INTRODUCTION

OUR APPROACH TO REPORTING

This is our sixth annual integrated report. With this report we seek to demonstrate to our shareholders that Kumba has both the appropriate strategy and capacity to deliver on this strategy which centres around optimising value for all our stakeholders. With this clear focus, we remain committed to maximise cash generation, building operational excellence and efficiencies, and driving down costs to safeguard our mines’ viability in a volatile price environment. Our strategy and management practices are informed by a sound appreciation of the critical relationships and resources that Kumba depends on to create value.

Navigating our 2016 reports
Our integrated reporting process comprises the following reports:

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Forward-looking statements
This report contains certain forward-looking statements with respect to Kumba’s financial position, results, operations and businesses. These statements and forecasts involve risk and uncertainty as they relate to events and depend on circumstances that occur in the future. There are various factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements.

For more information see www.angloamericankumba.com
KEY FEATURES

**REPORTING SCOPE AND BOUNDARY**

This report provides information relating to Kumba’s strategy and business model, operating context, material risks and opportunities, and governance and operational performance for the period 1 January 2016 to 31 December 2016. The report covers our Sishen and Kolomela mines, Thabazimbi closure, our corporate office in Centurion, the Saldanha port, and our marketing activities. In addition we have published annual financial statements (AFS), a sustainability report (SR), and an Ore Reserves & Mineral Resources (ORMR) report. The reporting process for all our reports has been guided by the principles and requirements contained in International Financial Reporting Standards (IFRS), the IIRC’s International <IR> Framework, the GRI’s Standards, the King Code on Corporate Governance 2009 (King III), the JSE Listings Requirements and the Companies Act, 71 of 2008.

**OUR APPROACH TO MATERIALITY**

This report provides information that we believe is of material interest to current and prospective investors, and to any other stakeholder who wishes to make an informed assessment of Kumba’s ability to generate value over the short, medium and long term. Rather than provide a short list of material issues, we have sought to ensure that all the information in this report relates to matters that have a material bearing on value creation at Kumba. Understanding our business (page 2), our business model (page 8), and our activities and impacts across our value chain (page 10) form the basis for appreciating how Kumba creates value, and for identifying those issues impacting value. Our ability to create value is determined by our operating context (page 25) and by our response to the resulting risks and opportunities (page 33) and the interests of our stakeholders (page 30). Making an informed assessment of our response requires an appreciation of our strategy (page 40), our performance (page 42), our leadership team (page 16), and our governance practices (page 78). Additional information is provided in our AFS, SR and ORMR.

The material matters included in this report were identified through a structured process involving the Chief executive, Chief financial officer and various other executives and senior managers, in which they reviewed Kumba’s business model and operating context, and its interaction with the six capitals.

**ASSURANCE**

We use a combined assurance model to provide us with assurance obtained from management and from internal and external assurance providers. Deloitte & Touche assured our Annual Financial Statements 2016 (see page 31 to 33 of AFS), while KPMG assured key sustainability information in our Sustainability Report 2016 (see page 82 of the SR). Both of those processes inform our IR 2016, which contains both information in our Sustainability Report 2016 (see page 31 to 33 of AFS), while KPMG assured key sustainability providers. Deloitte & Touche assured our Annual Financial Statements 2016 (see page 82 of the SR). Both of those processes inform our IR 2016, which contains both financial and non-financial indicators. Three technical independent audits were conducted this year of the 2016 Kumba Ore Reserve and Mineral Resource estimates (page 71). Our Audit Committee provides internal assurance to the Board on an annual basis on the execution of the combined assurance plan. The group’s financial, operating, compliance and risk management controls are assessed by the group’s internal audit function, overseen by the Audit Committee. The Audit Committee report is on page 17 to 20 of the AFS.

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OUR BUSINESS

OUR VISION: To be a successful and sustainable African supplier of quality iron ore to global and local markets while delivering superior value to our stakeholders.

WHO WE ARE
Kumba is a supplier of high-quality iron ore (64.1% Fe) to the global steel industry. We operate primarily in South Africa, with mining operations in the Northern Cape, a head office in Centurion, Gauteng, and a port operation in Saldanha Bay, Western Cape. Kumba has a 76.3% interest in Sishen Iron Ore Company (Pty) Ltd (SIOC), an entity which we manage. SIOC, in turn, owns the operating assets of the company. The remaining 23.7% interest in SIOC is held by our black economic empowerment (BEE) partners Exxaro Resources Limited (a leading BEE company listed on the JSE) and the SIOC Community Development Trust (a trust that funds projects in local communities).

WHAT WE DO
We produce high-grade iron ore, with a lump-to-fine ratio of 64:36 in 2016. This ore is mined at our two operations, all of which are managed by SIOC. Export ore is shipped to customers across the globe from the port operation in Saldanha Bay. We also have a marketing office in Singapore, integrated with Anglo American Marketing BU, and one in Luxembourg, wholly owned by Kumba. In total, around 8% of our product comprises domestic sales, and around 92% is exported. The revenue generated from these sales is used to grow and sustain the business, which shares its success with various stakeholders in many ways. To learn more about our operations see page 64.

Listed on the JSE Limited

BEING A PARTNER OF CHOICE
BUILDING LASTING BENEFICIAL RELATIONSHIPS IS CORE TO OUR SUCCESS. WE ARE A SIGNIFICANT EMPLOYER IN THE REGIONS IN WHICH WE OPERATE, AND WE WORK WITH COMMUNITIES AND LOCAL GOVERNMENTS TO CREATE LASTING CHANGE IN THESE AREAS. AT THE END OF 2016 WE EMPLOYED 8,332 PEOPLE, COMPRISING 5,560 PERMANENT EMPLOYEES, 2,403 CONTRACTORS AND 369 LEARNERSHIPS.

For more on these relationships see page 23 to 28 of the SR.

KUMBA IRON ORE LIMITED OWNERSHIP STRUCTURE

*During November 2016, the SIOC employee participation scheme (Envision) concluded, which impacted the shareholding in SIOC held by Kumba, Exxaro and the SIOC Community Development Trust.
Our business

2016 performance

- 1 fatality; LTIFR of 0.25
- Production of 28.4 Mt
- 178.3 Mt total tonnes mined, including ex-pit ore of 41.2 Mt and waste of 137.1 Mt
- 26.8 Mt railed on the Sishen/Kolomela-Saldanha iron ore export channel (IOEC)
- Unit cash cost: R296/tonne
- Stripping ratio: 3.3
- 4,040 permanent full-time employees and 1,426 full-time contractors
- R11.4 million invested in social and community projects
- ISO 14001, ISO 9001, and OHSAS 18001 certified

WHERE WE OPERATE

EXPORT RAIL LINE
- Current capacity of 60 Mtpa of which Kumba has 44 Mtpa allocation

Corporate office
- Centurion

Mining operations
- Sishen mine
- Kolomela mine

Port operations
- Saldanha Bay

Discontinued operations
- Thabazimbi mine

SISHEN MINE
- Opened in 1953
- Located in Kathu
- Reserve life: 17 years
- Bulk of Kumba’s production
- One of the largest open-pit mines in the world
- All mining is done by opencast methods
- Sishen is the only haematite ore producer in the world to beneficiate all its product

2016 performance
- 1 fatality; LTIFR of 0.48
- Production of 12.7 Mt
- 64.0 Mt total tonnes mined including ex-pit ore of 13.8 Mt and waste of 50.2 Mt
- 13.0 Mt railed on the IOEC
- Unit cash cost: R201/tonne
- Stripping ratio: 3.7
- 1,178 permanent full-time employees and 932 full-time contractors
- R16.1 million invested in social and community projects
- ISO 14001, ISO 9001 certified, and OHSAS 18001 compliant

For more information on this operation see page 66 of this report.

For more information on this operation see page 68 of this report.

KOLOMELA MINE
- Opened in 2011 and produces high-grade direct shipping ore (DSO)
- Mine situated near the town of Postmasburg
- Reserve life: 18 years

2016 performance
- 1 fatality; LTIFR of 0
- Production of 12.7 Mt
- 64.0 Mt total tonnes mined including ex-pit ore of 13.8 Mt and waste of 50.2 Mt
- 13.0 Mt railed on the IOEC
- Unit cash cost: R201/tonne
- Stripping ratio: 3.7
- 1,178 permanent full-time employees and 932 full-time contractors
- R16.1 million invested in social and community projects
- ISO 14001, ISO 9001 certified, and OHSAS 18001 compliant

For more information on this operation see page 66 of this report.

