

**Kumba Iron Ore Limited**

**ANNUAL FINANCIAL RESULTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**100**  
**YEARS**  
1917 - 2017



**DELIVERING CHANGE  
BUILDING RESILIENCE  
FOCUSED EXCELLENCE**



**Real Mining. Real People. Real Difference.**

# DELIVERING CHANGE BUILDING RESILIENCE

## FOCUSED EXCELLENCE

### KEY FEATURES

REGRETTABLY  
**two** FATALITIES

PRODUCTION OF  
**41.5 Mt**,  
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  
**US\$29/tonne** ON THE BACK OF AN AVERAGE  
REALISED PRICE OF **US\$64/tonne**

BALANCE SHEET STRENGTHENED  
TO NET CASH POSITION OF

**R6.2 billion**

SISHEN **21.4%**  
RESIDUAL MINING RIGHT GRANTED  
AND SETTLEMENT AGREEMENT REACHED WITH SARS

Other sources of information



Our website provides more information on  
our Company and its performance.  
[www.angloamericankumba.com](http://www.angloamericankumba.com)

# COMMENTARY

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

## 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 R6 billion. 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 28 Mt, exceeding our target of 27 Mt. Waste mined of 137 Mt was at the lower end of the targeted range.

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

Total production for the year was 41.5 Mt, a decrease of 8%, in line with planned lower mining volumes at Sishen. Export sales of 39.1 Mt 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: US\$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 42.5 Mt (2015: 47.8 Mt).

**COMMENTARY** continued

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

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 R2.5 billion.

An amount of R1.5 billion had previously been provided for in the group's annual financial statements for the tax years up to 2015, and an additional R1.0 billion 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 five years, the Trust received R1.58 billion in dividends, of which R557 million 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 benefited, increasing by 6.1% during 2016 to US\$0.15/dmt by year end, on the back of greater demand for direct charge materials and increased environmental inspections in China which primarily targeted sintering capacity.

**COMMENTARY** continued

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	December 2016	December 2015	% change
<b>Total</b>	<b>41,476</b>	<b>44,878</b>	<b>(8)</b>
Lump	26,802	29,003	(8)
Fines	14,674	15,875	(8)
<b>Mine production</b>	<b>41,476</b>	<b>44,878</b>	<b>(8)</b>
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 28.4 Mt (2015: 31.4 Mt) for the full year, a decrease of 10% with total tonnes mined reducing by 32% to 178.3 Mt (2015: 261.4 Mt) 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 – 150 Mt) at 137 Mt (2015: 222 Mt), 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 0.7 Mt over the life of mine, with indicative capital expenditure of around R400 million.

**Kolomela mine**

Kolomela continued to surpass expectations producing 12.7 Mt (2015: 12.1 Mt), an increase of 5%, as efficiencies and throughput in the plant continued to improve. The mine is on track to produce between 13 Mt and 14 Mt for 2017. Total tonnes mined increased by 6% to 64 Mt (2015: 60.6 Mt), including 50.2 Mt of waste (2015: 45.7 Mt), 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 ~0.7 Mt 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.

### Sales summary (unaudited)

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

### Sales

Total sales decreased by 11% to 42.5 Mt (2015: 47.8 Mt). Export sales of 39.1 Mt 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 3.4 Mt (2015: 4.3 Mt).

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

### Logistics

Total ore railed was 39.8 Mt, a decrease of 2.6 Mt 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 0.1 Mt purchased from third party producers. Kumba shipped 38.7 Mt from the Saldanha port for the export market, an 11% decrease from the 43.5 Mt in 2015.

## FINANCIAL RESULTS

### Impairment assessment

In the prior year, the group recognised an impairment charge of R6 billion 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.

**COMMENTARY** continued

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 R40.8 billion for the period increased by 13% from R36.1 billion 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 42.5 Mt (2015: 47.8 Mt). Capesize freight rates from Saldanha to China averaged \$6.81/tonne for the year, a 15% decrease, resulting in a R665 million 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 R15.3 billion increased by 78% (2015: R8.6 billion 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 R13.8 billion in 2015 to R17.2 billion. The cash was used to pay income tax of R3.4 billion (2015: R0.6 billion) and capital expenditure of R2.4 billion (2015: R6.8 billion) 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 R6.2 billion (2015: net debt



position of R4.6 billion). The group's working capital position remains healthy and included an increase of R2.1 billion in trade and other receivables on the back of higher realised prices.

Expansion capital expenditure of R0.9 billion focused on the Dingleton relocation project and R1.2 billion was spent on stay-in-business (SIB) activities, including heavy mining equipment and infrastructure, and R0.3 billion deferred stripping was capitalised. Capital expenditure for 2017, including deferred stripping, is expected to be in the range of R2.6 billion to R2.8 billion, and between R3.5 billion and R3.7 billion 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 744 Mt (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% (120.5 Mt). This is in line with the guidance provided in the 2015 resource and reserve statement which indicated that reserves were expected to reduce by ~150 Mt 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% (98.6 Mt). A larger reduction in mineral resources was offset by the inclusion of 213 Mt 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 Kapstevl 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 Zandriverspoort 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.

## COMMENTARY continued

The Chief executive 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 28 Mt of iron ore, and 150 to 160 Mt 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 213 Mt resource at Sishen. First production is expected by 2020, and is expected to add ~2 Mtpa over Sishen's life of mine.

