with disciplined capital allocation and prioritising the reinstatement of dividends. In addition work continues to progress the value accretive project pipeline by utilising beneficiation technologies for application to ultrafine material to unlock value from what is currently regarded as waste.

Sishen is expected to produce between 27 and 28Mt of iron ore, and 150 to 160Mt of waste, in 2017-2020. As a result of the reconfigured pit, Sishen's life of mine increased from 15 to 17 years. The strip ratio is expected to exceed 4 over the medium term, given higher waste requirements, with the average life of mine strip ratio at ~4. To achieve this, a strong focus on productivity, using the Operating Model, will be required, with an average improvement of 20% in mining equipment efficiencies from current levels. Going forward, our target is to keep Sishen's unit cash costs growth below mining inflation through the productivity initiatives.

The upgrade of the Sishen DMS plant to UHDMS has progressed to pre-feasibility stage and, as a result, the Group has declared an additional 213Mt resource at Sishen. First production is expected by 2020, and is expected to add ~2Mtpa over Sishen's life of mine.

Kolomela is expected to produce between 13-14Mtpa in 2017-2020, with further improvements in plant efficiency and throughput rates, which will be delivered through the Operating Model and technology initiatives. The mine is targeting 20% equipment efficiencies for the year. Waste guidance remains at ~50–55Mt from 2017 to 2020, in line with higher production. The strip ratio is expected be ~3.9 over the medium term, with the average life of mine strip ratio at ~3.8. The ramp up of the modular plant is expected to be completed in 2017, contributing 0.7Mtpa. Kolomela's unit costs are likely to increase principally due to cost escalations and the commissioning of the DMS modular plant.

Kumba is targeting total sales of 40-42Mt in 2017. Domestic sales volumes of up to 6.25Mt are contracted to AMSA.

Profitability remains sensitive to iron ore export prices and the ZAR/US$ exchange rate. Any reference to future financial performance included in this announcement has not been reviewed or reported on by the company's auditors.

Further to the announcement by Anglo American in February 2016 of a potential exit from Kumba, the business and the Board, through a separately constituted committee, have focused on ensuring that Kumba is in a position to sustainably continue business post an exit and that the appropriate governance is in place through an exit process. Shareholders will be updated on any developments related to Anglo American's portfolio review, as appropriate.

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Notes to editors:

Kumba Iron Ore Limited, a member of the Anglo American plc group, is a leading value-adding supplier of high quality iron ore to the global steel industry. Kumba produces iron ore in South Africa at Sishen mine and its Kolomela mine in the Northern Cape Province, and at Thabazimbi mine in the Limpopo Province. Kumba exports iron ore to customers in a range of geographical locations around the globe including China, Japan, Korea and a number of countries in Europe and the Middle East.
www.angloamericankumba.com

Notes to editors:
Anglo American is a globally diversified mining business. Our portfolio of world-class competitive mining operations and undeveloped resources provides the raw materials to meet the growing consumer-driven demands of the world's developed and maturing economies. Our people are at the heart of our business. It is our people who use the latest technologies to find new resources, plan and build our mines and who mine, process and move and market our products – from diamonds (through De Beers) to platinum and other precious metals and copper – to our customers around the world.

As a responsible miner, we are the custodians of those precious resources. We work together with our key partners and stakeholders to unlock the long-term value that those resources represent for our shareholders, but also for the communities and countries in which we operate – creating sustainable value and making a real difference.
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