For more information on this operation see page 69 of this report.

SALDANHA BAY PORT
- All Kumba export volumes exported through Saldanha Bay Port Operations, the only dedicated iron ore export facility in South Africa
- Operated by Transnet, South African state-owned enterprise

2016 performance
- Zero fatalities; LTIFR of 0
- Total volumes railed to Saldanha Bay: 39.8 Mt
- Total shipped volumes: 38.7 Mt
- Export sales: 39.1 Mt
- Total CFR volumes: 27.3 Mt
- 24 permanent full-time employees
- ISO/IEC 17025 accredited QC laboratory

For more information on this operation see page 69 of this report.

THABAZIMBI MINE
- Operating since 1931, producing primarily high-grade haematite ore
- Agreement reached to transfer ownership of the mine to ArcelorMittal SA
- ArcelorMittal SA will take over the statutory obligation for the full rehabilitation liability (subject to DMR approval)

2016 performance
- Processing activities ceased in 2016
- Mine closure progressing according to plan
- Zero fatalities; LTIFR of 0
- 0.4 Mt final product
- 0.7 Mt railed domestically to ArcelorMittal SA
- 63 permanent full-time employees and 25 full-time contractors
- R6.7 million invested in social and community projects
- ISO 14001, ISO 9001, and OHSAS 18001 certified

For more information on this operation see page 66 of this report.

For more information on this operation see page 68 of this report.

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September saw a change in the Company’s executive leadership, with Themba Mkhwanazi (formerly Chief executive of Anglo American’s Coal South Africa business) appointed as Kumba Chief executive, replacing Norman Mbazima who stepped down to focus on his role as Deputy Chairman of Anglo American South Africa.

In October, 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), which is now the sole and exclusive holder of the right to mine iron ore and quartzite at the Sishen mine. We appreciate the work of the Department of Mineral Resources in bringing this matter to a successful conclusion.

These various changes were accompanied by further restructuring and a strong efficiency drive across the Company, the closure of the Thabazimbi mine and an agreement to transfer the mine to ArcelorMittal SA, as well as important progress towards completing the relocation of the Dingleton community neighbouring our Sishen operation. All of these developments have been against the backdrop of uncertain and volatile iron ore prices. Although we saw a material improvement in iron ore prices during the second half of the year, we remain cautious about the market outlook, with fundamentals suggesting that prices will be subdued over the short and medium term.

REPOSITIONING KUMBA FOR A LOW PRICE ENVIRONMENT

In my letter to stakeholders last year, I highlighted the importance of Kumba introducing a refined operating model to significantly reset the Company’s cost base, and reviewed the Company’s progress in closing its operations at Thabazimbi, restructuring the Sishen pit to a lower cost shell, and increasing production at the successful Kolomela operation. All of these initiatives have been implemented with the aim of repositioning Kumba on the global cost curve.

Over the past two years, Kumba implemented a number of interventions to mitigate the impact of the continued volatile market conditions. 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. We believe this has repositioned the Company to be more resilient and we now have the platform to focus on optimising operational and financial performance.
It is pleasing to report that Kumba has made significant progress down this road, with its strict capital and cost discipline measures contributing to the Company’s year end net cash position of R6.2 billion, compared to a net debt position of R4.6 billion in 2015. The average cash breakeven price for the year was US$29/tonne, significantly down from the 2015 average of US$49/tonne. Although these are exceptional results, the Company cannot rest easy given continuing market uncertainty and the flattening of the global cost curve across the sector.

Kumba’s activities this year and its plans for the immediate future have been determined by two events in particular, namely the challenging iron ore price and Anglo American’s decision to review its asset portfolio. Both have been instrumental in shaping Kumba’s restructuring activities, aimed at ensuring that the Company is competitive and sustainable in a low price environment, and that it is well positioned for various potential divestment scenarios.

Anglo American plc continued, however, to benefit from the much improved operational performance of its other high-quality assets and as a result has a much greater degree of optionality with regard to asset retention. Anglo American continues to work through all the potential options for its iron ore interests and the retention of the assets remains a viable option given the recent improvements. Notwithstanding these developments, the Kumba Board has put into place measures to create a sustainable business going forward.

In the meantime the Board has remained committed to the strategy that has defined the Company’s activities over the last two years, characterised by a shift in focus from volume optimisation to value creation, driven by revised mine plans, cost base restructuring and enhanced operational efficiencies.

A key drive this year has been on completing the Sishen reconfiguration and setting Sishen up to continuously produce around 27 to 28 Mt per annum over the life of mine. This year production reached 28.4 Mt, 3 Mt down over 2015, and waste reached 137.1 Mt. The Dingleton relocation project has continued to make good progress in 2016, applying global best practice standards on resettlement and ensuring that proper governance processes have been followed. Most of the construction activities have been completed, and negotiations are continuing with a small group of residents that have been resisting the move.

Kolomela once again delivered above expectations, with waste and production levels both being above plan. The operation remains on track to ramp up production from 12.7 Mt in 2016 to a sustainable 13 to 14 Mt in 2017 until 2020 without significant additional capital spend, mainly by improvements in the plant and related logistics assets. Initiatives have been identified to focus on mining equipment performance and efficiencies to ensure that the ramp up in waste mining over the longer term can be sustained.

During the year Thabazimbi successfully completed the employee exit process and progressed closure plan, with final processing activity at the mine ceasing in 2016. In February 2017 an agreement was reached with ArcelorMittal SA to transfer the mine to ArcelorMittal SA. If the relevant transfer conditions are met, the remaining employees, assets and liabilities (including full responsibility for Thabazimbi’s closure and rehabilitation) will transfer to ArcelorMittal SA in the first quarter of 2017.

RENEWING KUMBA’S FOCUS ON SAFETY

I am personally very saddened to report that after a fatality-free year in 2015, this year two Kumba employees lost their lives in work-related incidents. In January 2016, Mr Grahame Skansi was fatally injured in an incident involving moving machinery at Kolomela mine, and in May Mr Gideon Dihaisi lost his life while working with electricity at Sishen mine. I speak on behalf of the Board and the rest of the Kumba family in extending our deepest condolences to family, friends and colleagues, and reaffirming the Company’s strong commitment to achieving zero fatalities and injuries. The Company has undertaken comprehensive independent investigations of each fatal incident, implemented appropriate remedial actions, shared the lessons learned across the Group, and ensured that the affected families have received support.

Given the disappointing safety performance this year, the Board has supported the introduction of various interventions aimed at further strengthening the Company’s safety focus. These included a “leadership safety reflections programme” aimed at galvanising the leadership’s mindset on safety, realigning the Company’s safety approach to that adopted by the Anglo American Bulks group, and bringing in the Bulks team to undertake a review of safety across Kumba’s operations. Further improving our safety performance is a non-negotiable.
MAINTAINING STRONG EMPLOYEE RELATIONS
The significant restructuring process prompted by declining commodity prices has raised significant challenges for Kumba’s employees, and have underlined the importance of effective employee engagement practices. The Company’s repositioning for the difficult market conditions has resulted in a substantial reduction in permanent staff and contractors over the last two years. Throughout this restructuring, Kumba has demonstrated its commitment to consultation and due process, informed by its values of care and respect.

The integrity that the leadership team has shown in its engagement with employees during the reconfiguring of Sishen and Kolomela, and the closure of Thabazimbi, has been a significant contributor to the continuing stability that the Company has experienced in its industrial relations, despite the changes in union representation at the mines. I believe that this will lay a strong foundation for the negotiation of a new wage agreement with recognised unions during the second quarter of 2017.

The strength of management/employee relations was also reflected in the process this year of unwinding Kumba’s broad-based employee share ownership scheme, Envision. Unfortunately the weighted average share price was below the strike price on the vesting date; this resulted in no capital pay out to participants when the scheme matured in November 2016. The executive team is currently exploring various options for the way forward, in the context of the revised Mining Charter requirements, once these have been clarified.