Kolomela is expected to produce between 13 – 14 Mtpa 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 – 55 Mt from 2017 to 2020, in line with higher production. The strip ratio is expected to 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 0.7 Mtpa. 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 – 42 Mt in 2017. Domestic sales volumes of up to 6.25 Mt 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.

The presentation of the Company's results for the year ended 31 December 2016 will be available on the Company's website [www.angloamericankumba.com](http://www.angloamericankumba.com) at 07:00 CAT and the webcast will be available from 11:30 CAT on 14 February 2017.

# SALIENT FEATURES AND OPERATING STATISTICS

for the year ended

	Unaudited 31 December 2016	Unaudited 31 December 2015
<b>Share statistics ('000)</b>		
Total shares in issue	322,086	322,086
Weighted average number of shares	319,521	320,817
Treasury shares	2,798	1,110
<b>Market information</b>		
Closing share price (Rand)	159	41
Market capitalisation (Rand million)	51,212	13,270
Market capitalisation (US\$ million)	3,730	858
<b>Net asset value attributable to owners of Kumba (Rand per share)</b>	<b>86.47</b>	59.98
<b>Capital expenditure (Rand million)</b>		
Incurred	2,353	6,752
Contracted	644	1,115
Authorised but not contracted	2,208	1,553
<b>Operating commitments</b>		
Operating lease commitments	89	113
Shipping services	8,692	10,431
<b>Economic information</b>		
Average Rand/US Dollar exchange rate (ZAR/US\$)	14.69	12.76
Closing Rand/US Dollar exchange rate (ZAR/US\$)	13.73	15.47
<b>Sishen mine FOR unit cost</b>		
Unit cost (Rand per tonne)	412.04	403.47
Cash cost (Rand per tonne)	296.19	310.80
Unit cost (US\$ per tonne)	28.05	31.62
Cash cost (US\$ per tonne)	20.16	24.36
<b>Kolomela mine FOR unit cost</b>		
Unit cost (Rand per tonne)	283.42	245.74
Cash cost (Rand per tonne)	201.09	177.70
Unit cost (US\$ per tonne)	19.29	19.26
Cash cost (US\$ per tonne)	13.69	13.93

## SUMMARISED CONSOLIDATED BALANCE SHEET

as at

Rand million	Notes	Audited 31 December 2016	Audited 31 December 2015
<b>ASSETS</b>			
Property, plant and equipment	5	32,131	32,671
Biological assets		2	11
Investments held by environmental trust		559	818
Long-term prepayments and other receivables		84	581
Inventories		2,889	2,560
Deferred tax assets		87	1
<b>Non-current assets</b>		<b>35,752</b>	<b>36,642</b>
Inventories		4,604	5,056
Trade and other receivables		5,253	3,212
Cash and cash equivalents		10,665	3,601
<b>Current assets</b>		<b>20,522</b>	<b>11,869</b>
<b>Assets of disposal group classified as held for sale</b>	10	<b>938</b>	–
<b>Total assets</b>		<b>57,212</b>	<b>48,511</b>
<b>EQUITY</b>			
Shareholders' equity	6	27,850	19,320
Non-controlling interest		8,686	5,847
<b>Total equity</b>		<b>36,536</b>	<b>25,167</b>
<b>Liabilities</b>			
Interest-bearing borrowings	7	4,500	8,000
Provisions		1,967	2,717
Deferred tax liabilities		7,462	7,680
<b>Non-current liabilities</b>		<b>13,929</b>	<b>18,397</b>
Interest-bearing borrowings	7	–	205
Provisions		164	349
Trade and other payables		3,741	3,407
Current tax liabilities		1,906	986
<b>Current liabilities</b>		<b>5,811</b>	<b>4,947</b>
<b>Liabilities of disposal group classified as held for sale</b>	10	<b>936</b>	–
<b>Total liabilities</b>		<b>20,676</b>	<b>23,344</b>
<b>Total equity and liabilities</b>		<b>57,212</b>	<b>48,511</b>

# SUMMARISED CONSOLIDATED INCOME STATEMENT

for the year ended

Rand million	Note	Audited 31 December 2016	Audited Restated 31 December 2015
Revenue		40,155	35,260
Operating expenses		(24,881)	(32,564)
<b>Operating profit</b>	8	<b>15,274</b>	2,696
Finance income		295	148
Finance costs		(496)	(853)
Share of profit of equity accounted joint venture		2	6
Profit before taxation		15,075	1,997
Taxation		(3,934)	(1,280)
<b>Profit for the year from continuing operations</b>		<b>11,141</b>	717
<b>Discontinued operations</b>			
Profit/(loss) from discontinued operations		3	(90)
<b>Profit for the year</b>		<b>11,144</b>	627
<b>Attributable to:</b>			
Owners of Kumba		8,621	469
Non-controlling interest		2,523	158
		<b>11,144</b>	627
<b>Basic earnings/(loss) per share attributable to the ordinary equity holders of Kumba (Rand per share)</b>			
From continuing operations		26.97	1.68
From discontinued operations		0.01	(0.22)
Total basic earnings per share		<b>26.98</b>	1.46
<b>Diluted earnings/(loss) per share attributable to the ordinary equity holders of Kumba (Rand per share)</b>			
From continuing operations		26.83	1.68
From discontinued operations		0.01	(0.22)
Total diluted earnings per share		<b>26.84</b>	1.46

The comparative amounts for 2015 have been restated to reflect Thabazimbi mine as a discontinued operation.

# SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended

Rand million	Audited 31 December 2016	Audited 31 December 2015
<b>Profit for the year</b>	11,144	627
<b>Other comprehensive income for the year, net of tax</b>	(233)	255
Exchange differences on translation of foreign operations <sup>1</sup>	(233)	255
<b>Total comprehensive income for the year</b>	<b>10,911</b>	<b>882</b>
<b>Attributable to:</b>		
Owners of Kumba	8,442	592
Non-controlling interest	2,469	290
	<b>10,911</b>	<b>882</b>

<sup>1</sup> There is no tax attributable to items included in other comprehensive income and all items will be subsequently reclassified to profit or loss.

# SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended

Rand million	Audited 31 December 2016	Audited 31 December 2015
<b>Total equity at the beginning of the year</b>	<b>25,167</b>	27,001
<b>Changes in share capital and premium</b>		
Treasury shares issued to employees under employee share incentive schemes	197	180
Purchase of treasury shares	(180)	–
<b>Changes in reserves</b>		
Equity-settled share-based payment	513	469
Vesting of shares under employee share incentive schemes	(197)	(180)
Total comprehensive income for the year	8,442	592
Dividends paid	–	(2,505)
<b>Changes in non-controlling interest</b>		
Total comprehensive income for the year	2,469	290
Dividends paid	–	(796)
Equity-settled share-based payment	125	116
<b>Total equity at the end of the year</b>	<b>36,536</b>	<b>25,167</b>
<b>Comprising</b>		
Share capital and premium (net of treasury shares)	(114)	(131)
Equity-settled share-based payment reserve*	172	2,021
Foreign currency translation reserve	1,262	1,453
Retained earnings	26,530	15,977
<b>Shareholders' equity</b>	<b>27,850</b>	19,320
Attributable to the owners of Kumba	27,850	18,534
Attributable to non-controlling interest	–	786
Non-controlling interest	8,686	5,847
<b>Total equity</b>	<b>36,536</b>	<b>25,167</b>
<b>Dividend (Rand per share)</b>		
Interim	–	–
Final	–	–

\* The second phase of the employee share ownership scheme, Envision, unwound in November 2016. On vesting, the equity-settled share based payment reserve was reclassified to retained earnings.



# SUMMARISED CONSOLIDATED CASH FLOW STATEMENT

for the year ended

<b>Rand million</b>	<b>Audited 31 December 2016</b>	Audited 31 December 2015
Cash generated from operations	17,218	13,841
Income from investments	2	–
Net finance costs paid	(319)	(578)
Taxation paid	(3,363)	(594)
<b>Cash flows from operating activities</b>	<b>13,538</b>	12,669
Additions to property, plant and equipment	(2,353)	(6,752)
Loan repaid by joint venture	–	5
Proceeds from the disposal of property, plant and equipment	9	120
<b>Cash flows used in investing activities</b>	<b>(2,344)</b>	(6,627)
Purchase of treasury shares	(180)	–
Dividends paid to owners of Kumba	–	(2,490)
Dividends paid to non-controlling shareholders	–	(811)
Net interest-bearing borrowings repaid	(3,705)	(1,388)
<b>Cash flows used in financing activities</b>	<b>(3,885)</b>	(4,689)
<b>Net increase in cash and cash equivalents</b>	<b>7,309</b>	1,353
Cash and cash equivalents at beginning of year	3,601	1,664
Foreign currency exchange gains on cash and cash equivalents	(245)	584
<b>Cash and cash equivalents at end of year</b>	<b>10,665</b>	<b>3,601</b>

**HEADLINE EARNINGS**

for the year ended

<b>Rand million</b>	<b>Audited 31 December 2016</b>	Audited 31 December 2015
<b>Reconciliation of headline earnings</b>		
Profit attributable to owners of Kumba	8,621	469
Impairment charge	4	5,978
Net loss on disposal and scrapping of property, plant and equipment	186	9
Insurance proceeds	–	(29)
	<b>8,811</b>	<b>6,427</b>
Taxation effect of adjustments	(54)	(1,644)
Non-controlling interest in adjustments	(33)	(991)
<b>Headline earnings</b>	<b>8,724</b>	<b>3,792</b>
<b>Headline earnings (Rand per share)</b>		
Basic	27.30	11.82
Diluted	27.16	11.82
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	319,520,658	320,817,364
Diluted weighted average number of ordinary shares	321,163,523	320,817,364

The dilution adjustment of 1,642,865 shares at 31 December 2016 (2015: zero) is a result of the vesting of share options previously granted under the various employee share incentive schemes.