ENGAGING WITH GOVERNMENT TO DELIVER VALUE IN SOUTH AFRICA
The recent downturn in the commodity cycle had a significant negative impact on the South African economy, with reduced tax revenues and increased job losses across the sector compounding already fragile levels of domestic and international investor sentiment. Business and investor confidence has been dented by the threatened possibility of a rating downgrade, fuelled by continuing political turbulence and economic uncertainty in the country. One of South Africa’s deepest structural challenges, the crisis in its education system, received increased prominence during the year with student demonstrations across most university campuses. Finding an effective and sustainable solution to the education crisis – at primary, secondary and tertiary level – is essential if we are to address the challenges of poverty, unemployment and inequality.

Addressing these complex societal challenges will require a focused collaborative effort between government and business, founded on significantly improved levels of trust between both parties. To deliver the investment in education, job creation and infrastructure that is needed both for the country and for business to succeed, we need a more predictable and stable policy framework that harnesses the entrepreneurial dynamism of the private sector to deliver socially inclusive economic growth. While it has been encouraging to see the recently improved dialogue between leaders from business and government, including with the President, there still remains more that can be done to develop trust.

During the year, Kumba has continued to have progressive discussions with government on a range of issues. It is particularly pleasing to report that after a seven-year legal process, in October 2016 the Department of Mineral Resources granted the residual 21.4% undivided share of the mining right for the Sishen mine to Kumba subsidiary, SIOC, who is now the exclusive holder of the right to mine iron ore and quartzite at Sishen. This is subject to various conditions, including continuing both the existing export parity price based supply agreement with ArcelorMittal SA Limited, as well as SIOC’s support of skills development, preferential procurement, and research and development. Although this granting took longer than we had hoped for, I wish to express my appreciation both to the DMR and to the Kumba executive team for bringing this matter to a successful conclusion that is for the benefit of both parties.

During February 2017, the group concluded an agreement with the South African Revenue Service (SARS) to settle the 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. The settlement will be paid in full in the first quarter of 2017, with appropriate adjustments made for current advance payments held on account.

Another challenging issue relates to the draft revised Mining Charter, published in April 2016. Kumba has engaged regularly with the DMR, both bilaterally and through the Chamber of Mines, to express its concerns in the hope of finding a way forward that most effectively delivers on the joint imperatives of socio-economic transformation, and economic growth and development.
I look forward to continuing our engagements with government, and working collaboratively with them, with the aim of strengthening South Africa’s position as a winning nation.

CHANGES TO THE BOARD
There have been some significant changes in Board membership over the reporting period. As noted earlier, after four years of leading the Company as Chief executive, Norman Mbazima took the decision to step down from Kumba, with effect from 1 September 2016, to focus on his role as Deputy chairman of Anglo American South Africa. Norman has remained on Anglo American’s Group Management Committee and continues to play an important role in the processes of the portfolio restructuring in South Africa. I would like to thank Norman for his impeccable leadership over the last four years. His tenure as Chief executive of Kumba coincided with tumultuous times for the mining sector and a steep decline in the iron ore price. He responded swiftly to these challenges, never shying away from the tough decisions needed to ensure the Company’s sustainability. Throughout his time as Chief executive, Norman displayed a temperament, technical insight and integrity that attracted the support of staff and stakeholders as he led the Company through some very difficult changes. I wish him every success as he focuses on the wider imperatives of Anglo American in South Africa.

During February 2017, Kumba announced that Frikkie Kotzee, Chief financial officer and executive director, decided to step down from his role after five years. I wish to thank Frikkie for his invaluable contribution and leadership over the past five years and wish him the best for his future endeavours.

I am pleased to welcome Themba Mkhwanazi to his new role as Chief executive of Kumba. Themba has been Chief executive of Anglo American’s Coal South Africa business since May 2014, prior to which he was Rio Tinto’s Regional General Manager for the Americas and Chief operating officer of Richards Bay Minerals before that. I believe Themba’s proven technical, sales and management experience will add great value, and I look forward to his contribution in helping to secure the long-term future of Kumba’s world-class assets.

In February 2016, Mrs Natascha Viljoen was appointed as non-executive director, replacing Mr Tony O’Neil as Anglo American representative on the Board. Two additional non-executive directors joined Kumba’s Board on 1 November 2016, namely Nonkululeko Dlamini was appointed as a director and is the shareholder representative of the Industrial Development Corporation (IDC), while Seamus French joined as an alternate non-executive director to both Ms Natascha Viljoen and Mr Andile Sangqu, the current Anglo American representatives on the Board. On 31 December 2016, Mr Litha Nyhonyha resigned as an independent non-executive director after diligently serving on the Board for five and a half years. The Board wishes him well.

On behalf of the entire Board, I welcome our new Board members, and look forward to their valuable participation as we continue to build Kumba’s resilience as a business for the benefit of all its stakeholders. Looking ahead, we have a detailed succession plan in place that seeks to ensure continuity and stability in any transition in the constitution of the Board.

APPRECIATION
In closing I wish to thank the Kumba executive team, management and all other staff members for their incredible work during these turbulent times for the Company. I continue to have confidence that Kumba will pull through these difficult times, primarily because of the quality of its people, at all levels across the Company. I would like also to extend my appreciation to my fellow Board members for their guidance and stewardship in seeking to ensure that Kumba delivers on its ambitious and decisive action plans.

Fani Titi
Chairman
8 March 2017
OUR BUSINESS MODEL

OUR REVENUES
- Iron ore prices
- Sales volume of iron ore
- Rand/US$ exchange rate (weaker Rand supported by higher iron ore US$ price)

OUR VALUE PROPOSITIONS

CUSTOMER VALUE PROPOSITION
- Reliable supply of high-quality iron ore

EMPLOYEE VALUE PROPOSITION
- The opportunity to earn, learn and grow in a safe and supportive environment

SHAREHOLDER VALUE PROPOSITION
- Ensure sustained financial returns including dividends and growth throughout the commodity cycle

SOCIETAL VALUE PROPOSITION
- Converting mineral resources into value that also benefit our neighbouring communities by providing opportunities for equitable and environmentally responsible economic growth

OUR ACTIVITIES
- Exploration – primarily in the Northern Cape
- Mining – extracting iron ore in the Northern Cape
- Beneficiating – improving the final product quality; ultra-high density media separation (UHDMs)
- Blending and outbound logistics – providing and transporting niche products
- Shipping, marketing and selling to markets in South Africa and globally
- Rehabilitation and environmental management

For more information, see page 10.

OUR COSTS
- Distribution (rail, port and freight)
- Labour
- Energy
- Capital expenditure
- Consumables
- Maintenance
- Drilling and blasting
- Beneficiation
- Taxes and royalties
- Mining and non-mining contractors
- Social investments
- Rehabilitation
- Marketing

OUR OPERATING CONTEXT: ISSUES IMPACTING VALUE
- Volatility of the iron ore price
- Flattening of the cost curve globally
- Anglo American potential portfolio restructure
- Operational excellence and Company restructuring
- Changing regulatory environment and continuing policy uncertainty
- Heightened stakeholder expectations
- Quality of iron ore reserves and life of asset

For more information, see page 25.

HOW WE CREATE VALUE
- Competing on revenue
- Competing on costs
POTENTIAL FOR REVENUE DIFFERENTIATION

- Ability to achieve quality and lump premium for superior ore quality (64.1% Fe vs 62% benchmark)
- Price differential potential due to higher lump:fine ratio (64:36 vs global average of 30:70)
- Ability to respond more quickly to market volatility through operational excellence measures
- Stronger price realisation, driven by effective marketing activities

POTENTIAL FOR COST DIFFERENTIATION

- Scope for differentiation through UHDMS technology
- Potential leverage in operating costs through enhanced operating efficiencies
- Ability to deliver cost reductions in the supply chain
- Higher stripping ratio and distance from port compared to competitors due to inherent characteristics of the ore body resulting in higher mining costs
- Freight rates declined to historically low levels

SENSITIVITY ANALYSIS

<table>
<thead>
<tr>
<th>Sensitivity Analysis</th>
<th>Unit change</th>
<th>2016 EBIT impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency (R/US$)</td>
<td>R0.10/US$</td>
<td>R250m</td>
</tr>
<tr>
<td>Export price (US$/t)</td>
<td>US$1.00/t</td>
<td>R560m</td>
</tr>
<tr>
<td>Volume (kt)</td>
<td>100 kt</td>
<td>R60m</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unit change</td>
<td>Breakeven price impact</td>
<td></td>
</tr>
<tr>
<td>Currency (R/US$)</td>
<td>R1.00/US$</td>
<td>US$2.20/tonne</td>
</tr>
</tbody>
</table>

OUR TOP RISKS

1. Commodity market and foreign exchange rate fluctuations
2. Stakeholder relations and social licence to operate
3. Safety
4. Operational performance
5. Reliance on third-party infrastructure
6. SIOC empowerment status
7. Mining legislation and regulatory compliance
8. Adapting to change
9. Labour relations
10. Cyber security

FOR MORE INFORMATION, SEE PAGE 33.