# NORMALISED EARNINGS

for the year ended

<b>Rand million</b>	<b>Unaudited 31 December 2016</b>	Unaudited 31 December 2015
<b>Reconciliation of normalised earnings</b>		
Headline earnings attributable to owners of Kumba	<b>8,724</b>	3,792
Gain on lease receivable	–	(418)
(Recognition)/derecognition of deferred tax asset	<b>(86)</b>	801
	<b>8,638</b>	<b>4,175</b>
Taxation effect of adjustments	–	117
Non-controlling interest in adjustments	<b>20</b>	(115)
<b>Normalised earnings</b>	<b>8,658</b>	<b>4,177</b>
<b>Normalised earnings (Rand per share)</b>		
Basic	<b>27.10</b>	13.02
Diluted	<b>26.96</b>	13.02
The calculation of basic and diluted normalised earnings per share is based on the weighted average number of ordinary shares in issue as follows:		
Weighted average number of ordinary shares	<b>319,520,658</b>	320,817,364
Diluted weighted average number of ordinary shares	<b>321,163,523</b>	320,817,364

This measure of earnings is specific to Kumba and is not required in terms of International Financial Reporting Standards or the JSE Listings Requirements. Normalised earnings represents earnings from the recurring activities of the group.

This is determined by adjusting the headline earnings attributable to the owners of Kumba for non-recurring expense or income items incurred during the year. The recognition of the deferred tax asset is a non-recurring item and has therefore been adjusted in determining normalised earnings.

# **NOTES TO THE AUDITED SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS**

for the year ended 31 December 2016

## **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 audited summarised consolidated financial statements of Kumba and its subsidiaries for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the directors on 10 February 2017.

## **2. BASIS OF PREPARATION**

The audited summarised consolidated financial statements have been prepared, under the supervision of FT Kotzee CA(SA), Chief financial officer, in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports, and the requirements of the South African Companies Act No 71 of 2008 applicable to summary financial statements. The Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*.

The audited summarised consolidated financial statements have 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 applied in the preparation of the consolidated financial statements from which the summarised consolidated financial statements were derived 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, except as disclosed below.

### **3.1 New standards, amendments to published standards and interpretations**

None of the standards, amendments to published standards and interpretations which became effective for the year commencing on 1 January 2016 had an impact on the group.

### **3.2 New standards, amendments to existing standards and interpretations that are not yet effective and have not been early adopted**

In 2016 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 31 December 2016, are being evaluated for the impact of these pronouncements.

#### 4. CHANGE IN ESTIMATES

The measurement of the environmental rehabilitation and decommissioning provisions is a key area where management's judgement is required. The closure provisions are measured at the present value of the expected future cash flows required to perform the rehabilitation and decommissioning. This calculation requires the use of certain estimates and assumptions when determining the amount and timing of the future cash flows and the discount rate. The closure provisions are updated at each balance sheet date for changes in these estimates. The life of mine (LoM) plan on which accounting estimates are based only includes proved and probable ore reserves as disclosed in Kumba's annual ore reserves and mineral resources statement. The most significant change in the provision for 2016 arises from changes in the LoM, inflationary changes and limited scope changes. The effect of the change in estimate of the rehabilitation and decommissioning obligation quantum, which was applied prospectively from 1 January 2016, is detailed below:

	Audited 31 December 2016
<b>Rand million</b>	
Decrease in environmental rehabilitation provision	(3)
Increase in decommissioning provision	9
Increase in profit attributable to the owners of Kumba	1
<b>Rand per share</b>	
Effect on earnings per share attributable to the owners of Kumba	–

The change in estimate in the decommissioning provision has been capitalised to the related property, plant and equipment and as a result had no effect on profit or earnings per share.

#### 5. PROPERTY, PLANT AND EQUIPMENT

	Audited 31 December 2016	Audited 31 December 2015
<b>Rand million</b>		
Capital expenditure	2,520	6,752
Comprising:		
Expansion	856	870
Stay-in-business (SIB)*	1,343	3,030
Deferred stripping	321	2,852
Transfers from assets under construction to property, plant and equipment	2,392	3,419

\*Included in the SIB expenditure above is a non-cash addition of R167 million relating to the unguaranteed residual value under a finance lease.

# NOTES TO THE AUDITED SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December 2016

## 5. PROPERTY, PLANT AND EQUIPMENT continued

Expansion capital expenditure comprises mainly the expenditure on the Dingleton relocation project. SIB capital expenditure to maintain operations was principally for the acquisition of heavy mining equipment and infrastructure.

### Impairment assessment

Kumba produces iron ore at Sishen and Kolomela mines in the Northern Cape province. The two mines are treated as separate cash-generating units (CGUs). Each CGU consists of its respective mining assets located in the Northern Cape. In the 2015 financial year, Sishen was impaired by R6 billion, including an associated deferred tax credit of R1.7 billion. Kolomela was not impaired.

The increases in iron ore prices and Kumba's market capitalisation in the current year were considered indicators for potential impairment reversal for Sishen. The group's non-financial assets, other than inventories and deferred tax assets, were assessed for impairment or reversal of impairment. Recoverable amounts were estimated for individual assets or, where an individual asset cannot generate cash inflows independently, the recoverable amount was determined for the CGU to which the asset belongs.

Consistent with the prior year, the carrying value of Kolomela at 31 December 2016 was recoverable and therefore, no impairment charge was recorded. The recoverable amount of Sishen at 31 December 2016, determined on a discounted cash flow (DCF) basis, was R19.9 billion, which was reasonably comparable to the carrying value of R19.5 billion. Despite the short-term volatility in iron ore prices, continued supply growth is expected to put pressure on iron ore prices. As a result, the group's assumption on the long-term iron ore price outlook remains conservative. In this context, the resulting headroom for the Sishen CGU of R0.4 billion was considered not significant and therefore no portion of the impairment charge previously recognised was reversed.