2016 BREAKEVEN PRICE

Platts 62% breakeven price (US$/tonne)

- Timing impact of Sishen restructuring
- Production cut in January, section 189 completed in June (FY15 vs FY16)
- Capex benefit of Sishen restructuring
- Price realisation
- Non-controllable (FY, inflation) and spot price

<table>
<thead>
<tr>
<th>FY15</th>
<th>49</th>
</tr>
</thead>
<tbody>
<tr>
<td>PY16</td>
<td>29</td>
</tr>
</tbody>
</table>

OUR BUSINESS: OUR VALUE CHAIN ACTIVITIES AND IMPACTS

OUR VALUE CHAIN ACTIVITIES AND IMPACTS

Our exploration in South Africa is focused in the Northern Cape, close to our existing operations. On- and near-mine exploration and resource definition drilling is conducted to increase confidence in the geological models; these are updated annually in support of life-of-mine and long-term planning.

We extract iron ore by mining the iron ore bodies within our mining leases using open pit methods. We are implementing a technology roadmap that aims to accelerate the adoption of technology to improve safety, quality, efficiency and resource utilisation.

We use dense-medium processing and jigging technologies to regulate the physical properties of the finished product, removing impurities and improving product quality. We also support the South African government’s objectives to maximise the developmental impact of the minerals sector.

Our ability to generate value is dependent on access to financial capital, skilled people, quality relationships and key natural resources, supported by the right Company culture, and by access to necessary infrastructure, plant and equipment. An overview of key inputs across our value chain is provided on page 12.

KEY OUTCOMES
Enhancing value at each stage of the value chain

- Contributing to long-term financial viability
- Developing relationships in Northern Cape
- Developing intellectual capital through enhanced technologies and techniques
- Contributing to tax base
- Competition over land use with communities
- Increasing community expectations for economic opportunities
- Reduction in headcount due to redesign of mines
- Skills development
- Community upliftment, enhanced service provision and infrastructure investment
- Contribution to beneficiation
- Investment in innovation
- Contribution to tax base
- Dust emission challenges
- Two fatalities and an increase in LTIFR 0.28
- Advance process control and automated drilling
- Securing market premium through enhanced quality product
- Enhanced intellectual capital and technology development
- Contribution to tax base
- Unlocking low-grade potential with UHDMS technology
- Dust emission challenges

STRATEGIC FOCUS AREA
Where to play: Focus on Northern Cape
How to win: Use technology to extract maximum value
Key enablers: Proactively engage with stakeholders

How to win: Redesign pits to extract maximum value

How to win: Sustainably operate at lower unit costs through world-class operating efficiencies

How to win: Use technology to extract maximum value
Key enablers: Provide leadership through responsible citizenship

How to win: Compete through premium products
How to win: Use technology to extract maximum value

People are central to our value chain.
### Key Outcomes

**Primary**

Enhancing value at each stage of the focus area across the inputs exploration mining beneficiation full value chain is provided on page 12.

Our ability to generate value is dependent on access to financial capital, skilled people, quality and consistency expectations for economic viability.

**People are central to our value chain.**

- Developing relationships in the minerals sector.
- Contributing to long-term planning.
- Developing intellectual property.
- Contributing to life of mine and long-term planning.
- Compete over land use opportunities.
- Increasing community participation.
- Providing responsible citizenship leadership through responsible leadership.

### Strategic Value Chain

- Where to play: Compete through premium products
- Key enablers: Align marketing and operational activities
- Where to play: Compete through premium products
- Key enablers: Align marketing and operational activities
- Key enablers: Reinforce our reputation for product quality and consistency
- Key enablers: Provide leadership through responsible citizenship

### BLETTING AND OUTBOUND LOGISTICS

Blending allows us to utilise products from our operations to provide niche specification products to our markets. Products are screened and sized to match customer requirements, and then transported through our outbound logistics chain.

- Maximise value from the resource
- Investment in technologies and techniques
- Contribution to tax base
- Rail and port constraints due to higher production rates in the second half of 2016

### SHIPPING, MARKETING AND SELLING

We sell iron ore domestically and internationally. Export customers are in a range of geographical locations, including China, Japan, India, South Korea and countries in Europe and the MENA region. Domestically, we sell ore to ArcelorMittal SA.

- Enhanced financial returns through product differentiation in sales
- Price risk management used to mitigate price volatility
- Lower capsize freight rates, resulted in decreased shipping revenue

### REHABILITATION AND ENVIRONMENTAL MANAGEMENT

The life-cycle of the mine needs responsible environmental management practices to ensure minimal disruption to natural resources during and after our operations.

- Minimising longer-term environmental impacts and decreased long-term liabilities
- Securing authorisations and licences
- Enhanced reputation
- Increased financial costs
- Continuous mine rehabilitation
- Responsible mine closure

### Primary Output

41.5 Mt high-quality haematite iron ore with a lump to fine ratio of 64:36 in 2016. Our product portfolio includes niche lump products as well as standard fines and standard lump.

- Where to play: Compete through premium products
- Key enablers: Align marketing and operational activities
- Where to play: Compete through premium products
- Key enablers: Align marketing and operational activities
- Key enablers: Reinforce our reputation for product quality and consistency
- Key enablers: Provide leadership through responsible citizenship
CREATING VALUE: UNDERSTANDING TRADE-OFFS IN THE CAPITALS

CAPITALS AND TRADE-OFFS

PEOPLE
We depend on the expertise, wellbeing and motivation of employees, contractors and service providers to generate value. Providing a safe working environment, investing in training, ensuring fair labour practice and encouraging local employment are critical to maintaining effective relationships. Regrettably, we have had to further reduce headcount to maintain the Company’s viability. We have sought to manage retrenchments transparently and fairly, while maintaining necessary skills.

OUR RELATIONSHIPS
Developing and maintaining trusted relationships is a foundation for value creation. This has taken on added significance given the recent negative commodity sentiment and escalating mining costs. The challenging price environment has required us to take actions that have tested many of our relationships. The trust we have developed over time has been crucial in facilitating an effective transition, informed by a common appreciation of the challenging context.

NATURAL RESOURCES
Generating social and economic value through our activities has unavoidable negative environmental impacts. These are borne mainly by communities around our mines, with potential negative consequences for key relationships. In addition to mitigating the environmental impacts of our activities, we seek to offset them through rehabilitation, the provision of energy and water services, and the responsible sharing of socio-economic benefits.

FINANCIAL CAPITAL
The cost of financial capital has risen as a result of reduced investor confidence both in South Africa and the mining sector more generally. Due to continued volatility expected in iron ore prices it would be prudent to remain ungeared over the short to medium term and to maintain balance sheet flexibility in the context of the Anglo American portfolio restructure. Balancing short-term and long-term interests remains one of the more challenging trade-offs.

MANUFACTURED ASSETS
Our substantial financial investment in the purchase, development and maintenance of property, plant and equipment has given us the capacity to generate longer-term returns. To maintain business viability, current market conditions have required investing in technology initiatives to impact operational efficiencies.

OUR INNOVATION
Our business model depends on having the right people, in the right roles, informed by effective management systems and company culture, producing the most efficient and effective outcomes. Investing in these skills and systems requires sufficient financial capital, and can have a positive impact in developing our people. Certain process and technologies can result in reduced workforce needs, with implications for employees and key relationships.