The DCF model is sensitive to forecast iron ore prices, the ZAR/US\$ exchange rate and the discount rate applied. The valuation is most sensitive to fluctuations in iron ore prices. It was considered whether a reasonably possible change in any of the key assumptions, would result in additional impairment or reversal of previous impairment, as shown in the table below:

Assumption	Movement in assumption	Result of sensitivity Additional impairment/ (Reversal of impairment) R'billion
Iron ore price	-/+ 5%	1.8 / (2.6)
ZAR/US\$ exchange rates	-/+ 5%	1.6 / (2.5)
Discount rate	+/- 100 basis points	1.1 / (2.2)

## 6. SHARE CAPITAL AND SHARE PREMIUM

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

<b>Rand million</b>	<b>Audited 31 December 2016</b>	Audited 31 December 2015
Balance at beginning of year	(131)	(311)
Net movement in treasury shares under employee share incentive schemes	17	180
Purchase of treasury shares	(180)	–
Shares issued to employees	197	180
Balance at end of year	(114)	(131)

### Reconciliation of number of shares in issue:

<b>Number of shares</b>	<b>Audited 31 December 2016</b>	Audited 31 December 2015
<b>Balance at beginning and end of year</b>	<b>322,085,974</b>	<b>322,085,974</b>
<b>Reconciliation of treasury shares held:</b>		
Balance at beginning of year	1,109,732	1,553,346
Shares purchased	2,140,891	–
Shares issued to employees under the Long-Term Incentive Plan and Kumba Bonus Share Plan	(452,996)	(423,614)
<b>Balance at end of year</b>	<b>2,797,627</b>	<b>1,109,732</b>

All treasury shares are held as conditional awards under the Kumba Bonus Share Plan.

# NOTES TO THE AUDITED SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December 2016

## 7. INTEREST-BEARING BORROWINGS

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

Rand million	Audited 31 December 2016	Audited 31 December 2015
Interest-bearing borrowings	4,500	8,205
Cash and cash equivalents	(10,665)	(3,601)
<b>Net (cash)/debt</b>	<b>(6,165)</b>	<b>4,604</b>
<b>Total equity</b>	<b>36,536</b>	<b>25,167</b>
<b>Interest cover (times)</b>	<b>36</b>	<b>4</b>

Movements in interest-bearing borrowings are analysed as follows:

Rand million	Audited 31 December 2016	Audited 31 December 2015
Balance at the beginning of the year	8,205	9,593
Interest-bearing borrowings raised	30	10,400
Interest-bearing borrowings repaid	(3,735)	(11,556)
Finance lease repaid	–	(232)
<b>Balance at the end of the year</b>	<b>4,500</b>	<b>8,205</b>

The group's committed debt facilities of R16.5 billion (R4.5 billion term facility and R12 billion revolving facility) mature in 2020. At 31 December 2016, R4.5 billion of the committed facility had been drawn down. The directors approved the early settlement of the term facility and notice was given to the lenders on 3 February 2017. As a result of the settlement, the loan cannot be drawn again, effectively reducing the group's committed debt facilities to R12 billion. The group also had undrawn uncommitted facilities of R8.3 billion at 31 December 2016. The group was not in breach of any of its financial covenants during the year.



## 8. SIGNIFICANT ITEMS INCLUDED IN OPERATING PROFIT

Operating expenses are made up as follows:

<b>Rand million</b>	<b>Audited 31 December 2016</b>	Restated Audited 31 December 2015
Production costs	15,819	16,210
Movement in inventories	(368)	1,072
Finished products	84	1,427
Work-in-progress	(452)	(355)
<b>Cost of goods sold</b>	<b>15,451</b>	<b>17,282</b>
Impairment charge <sup>1</sup>	–	5,978
Mineral royalty	963	172
Selling and distribution costs	5,379	5,507
Cost of services rendered – shipping	3,115	3,657
Sublease rent received	(27)	(32)
<b>Operating expenses</b>	<b>24,881</b>	<b>32,564</b>
<b>Operating profit was derived after taking into account the following items:</b>		
Employee expenses	3,498	3,639
Net restructuring costs	384	34
Share-based payment expenses	647	593
Depreciation of property, plant and equipment	3,089	3,223
Deferred waste stripping costs capitalised	(321)	(2,852)
Net loss on disposal and scrapping of property, plant and equipment	191	9
Gains on lease receivable	(164)	–
Insurance proceeds	–	(29)
Finance gains	(657)	(813)
Net (gains)/losses on derivative financial instruments		
Realised	(420)	133
Unrealised	(570)	(35)
Net foreign currency (gains)/losses		
Realised	286	(907)
Unrealised	69	14
Fair value gains on investments held by the environmental trust	(22)	(18)

<sup>1</sup> The impairment charge in 2015 relates to Sishen mine.