KEY INPUTS

- 8,332 skilled and motivated employees and contractors
- An experienced and diverse executive leadership team demonstrating values-driven behaviour
- Contracted service providers delivering on agreed terms and conditions
- An effective culture programme, launched after the restructuring
- Strong engagement with unionised and non-unionised workforce
- Positive relationships with representatives from government and regulators
- Mutually respectful and understanding relationship with neighbouring communities, civil society bodies and NGOs
- Open and timely communication with suppliers and contractors

- New-water consumption: 8.0 million m³
- Energy consumption: 8.45 million GJ
- Diesel purchased: 188.3 Mℓ
- Land under management: 98,847 hectares
- Inclusive mineral resources: 1,888.4 Mt

- Market capitalisation: R13 billion at the end of 2015
- Capital expenditure to execute growth projects: R856 million
- Cash generated from operations: R17.2 billion

- Property, plant and equipment valued at R32.1 billion
- Exploration, development, production in the Northern Cape and Limpopo provinces
- Customers in various locations: China, Japan, India, South Korea, Europe and South Africa

- Technically skilled and experienced employees and external experts
- Operating model providing a sequenced and repeatable set of work steps aimed at delivering the intended purpose of our teams’ work in the most efficient manner
- Values-driven company culture
- Implement technology roadmap
Employees and key relationships.

Positive government outcomes on residual mining right in Sishen and SARS issue
Largely amicable relocation of 95% of the Dingleton town
Delivery of social benefit in communities through core activities, plus R67 million social investment
R5.2 billion total tax contribution
Sustained confidence from shareholders and investors

Greenhouse gas emissions: 0.94 Mt CO₂e
Land rehabilitated: 35 hectares
Tailings dams (active and inactive): 58,047 kt
Hazardous non-mineral waste to landfill: 1.07 kt
Non-hazardous waste to landfill: 1.66 kt
Waste recycled: 0.34 kt
16% decrease in ore reserve
213.4 Mt additional Mineral Resources declared

Increased market capitalisation of R51 billion at end of 2016
Strengthened balance sheet with more flexibility
Earnings before interest and tax: R15.3 billion
Earnings per share: R26.98
Dividend to be reinstated at the appropriate time

Sishen: 2017 production and waste guidance reduced to ~27 to 28 Mt and ~150 to 160 Mt with an average stripping ratio of >4; life of mine (LOM) 4
Kolomela: 2017 production of 13 to 14 Mtpa with waste at approximately 50 to 55 Mt with an average strip ratio of ~3.9 in the medium term; LOM 3.8
Thabazimbi: Targeting transfer to ArcelorMittal SA in first half of 2017

Investment in skills development: R211 million
Investment in technical studies: R27 million
Sishen: DMS upgrade to UHDDS has moved to pre-feasibility stage, first production expected in 2020
Kolomela: modular plant commissioned in Q3 2016, on track to deliver 0.7 Mt in 2017
Automated drilling and advanced process control at Kolomela
### KEY PERFORMANCE INDICATORS for the year ended 31 December

<table>
<thead>
<tr>
<th></th>
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<td><strong>SAFETY AND HEALTH</strong></td>
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<td>Fatal injury frequency rate (FIFR)</td>
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<td>Total recordable case frequency rate (TRCFR)</td>
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<td>New cases of occupational disease</td>
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<td>14</td>
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<td>Energy consumption (million GJ)</td>
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<td>11.1</td>
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<td>GHG emissions (Mt CO₂-equivalent)</td>
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<td>1.20</td>
<td>1.21</td>
<td>1.08</td>
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<td>Total new water consumed for primary activities (million m³)</td>
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<td>10.1</td>
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<td>Number of level 3, 4 or 5 environmental incidents</td>
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<td>1 (Level 3)</td>
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<td>Social way assessment scores (out of five)</td>
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<td>No data</td>
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<td>Voluntary labour turnover (%)*</td>
<td>49.5</td>
<td>13.0</td>
<td>3.8</td>
<td>4.2</td>
<td>4.4</td>
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<td>Women in management (%)</td>
<td>21</td>
<td>19</td>
<td>20</td>
<td>20</td>
<td>19.2</td>
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<tr>
<td>Women in workforce (%)</td>
<td>21</td>
<td>18</td>
<td>19</td>
<td>18</td>
<td>17</td>
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<td>Historically disadvantaged South Africans (HDSAs) in management (%)</td>
<td>62</td>
<td>59</td>
<td>58</td>
<td>55</td>
<td>52</td>
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<td><strong>PRODUCTION (Mt)</strong></td>
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<tr>
<td>Sishen mine</td>
<td>28.4</td>
<td>31.4</td>
<td>35.5</td>
<td>30.9</td>
<td>33.7</td>
</tr>
<tr>
<td>Kolomela mine</td>
<td>12.7</td>
<td>12.1</td>
<td>11.6</td>
<td>10.8</td>
<td>8.5</td>
</tr>
<tr>
<td>Thabazimbi mine</td>
<td>0.4</td>
<td>1.4</td>
<td>1.1</td>
<td>0.6</td>
<td>0.8</td>
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<td><strong>COST</strong></td>
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<tr>
<td>Sishen mine free-on-rail (FOR) unit cost</td>
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<tr>
<td><strong>Cash cost</strong></td>
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<tr>
<td>R/tonne</td>
<td>296.2</td>
<td>310.8</td>
<td>271.8</td>
<td>266.9</td>
<td>197.8</td>
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<td>US$/tonne</td>
<td>20.2</td>
<td>24.4</td>
<td>25.1</td>
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<td>24.2</td>
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<td><strong>Unit cost</strong></td>
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<td>R/tonne</td>
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<td>403.5</td>
<td>331.6</td>
<td>325.3</td>
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<td>US$/tonne</td>
<td>28.1</td>
<td>31.6</td>
<td>30.6</td>
<td>33.8</td>
<td>31.4</td>
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<tr>
<td>Kolomela mine FOR unit cost</td>
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<td></td>
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<td></td>
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<tr>
<td><strong>Cash cost</strong></td>
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<tr>
<td>R/tonne</td>
<td>201.1</td>
<td>177.7</td>
<td>207.6</td>
<td>181.8</td>
<td>180.2</td>
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<tr>
<td>US$/tonne</td>
<td>13.7</td>
<td>13.9</td>
<td>19.2</td>
<td>18.9</td>
<td>22.0</td>
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<tr>
<td><strong>Unit cost</strong></td>
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<tr>
<td>R/tonne</td>
<td>283.4</td>
<td>245.8</td>
<td>269.1</td>
<td>240.9</td>
<td>255.7</td>
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<tr>
<td>US$/tonne</td>
<td>19.3</td>
<td>19.3</td>
<td>24.8</td>
<td>25.1</td>
<td>31.2</td>
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<tr>
<td><strong>FINANCIAL</strong></td>
<td></td>
<td></td>
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<tr>
<td>Return on capital employed (ROCE) (%)</td>
<td>51</td>
<td>27</td>
<td>61</td>
<td>108</td>
<td>108</td>
</tr>
<tr>
<td>Earnings per share (Rand per share)</td>
<td>26.98</td>
<td>1.46</td>
<td>33.44</td>
<td>48.09</td>
<td>38.87</td>
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<tr>
<td>Attributable free cash flow (Rm)</td>
<td>11,183</td>
<td>5,106</td>
<td>5,114</td>
<td>13,362</td>
<td>19,181</td>
</tr>
</tbody>
</table>

* Including retrenchments.
### Strategic focus areas

<table>
<thead>
<tr>
<th>Strategic focus areas</th>
<th>Impact on capitals</th>
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<tbody>
<tr>
<td><strong>Sustainability</strong></td>
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<tr>
<td><strong>Operational efficiency</strong></td>
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<tr>
<td><strong>Operational excellence</strong></td>
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<tr>
<td><strong>Innovation</strong></td>
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<tr>
<td><strong>People</strong></td>
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</tr>
<tr>
<td><strong>Our relationships</strong></td>
<td><img src="icons" alt="Icons" /></td>
</tr>
<tr>
<td><strong>Natural resources</strong></td>
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<tr>
<td><strong>Financial capital</strong></td>
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<tr>
<td><strong>Manufactured assets</strong></td>
<td><img src="icons" alt="Icons" /></td>
</tr>
<tr>
<td><strong>Our innovation</strong></td>
<td><img src="icons" alt="Icons" /></td>
</tr>
</tbody>
</table>

### Key: Strategic focus areas

- **Provide leadership on responsible citizenship**
- **Sustainably operate mines at a lower unit cost**
- **Redesign Sishen/Kolomela mine pits to extract maximum value**
- **Implement the Kumba Way of Work**
- **Proactively engage with key stakeholders**
- **Focus on the Northern Cape**
- **Extend life of current mines**
- **Compete through premium products**
- **Use technology to extract maximum value**
- **Provide extensive support to our employees**

### Key: Our capitals

- **People**
- **Our relationships**
- **Natural resources**
- **Financial capital**
- **Manufactured assets**
- **Our innovation**
## OUR LEADERSHIP

### BOARD

1. **FANI TITI (54)**  
   **Chairman, independent non-executive director**  
   BSc Hons (Maths), MA (Maths), MBA  
   **Joined the Board on 1 October 2012**  
   A member of the Human Resources and Remuneration Committee and chairs the Nominations and Governance Committee. He is a non-executive chairman of Investec Group. He was previously non-executive chairman of AECI Limited and deputy chairman of the Bidvest Group Limited.