# NOTES TO THE AUDITED SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December 2016

## 9. SEGMENTAL REPORTING

Rand million	Sishen mine	Kolomela mine	Thabazimbi mine <sup>2</sup>	Logistics	Shipping operations	Other	Total
<b>Audited year ended 31 December 2016</b>							
<b>Income statement</b>							
Revenue from external customers	26,644	10,764	612	–	2,747	–	40,767
Depreciation	1,992	943	2	9	–	145	3,091
Staff costs	3,045	738	62	29	–	717	4,591
Impairment charge	–	–	4	–	–	–	4
EBIT <sup>1</sup>	14,194	6,539	41	(5,379)	(370)	290	15,315
<b>Balance sheet</b>							
Total segment assets	606	163	–	651	–	58	1,478
<b>Cash flow statement</b>							
Additions to property, plant and equipment <sup>3</sup>							
Expansion capex	735	110	–	–	–	11	856
Stay-in-business capex	729	259	–	1	–	187	1,176
Deferred stripping	88	233	–	–	–	–	321
<b>Audited year ended 31 December 2015</b>							
<b>Income statement</b>							
Revenue from external customers	23,869	7,980	878	–	3,411	–	36,138
Depreciation	2,428	732	–	6	–	157	3,323
Staff costs	3,048	642	429	30	–	517	4,666
Impairment charge	5,978	–	–	–	–	–	5,978
EBIT <sup>1</sup>	4,273	4,423	(52)	(5,506)	(247)	(247)	2,644
<b>Balance sheet</b>							
Total segment assets	651	198	224	510	–	269	1,852
<b>Cash flow statement</b>							
Additions to property, plant and equipment							
Expansion capex	857	–	–	–	–	13	870
Stay-in-business capex	2,350	498	–	4	–	178	3,030
Deferred stripping	2,508	344	–	–	–	–	2,852

<sup>1</sup> After impairment charge.<sup>2</sup> The segment information above includes the results of Thabazimbi and therefore differs from the information presented in the income statement.<sup>3</sup> As a result of the Thabazimbi mine lease termination, Thabazimbi mine recognised assets of R167 million and a gain in profit or loss of R164 million. These are non-cash additions and therefore not included above.

## 9. SEGMENTAL REPORTING continued

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.

### Geographical analysis of revenue and non-current assets:

<b>Rand million</b>	<b>Audited 31 December 2016</b>	Audited 31 December 2015
<b>Total revenue from external customers<sup>1</sup></b>	<b>40,767</b>	<b>36,138</b>
South Africa	2,862	3,155
Export	37,905	32,983
China	25,054	19,974
Rest of Asia	7,730	9,879
Europe	4,846	3,130
Middle East and Africa	275	–

<sup>1</sup> Including South African external sales for Thabazimbi mine of R612 million (2015: R878 million).

# NOTES TO THE AUDITED SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December 2016

## 10. DISCONTINUED OPERATIONS AND DISPOSAL GROUP HELD FOR SALE

All remaining plant operations at the Thabazimbi mine ceased in 2016 following the decision to close the mine in 2015. The Thabazimbi operation is classified as a discontinued operation for the year ended 31 December 2016, and as a result, the comparative figures have been restated to show the discontinued operation separately from continuing operations. Analysis of the result of the Thabazimbi mine is as follows:

<b>Rand million</b>	<b>Audited 31 December 2016</b>	<b>Restated Audited 31 December 2015</b>
Revenue	612	878
Operating expenses	(571)	(930)
Operating profit/(loss)	41	(52)
Net finance income	4	94
Profit before tax	45	42
Income tax expense	(42)	(132)
Profit/(loss) after income tax of discontinued operation	3	(90)
Attributable to owners of the parent	2	(69)
Attributable to the NCI	1	(21)
Profit/(loss) from discontinued operation	3	(90)
<b>Cash flow from discontinued operations</b>		
Net cash flows from operating activities	279	639

SIOC and AMSA have entered into an agreement to transfer Thabazimbi mine to AMSA. The agreement is expected to become effective in 2017, subject to certain conditions. Mining operations at Thabazimbi ceased in 2015 and processing operations ceased on 31 March 2016. The identified assets and liabilities of Thabazimbi mine (as indicated in the disclosure below) will be transferred at a nominal purchase consideration plus the assumed liabilities. If the conditions have not been satisfied by 28 April 2017 (or a later date agreed to by the companies), the agreement will lapse and SIOC will proceed with closure of the mine.

The requirements of IFRS 5 have been considered and as a result, the Thabazimbi mine assets and related liabilities that will transfer to AMSA to be presented as part of non-current assets and liabilities held for sale as at 31 December 2016. In addition, the results of Thabazimbi mine are presented as a discontinued operation for the year ended 31 December 2016. Comparative figures have been restated where required. An impairment loss of R4 million has been recognised related to the Thabazimbi mine assets that were not part of the lease with AMSA.

## 10. DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS HELD FOR SALE

continued

### Non-current assets held for sale and the associated liabilities

Rand million	Audited 31 December 2016
<b>ASSETS</b>	
Property, plant and equipment	8
Biological assets	18
Investments held by environmental trust	296
Long-term payments and other receivables	515
Inventories	5
Trade and other receivables	96
<b>Total assets</b>	<b>938</b>
<b>LIABILITIES</b>	
Non-current provisions	(822)
Current provisions	(114)
<b>Total liabilities</b>	<b>(936)</b>
Net carrying amount sold	2

# NOTES TO THE AUDITED SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December 2016

## 11. FAIR VALUE ESTIMATION

The carrying value of financial instruments not carried at fair value approximates fair value because of the short period to maturity or as a result of market related variable interest rates.

The table below presents the group's assets and liabilities that are measured at fair value:

Rand million	Level 1 <sup>1</sup>	Level 2 <sup>2</sup>
<b>Audited 31 December 2016</b>		
Investments held by the environmental trust <sup>4</sup>	855	–
Cash and cash equivalents		
– Derivative financial assets <sup>5</sup>	–	615
Cash and cash equivalents		
– Derivative financial liabilities <sup>5</sup>	–	(28)
	<b>855</b>	<b>587</b>
<b>Audited 31 December 2015</b>		
Investments held by the environmental trust	818	–
Trade and other receivables		
– Derivative financial assets <sup>5</sup>	–	38
Trade and other payables		
– Derivative financial liabilities <sup>5</sup>	–	(1)
	<b>818</b>	<b>37</b>

<sup>1</sup> Level 1 fair value measurements are derived from unadjusted quoted prices in active markets for identical assets or liabilities.

<sup>2</sup> Level 2 fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly (i.e. derived from market-related prices).

<sup>3</sup> Level 3 fair value measurements are derived from valuation techniques that include inputs that are not based on observable market data. There were no level 3 measurement in 2016 or 2015.

<sup>4</sup> Including Thabazimbi's investments disclosed as held for sale in note 10.

<sup>5</sup> The iron ore derivatives are measured at fair value using market related inputs. The measurement is therefore classified within level 2 of the fair value hierarchy. The inputs used in the model are the forward iron ore price on the inception date as well as the iron ore price on the date the fair value calculation is performed. In 2016 these derivatives are presented as part of cash and cash equivalents.

## 12. 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	Audited 12 months 31 December 2016	Audited 12 months 31 December 2015
Short-term deposit held with Anglo American SA Finance Limited <sup>1</sup> (AASAF)	7,430	839
– Deposit 1 <sup>2</sup>	–	205
– Weighted average interest rate	–	6.48%
– Deposit 2	7,430	634
– Weighted average interest rate	7.02%	5.96%
Interest earned on short-term deposits AASAF during the year	262	120
Short-term deposit held with Anglo American Capital plc <sup>1</sup>	1,991	2,059
Interest earned on facility during the year	*	*
Interest-bearing borrowing from AASAF	–	205
Interest paid on borrowings during the year	7	67
Weighted average interest rate	8.16%	7.05%
Trade payable owing to Anglo American Marketing Limited <sup>2</sup> (AAML)	195	433
Shipping services provided by AAML	3,107	3,642
Dividends paid to Exxaro Resources Limited	–	673

<sup>1</sup> Subsidiaries of the ultimate holding Company.

<sup>2</sup> This deposit was settled during the year.

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

## 13. CONTINGENT LIABILITIES

### (a) Settlement agreement with SARS

In February 2016, the group announced the receipt of a tax assessment from the South African Revenue Service (SARS), relating to Sishen Iron Ore Company (Pty) Ltd's (SIOC) overseas sales and marketing businesses, covering the period 2006 to 2010, for the amount of R5.5 billion.

This included interest and penalties of R3.7 billion. During March 2016 the group submitted an application for the suspension of payment in relation to the assessment, followed in July 2016 by its objection to the assessment.

In September 2016, SIOC received a letter of findings from SARS in relation to the 2011 tax year, indicating potential adjustments to the Company's taxable income which would result in an additional tax liability of approximately R1.0 billion, excluding any potential interest and penalties, should Kumba ultimately be assessed on this basis.

# **NOTES TO THE AUDITED SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS** continued

for the year ended 31 December 2016

## **13. CONTINGENT LIABILITIES** continued

### **(a) Settlement agreement with SARS** continued

On 3 February 2017, the group concluded an agreement with the SARS to settle a dispute relating to the assessments received for the years 2006 to 2010, and the tax treatment of the relevant issues in the years 2011 to 2015, inclusive, for a full and final total settlement amount of R2.5 billion.

Kumba had previously provided for an amount of R1.5 billion in its annual financial statements for the financial years up to 2015, and an additional R1.0 billion has been accounted for in 2016 in respect of this settlement agreement. The settlement will be paid in full in the first quarter of 2017, with appropriate adjustments made for current advance payments held on account.

As a responsible corporate citizen, the group's policy is to be tax compliant in all jurisdictions in which it operates.

### **(b) Municipal rates and taxes**

As previously reported, rates and taxes levied by the municipality at Sishen since 1 June 2014 were significantly higher than previously levied. Subsequent to year end, the group settled the rates and taxes matter with the municipality at Sishen. The settlement is effective immediately and property values and the quantum of the rates and taxes will be adjusted retrospectively to the date of the publication of the 2014 municipal valuation roll.

## **14. GUARANTEES**

The group has issued financial guarantees in favour of the DMR in respect of its environmental rehabilitation and decommissioning obligations to the value of R2.8 billion (2015: R2.3 billion). Included in this amount are financial guarantees for the environmental rehabilitation and decommissioning obligations of the group in respect of Thabazimbi mine of R438 million (2015: R438 million). AMSA has guaranteed R429 million of this amount by means of bank guarantees issued in favour of SIOC.