2. **THEMBA MKHWANAZI (46)**  
   **Chief executive**  
   BEng (Chemical), BEng (Hons)  
   **Joined the Board on 1 September 2016**  
   Was the CEO for Anglo American’s thermal coal business in South Africa, as well as in the USA and Australia. Served as managing director for Huntsman Tioxide in South Africa until 2007 when he was appointed COO of Richards Bay Minerals, a joint venture between Rio Tinto and BHP Billiton. Secended in 2011 to Rio Tinto’s Australian coal business, before taking up the role of regional manager for the Americas in 2012.

3. **FRIKKIE KOTZEE (45)**  
   **Chief financial officer**  
   BCom (Hons), BProc, LLB, CA(SA)  
   **Joined the Board on 1 June 2012**  
   He was the group financial director of African Oxygen Limited. Previously worked for Anglo American Platinum Limited as head of business development and Anglo American plc as general manager, corporate finance. Developed in-depth commercial and strategic skills across a range of industries, including mining, gas and financial services.

4. **ZARINA BASSA (52)**  
   **Independent non-executive director**  
   BAcc, CA(SA)  
   **Joined the Board on 2 December 2008**  
   Chairs the Audit Committee and is a member of the Risk, Remco and Nominations and Governance Committees. Serves as a non-executive director of Vodacom South Africa, Sun International, Woolworths, Oceana, the Financial Services Board, and Investec Group. She was a partner at Ernst & Young where she spent 17 years in the Durban, Johannesburg and UK offices. Spent six years at Absa Bank Limited as executive director.

5. **ALLEN MORGAN (69)**  
   **Independent non-executive director**  
   BSc, BEng (Elect), Pr Eng, CDSA*  
   **Joined the Board on 9 February 2006**  
   Chairs the Human Resources and Remuneration Committee, is a member of Nominations and Governance Committee and is the lead independent director. Also a member of the Audit Committee, Risk Committee, and Social, Ethics and Transformation Committee. He served as interim chairman of Kumba from 15 December 2010 to 30 September 2012 as well as CEO of Eskom between 1994 and 2000 and was a non-executive director of Eskom Holdings. He was appointed a non-executive director of AECI Limited on 1 July 2010 and also holds several corporate directorships. Allen was previously the chairman of Kumba Resources Limited.

6. **DOLLY MOKGATLE (60)**  
   **Independent non-executive director**  
   BProc, LLB, HDip Tax Law  
   **Joined the Board on 7 April 2006**  
   Chairs the Social, Ethics and Transformation Committee and is a member of the Audit, Risk and Nominations and Governance Committees. An executive director of Peotona Group Holdings and also holds several other corporate directorships. She was the CEO of Spoornet and managing director of Transmission at Eskom. She also served as chairman of the State Diamond Trader until 2016, Zurich Insurance until October 2012 and Total South Africa Proprietary Limited until the end of 2012.

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**The culture of a company, and its ability to deliver on its strategic goals, depends on the quality of its leadership. Our Board of directors promotes sound corporate governance and provides the leadership that makes this possible. Each Board member is appointed on the basis of their specific skills and business track record, to ensure that the Board as a whole contributes to our financial performance and supports the Company in achieving its operational, social and environmental objectives.**

---

BOARD COMPOSITION*

- 50 men
- 50 women
- 70 HDSA
- 30 Non-HDSA

*Excluding alternate director.
1. THEMBA MKHWANAZI (46)
Chief executive
BEng (Chemical), BEng (Hons)
Joined the Board on 1 September 2016

Was the CEO for Anglo American’s thermal coal business in South Africa, as well as in the USA and Australia. Served as managing director for Huntsman Tioxide in South Africa until 2007 when he was appointed COO of Richards Bay Minerals, a joint venture between Rio Tinto and BHP Billiton.

Seconded in 2011 to Rio Tinto’s Australian coal business, before taking up the role of regional manager for the Americas in 2012.

2. FRIKKIE KOTZEE (45)
Chief financial officer
BCom (Hons), BProc, LLB, CA(SA)
Joined the Board on 1 June 2012

He was the group financial director of African Oxygen Limited. Previously worked for Anglo American Platinum Limited as head of business development and Anglo American plc as general manager, corporate finance.

Developed in-depth commercial and strategic skills across a range of industries, including mining, gas and financial services.

3. YVONNE MFOLO (49)
Executive head of public affairs
BA (Communications), Advanced Journalism Certificate
Yvonne joined Kumba on 1 August 2011, from the Anglo American plc group’s thermal coal business where she held the position of head of public affairs. Prior to this she was the chief director of communications at the then Department of Minerals and Energy, where she spent nine years and was spokesperson for the minister.

4. ALEX MGADZAH (47)*
Executive head of safety and sustainable development
BSc (Hons) Biological Sciences, MSc (Environmental Policy and Management), MBA
Alex was appointed to his current position on 1 January 2011. He has more than 20 years’ management experience in integrated health, safety, environmental, community and quality management within the mining, smelting, manufacturing and consulting sectors. He was vice president of sustainability and community affairs at BHP Billiton Energy Coal South Africa before joining Kumba.

*Alex has resigned effective 28 February 2017.
5. BILLY MAWASHA (38)
Executive head of operations and integration
BSc (Eng) (Electrical)
Billy joined Kumba on 1 September 2013. He was previously with AngloGold Ashanti where he held various senior positions including managing director of Iduapriem gold mine in Ghana and senior vice president of operations running all its underground mines in South Africa.

6. VIRGINIA TYOBEKA (51)
Executive head of human resources
BAdmin, BAdmin (Hons), MAP
Virginia was appointed to her current position on 4 January 2010. She was previously the HR director at Afrisam South Africa Limited. Virginia has extensive experience in HR in the manufacturing and mining industries.

7. GLEN MC GAVIGAN (40)
Executive head of technical and projects
MEng (Mining), GDE (Rock Engineering), PrSciNat
Glen was appointed to his current position on 1 August 2016, he previously acted in the position for a year. Glen, a geologist by training, joined Kumba in March 1998 and has over 17 years’ experience in geosciences, geotechnical engineering and hydrogeology. Before assuming this role he held the position of Head of Geosciences.

8. TIMO SMIT (48)
Executive head of marketing and seaborne logistics
MSc (Applied Physics), PhD (Materials Science and Engineering)
Timo joined Kumba in September 2007 and moved to Singapore in August 2012. He was previously employed by TechnoServe as country director South Africa. His academic background and industry experience adds international depth to the Kumba team. Timo is based in Singapore, close to key markets.

COMBINED KEY SKILLS OF EXCO
- Corporate finance
- Human resources
- Environmental management
- Engineering
- Industrial relations
- Stakeholder management
- Investor relations
- Marketing
- Business development
- Mining
- Accountancy
- Technical knowledge
- Health and safety management
- Community relations
- Logistics
- Public affairs
- Project management
- Leadership
- Regulatory knowledge
- Corporate governance
OUR OPERATING CONTEXT AND STRATEGY: CHIEF EXECUTIVE’S REVIEW

CHIEF EXECUTIVE’S REVIEW

Thembka Mkhwanazi
Chief executive

Since September 2016, I have had the privilege of serving as Kumba’s newly appointed Chief executive. I am honoured and excited at the opportunity of leading one of South Africa’s great success stories. Kumba has a rich mineral endowment, a skilled and diverse workforce, and a strong track record of responsible leadership, delivering high-quality iron ore products to our customers around the world, and in the process creating value for all our stakeholders. I am fortunate to be able to build on the work of my predecessor, Norman Mbazima, and the Kumba management team, who together took some tough decisions and introduced significant changes to ensure the Company’s resilience in the context of the recent volatility.