As a result of the annual revision of closure costs a further shortfall of R311 million arose. Guarantees for the shortfall will be issued in due course. AMSA has guaranteed R300 million of this amount by means of bank guarantees issued in favour of SIOC.

## **15. REGULATORY UPDATE**

### **(a) 21.4% undivided share of the Sishen mine mineral rights**

In October 2016, the DMR granted the residual 21.4% undivided share of the mining right for the Sishen mine to Kumba's subsidiary, SIOC following the completion of an internal appeal process, as prescribed by section 96 of the 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.



## 15. REGULATORY UPDATE *continued*

### (a) **21.4% undivided share of the Sishen mine mineral rights** *continued*

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 (EPP) based supply agreement between SIOC and 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.

### (b) **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.

## 16. 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 will be contained in the 2016 Integrated Report.

## 17. EVENTS AFTER THE REPORTING PERIOD

Besides the decision to early settle the loan of R4.5 billion as discussed in note 7 and the settlement agreements with SARS and the municipality at Sishen as discussed in note 13, no further material events have occurred between the end of the reporting period and the date of the release of these audited summarised consolidated financial statements.

## 18. INDEPENDENT AUDITOR'S REPORT

These summarised consolidated financial statements for the year ended 31 December 2016 have been audited by Deloitte & Touche, who expressed an unmodified opinion thereon. The auditor also expressed an unmodified opinion on the consolidated financial statements from which these summarised consolidated financial statements were derived.

The auditor's report on the summarised consolidated financial statements is included below, and a copy of the auditor's report on the consolidated financial statements is available for inspection at the Company's registered office, together with the financial statements identified in the respective auditor's reports.

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

All Resource and Reserve related information listed is derived from the 2016 Kumba Iron Ore Reserve and Resource statement (to be published on 10 April 2017) as reported under the 'The South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves' (the SAMREC Code – 2007 Edition, July 2009 amended version) by Competent Persons who are employed by SIOC and have the required qualifications and experience to qualify as Competent Persons for Mineral Resources or Mineral Reserves under the SAMREC Code.

On behalf of the board



**F Titi**  
Chairman



**TM Mkhwanazi**  
Chief executive

10 February 2017  
Pretoria

# INDEPENDENT AUDITOR'S REPORT ON SUMMARISED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF KUMBA IRON ORE LIMITED

## OPINION

The summarised consolidated financial statements of Kumba Iron Ore Limited, which comprise the summarised consolidated balance sheet as at 31 December 2016, the summarised consolidated income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and related notes, are derived from the audited consolidated financial statements of Kumba Iron Ore Limited for the year ended 31 December 2016.

In our opinion, the accompanying summarised consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements of Kumba Iron Ore Limited, in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports, set out in note 2 to the summarised consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summarised financial statements.

## SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

The summarised consolidated financial statements do not contain all the disclosures required by the International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summarised consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements of Kumba Iron Ore Limited and the auditor's report thereon.

## THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND OUR REPORT THEREON

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 10 February 2017. That report also includes the communication of key audit matters.

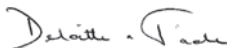
## DIRECTORS' RESPONSIBILITY FOR THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the summarised consolidated financial statements in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports, set out in note 2 to the summarised consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summarised financial statements, and for such internal control as the directors determine is necessary to enable the preparation of the summarised consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, and to also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on whether the summarised consolidated financial statements are consistent, in all material respects, with the consolidated audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.



### Deloitte & Touche

Registered Auditor

Per: Sebastian Benedikt Field Carter

Partner

10 February 2017

**DELOITTE & TOUCHE**  
REGISTERED AUDITORS  
AUDIT – GAUTENG  
BUILDINGS 1 AND 2, DELOITTE PLACE  
THE WOODLANDS, WOODLANDS DRIVE  
WOODMEAD SANDTON

RIVERWALK OFFICE PARK, BLOCK B  
41 MATROOSBERG ROAD  
ASHLEA GARDENS X6, PRETORIA 0081

# ADMINISTRATION

## REGISTERED OFFICE

Centurion Gate  
Building 2B  
124 Akkerboom Road  
Centurion, 0157  
Republic of South Africa  
Tel: +27 12 683 7000  
Fax: +27 12 683 7009

## TRANSFER SECRETARIES

Computershare Investor Services (Proprietary) Limited  
Rosebank Towers, 15 Biermann Avenue  
Rosebank 2196, South Africa  
PO Box 61051, Marshalltown, 2107

## SPONSOR TO KUMBA

RAND MERCHANT BANK (a division of FirstRand Bank Limited)

## DIRECTORS

**Non-executive:** F Titi (chairman), ZBM Bassa, DD Mokgatle, AJ Morgan,  
BP Sonjica, AH Sangqu, N Viljoen, SG French, NS Dlamini

**Executive:** TM Mkhwanazi (chief executive), FT Kotzee (chief financial officer)

## COMPANY SECRETARY

A Parboosing

## COMPANY REGISTRATION NUMBER

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')

14 February 2017



### **Kumba Iron Ore**

Centurion Gate – Building 2B

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Centurion

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