As Chief executive, my role is to ensure that this new way of doing business is properly embedded across the organisation, and that we further strengthen our operational performance and enhance our competitiveness through the commodity cycle. By focusing on those issues that are within our control – such as driving efficiencies in the movement of waste, delivering productivity improvements across the workforce, reducing absenteeism and improving mine planning – we will be looking to reposition ourselves on the global cost curve, ensuring a strong business that is cash flow generative regardless of who owns us.

While in many respects we have delivered more this year than many in the market had expected, we will need to retain a strong focus on further improving our productivity and performance if we are to remain competitive in the context of ongoing uncertainty in commodity prices and a potentially high inflation environment.

A YEAR OF CHANGE FOR THE COMPANY

As the Chairman has outlined in his opening letter, this has been a year of significant change for the Company. In addition to the changes in the executive leadership team, there has been deep restructuring across the organisation, especially at our reconfigured Sishen operation. In September we ceased all operations at Thabazimbi and subsequently reached an agreement to transfer the mine to ArcelorMittal SA. We have also seen positive resolution on two long-standing areas of concern: the allocation of the 21.4% Sishen residual mining right, and the recent settlement with the South African Revenue Service.

These changes have been undertaken in the context of a challenging operating environment, characterised by the bottoming out of the iron ore price, a further flattening of the global cost curve, continuing regulatory and policy pressures, and high levels of political and market uncertainty, both globally and in South Africa. As a single commodity player and price-taker that lies in the third quartile of the global cost curve, we remain particularly susceptible to the global iron ore price. This year, the Platts 62% Fe price was higher than initially anticipated, particularly during the second half of the year, averaging US$58/tonne for the full year, US$3/tonne higher than in 2015. This higher price was due mostly to increased downstream demand in China, driven by record liquidity injections and accelerated infrastructure spending, and further aided by improving steel mill margins, slowing iron ore supply growth and rising speculative activity on the futures markets.

During the turmoil and volatility of the past few years Kumba has demonstrated its resilience and ability to adapt quickly.

ENSURING OUR COMPETITIVENESS IN THE CONTEXT OF MARKET UNCERTAINTY

Given the uncertainty on how iron ore prices will unfold and the strong efficiency improvements in some of our competitors, we remain under immense pressure to drive improved productivity and enhanced efficiencies across our operations. While there are undoubtedly challenges, I believe that there are some exciting opportunities to reposition Kumba on the cost curve.
As described in last year’s Chief executive review, Kumba has acted decisively to reset its cost base by focusing on three major strategic imperatives:

- Moving from a volume-based to a value-based strategy – reconfiguring Sishen to a lower-cost shell, increasing production at Kolomela, and ceasing mining at our Thabazimbi mine;
- Exercising strict capital discipline – assessing every item of proposed capital expenditure with a view to optimising the expenditure; and
- Making significant structural changes to our cost base – achieving substantial savings on overheads, study costs and headcount, and adding organisational controls to ensure that these are sustainable into the future.

Kumba’s positive full year results reflect successful delivery of these strategic imperatives. While the significant restructuring has been painful – letting go of colleagues who have been with the Company for many years is never easy – unfortunately this was necessary to ensure our continuing viability in a low-price environment. It is gratifying to see that we were able to achieve this without any industrial action, which I believe reflects the quality of the relationships and dialogue between management and employees.

As a result of the significant changes across the business, we have seen productivity up by about 30% on our primary fleet, and both Sishen and Kolomela within or higher than market guidance targets for both production and waste. Revenue increased 13% year-on-year to R40.8 billion (excluding discontinued operations), aided by the recovery in the realised FOB iron ore price and the weaker Rand against the US Dollar. This was partially offset by the 5.3 Mt decrease in sales volumes, which reduced revenue by R3.6 billion. Operating profit from continuing operations was 78% higher (excluding the impairment recognised for Sishen in 2015), Kumba’s share price recovered significantly during the year from R41 at 31 December 2015 to R159 at year end, and headline earnings per share increased by 131% to R27.30. Given the volatile iron ore price environment, we have chosen once again to suspend payment of dividends.

Our strict cost discipline measures have delivered substantial positive results, contributing to an all-in average cash breakeven price of US$29/tonne at year-end, markedly down from US$49/tonne in 2015, and lower than the bottom of the guided range of US$32 to US$40/tonne. This significant reduction in unit costs has been achieved as a result of various initiatives. The restructuring of the Sishen mine to a lower-cost pit shell, and the increase in productivity at Kolomela, together lowered costs by US$4/tonne. The reduction in capex due to the Sishen reconfiguration realised savings of US$8/tonne, while price realisation lowered the breakeven price by US$7/tonne. In addition, total uncontrollable costs declined by US$3/tonne, mainly as a result of currency changes.

While these results are pleasing, we cannot afford to be complacent. Looking to the year ahead we anticipate that the rise in strip ratio at Sishen, and the introduction of the marginally more expensive modular plant at Kolomela, will result in higher unit costs at both operations in 2017. Given an anticipated further flattening of the global cost curve, and continuing uncertainty regarding the Rand/US$ exchange rate, it is critical that we keep a keen focus on reducing our costs, and on ensuring that our margin remains sufficient regardless of price.

**OUR OPERATIONAL PERFORMANCE**

A key strategic focus this year has been on successfully completing the Sishen turnaround aimed at driving operational efficiencies. This year, the operation produced 28.4 Mt, which was 3 Mt down on 2015 levels, and slightly above market guidance for the year. For 2017, we have guided 27 to 28 Mt of final product, and are continuing to explore additional product opportunities, including processing third-party material. Waste mining was 137.1 Mt, down 85.1 Mt year-on-year. This was primarily due to the redesign of the pit. Good progress was made towards the end of the year in managing and improving shovel tempos and the direct operating hours on our primary equipment. We expect to achieve a waste target of between 150 and 160 Mt for 2017, with an average increase in primary equipment efficiencies of 20% through enhanced operating practices. Unit costs at the mine were down R15/tonne year-on-year, mainly as a result of lower mining volumes.

Kolomela continued its strong performance with waste and production levels both above target. Mining activities are now concentrated in the Leeuwfontein and Klipbankfontein pits with reopening of the Kapstevel pit rephased to the first half of 2017. The mine produced 12.7 Mt this year and is expected to produce between 13 and 14Mt from 2017 to 2020. The project to commission the modular plant is on track and will add 0.7 Mt additional production from 2017. Waste mining activities will remain at around 50 to 55 Mt from 2017 to 2020. Unit costs at the mine were up R23/tonne year-on-year, mainly due to the increased stripping ratio and commissioning of the DMS modular plant.

Following the successful commencement of the closure of the Thabazimbi mine this year, we have since reached an agreement with ArcelorMittal SA regarding the transfer of the Thabazimbi mining rights, employees, assets and liabilities to them, conditional on receipt of the necessary regulatory approvals. Pending finalisation of the approval, we are continuing with the required rehabilitation work. The needs of the Thabazimbi community were identified and have been incorporated into the mine’s social closure plan. ArcelorMittal SA, as part of its current financial obligation, will take over the entire social closure plan and will be responsible for the execution, implementation and funding of these identified projects while SIOC will retain a right of oversight. I believe this is a positive development for both companies and our respective stakeholders.
OUR OPERATING CONTEXT AND STRATEGY: CHIEF EXECUTIVE’S REVIEW

CHIEF EXECUTIVE’S REVIEW CONTINUED

This year we railed 39.8 Mt of product to the Saldanha port and realised export sales of 39.1 Mt. We expect total sales of between 40 and 42 Mt in 2017, with domestic sales volumes of up to 6.25 Mt contracted to ArcelorMittal SA.

OUR SAFETY, HEALTH AND ENVIRONMENTAL PERFORMANCE

Unfortunately this has been a disappointing year in terms of our safety performance. It is with deep sadness and regret that I report the death of two Kumba employees in work-related incidents. In January 2016, Mr Grahame Skansi lost his life at Kolomela, and in May 2016 Mr Gideon Dihaisi was fatally injured at Sishen. My thoughts are with the families, friends and colleagues of these two employees. These fatalities are a significant setback for all of us, both emotionally and operationally, and overshadow the valuable progress that Kumba had been making in its safety performance.

Given this disappointing safety performance, we have updated Kumba’s strategic ambitions to include a more explicit focus on our drive to eliminate fatalities through a culture of zero harm. There has been a particular focus this year on improving the effectiveness and monitoring of our critical controls and processes, driving visible felt leadership at our operations, and strengthening the reporting and investigations of all high-potential incidents and high-potential hazards. We have realigned our safety approach to that of the Anglo American Bulks structure, and have been implementing their ‘elimination of fatalities’ framework, ensuring improved safety performance remains a top personal priority. In addition to ensuring zero fatalities, we are targeting a 15% reduction in our total recordable case frequency rate.

On employee health, it is encouraging to see improvements across most of our key indicators. This year, there were no new cases of noise-induced hearing loss (NIHL), there was a further reduction in occupational illnesses, and once again we exceeded our 90% target for voluntary HIV testing, with 92% of Kumba employees undergoing HIV testing.

We have also made good progress in our environmental performance. We exceeded our targets on water savings and greenhouse gas emissions, and secured most of our long-awaited licences and authorisations, following continuing constructive discussion with regulators. Although no significant environmental incidents were reported this year, unfortunately we continue to face challenges with dust emissions at Sishen, which are above the limits stipulated in the applicable legislation. We are working closely with regulators in implementing our dust management action plan, developed in collaboration with Anglo American. Next year, in addition to continuing to address the dust challenge, we will also be focusing on our rehabilitation strategy at Sishen to meet new legislative requirements relating to the backfilling of waste dumps.

CONTRIBUTING TO SOCIAL DEVELOPMENT AND TRANSFORMATION

As reviewed in more detail in this report and our accompanying sustainability report, Kumba’s track record demonstrates its commitment to facilitating genuine social and economic transformation in South Africa, and to contributing meaningfully towards the country’s objectives relating to broad-based black economic empowerment (B-BBEE). In 2016 alone, despite the low iron ore price, Kumba contributed R5 billion in corporate taxes, mineral royalties and other taxes, R4.6 billion in salaries and wages, R2.85 billion in local procurement, and R67 million in direct social investments in community initiatives such as health, housing, education and small business development. Since listing on the JSE 10 years ago, Kumba has returned R24.4 billion to its B-BBEE shareholders. The Company invests significantly in local and preferential procurement, making a tangible difference to the lives and families of emerging black entrepreneurs and stimulating economic development in our host communities.

We also have a proud record of promoting transformation within the Company. At year-end, historically disadvantaged South Africans represented 86% of our total workforce, and held 62% of management positions, while the representation of women in mining has increased to 21% of the total workforce. Through Envision II, our broad-based employee share ownership plan, Kumba has shared dividend payments totalling more than R557 million with employees (~ R75,000 per employee after tax). Unfortunately this year, when the second and final phase of the scheme matured in November 2016, there was no capital pay out to participants following the recent sharp decline in Kumba’s share price.

MAINTAINING STRONG STAKEHOLDER RELATIONSHIPS

Understanding and being responsive to the interests of our stakeholders, and developing mutually beneficial relationships, is critical to our ability to create value. This year, we have continued to enjoy good relationships with our stakeholders.

Given the significant restructuring process, the implementation of new structures and a shift system at Sishen, and the unwinding of the Envision II employee share ownership scheme without pay, it has been particularly encouraging how we have maintained strong relationships across the workforce. The Company enjoys a very stable industrial relations climate, with no work stoppage experienced since 2012. During the year we saw a change in the composition of our union partners. Although the National Union of Mineworkers (NUM) remains the majority union, its representation has reduced to 56%, while representation of the Association of Mineworkers and Construction Union (AMCU) has increased to 22%, achieving full recognition status by Kumba.
Building strong and effective relationships within this evolving industrial relations landscape remains a priority, particularly as we enter into a period of negotiations with our trade union partners with the three-year wage agreement ending in June 2017.

In terms of our community relationships, an important development this year has been the ongoing relocation of the Dingleton town neighbouring our Sishen mine. The resettlement process is largely completed, ensuring full adherence with requirements set out in International Finance Corporation Performance Standards. Through this process 521 households have moved to a new purpose-built suburb in Kathu, where we have invested R2.3 billion on infrastructure for the new community. The replacement houses are high quality, modern, and energy-efficient and are located in a vibrant area, close to all amenities in Kathu. The value of these properties greatly exceeds that of properties in Dingleton. We are aware that this marked difference in value will result in a significant increase in annual municipal property taxes. In order to mitigate the impact on homeowners, Kumba has established a trust fund to subsidise the difference in property tax rate for a period of 25 years (20 full years plus a five-year phase-out period). The use of high-quality materials in the construction of replacement houses will translate to a low cost of ownership, which should result in considerable savings in families’ monthly budgets. While we have maintained positive relations with the new community, we are continuing engagements with a small number of community members who are refusing to leave Dingleton.

Our continuing engagements with government have seen several positive results, with two developments in particular that stand out. 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 SIOC subject to certain conditions being met. While operationally nothing has changed at the mine, the consequences of the award are far reaching, not only for Kumba but also for the mining sector more broadly. I wish to thank the Kumba executive team for their hard work during this lengthy process, and express my appreciation to the DMR for the successful outcome that is for the benefit of both parties. More recently we have also managed to settle the dispute with the South African Revenue Service (SARS) relating to assessments received for 2006 to 2010, and the tax treatment of relevant issues between 2011 and 2015. Shortly after the end of the 2016 financial year, we agreed to a full and final total settlement amount of R2.5 billion; this will be paid in full in the first quarter of 2017, with appropriate adjustments made for current advance payments held on account.

Notwithstanding these positive developments at a company level, there remains scope to further enhance the levels of trust between government and the South African business community in general and mining sector in particular. Addressing the current trust deficit will be essential if the country and the business community are to reach their full potential in delivering value. For us in the mining sector, a key concern relates to the draft revised Mining Charter published in April 2016, and in particular the proposed provisions relating to the assessment of black ownership. The rejection of the ‘once empowered, always empowered’ principle presents significant challenges for us, and would require fundamental restructuring of most existing empowerment deals. We have had regular engagement with the DMR on this issue throughout the year, both bilaterally and through the Chamber of Mines. It is my hope that together we will find an appropriate solution that enables us all to most effectively realise and beneficially share the significant value that lies in the country’s mineral resources.

OUR STRATEGIC PRIORITIES FOR 2017

Looking to the year ahead, we will be focusing on the following five key strategic initiatives:

Achieving a step change in our safety, health and environmental performance

- Following the disappointing safety record of 2016, we will be placing priority attention on eliminating fatalities and achieving our objective of zero harm through an enhanced focus on critical controls and processes, and on improving our learning from incidents. In addition, we will be taking measures to reduce dust emissions and deliver on our rehabilitation strategy at Sishen.

Maximising the return potential of our assets

- Increasing the productivity of our assets is a powerful driver of returns at low risk without additional capex spend, we need to deliver sustainable cash flow that is not dependent on price recovery. We are embedding a culture of cost efficiency and productivity by doing more than just looking at costs, but taking advantage of every opportunity to generate value from mine through to market. Reviewing every aspect of the value chain, through the Operating Model and use of technology, will aid in offsetting mining cost inflation as a minimum. We aim to achieve a 20% improvement in mining equipment productivity through optimising shift changes, increasing labour availability and improving mine infrastructure. By integrating technology across our value chain it will also deliver improvements in efficiencies. For example, at Kolomela we have implemented Advanced Process Control in the plant, contributing to an increase in plant throughput, as well as a 2% rise in the lump to fine ratio. This has been a key contributor towards Kolomela reaching 13 Mt without significant capital expansion spend. This technology is currently being rolled out at Sishen.
OUR OPERATING CONTEXT AND STRATEGY: CHIEF EXECUTIVE’S REVIEW

CHIEF EXECUTIVE’S REVIEW CONTINUED

Adopting technology to improve safety, efficiency and resource utilisation

In 2014 we developed a fit-for-purpose technology strategy, aimed specifically at enabling us to deliver on our business strategy. Our roadmap ensures implementation of the best possible technologies available throughout the mining value chain from exploration to beneficiation.

On the mining side, one of the benefits is automated drilling (rolled out at Kolomela mine) which has improved safety and reduced costs through better efficiency and quality of drilled holes.

A project that reinforces our focus on safety has been the co-development of autonomous braking for haul trucks. Together with our technology partners, we have introduced an active collision avoidance system to prevent imminent collision by means of automatic speed adjustment and brake application. We are the first open cast operator in the world to successfully test this technology which will be rolled out to the rest of our fleet in the next few years.

I am excited that we have progressed UHDMS to a stage where we can now declare additional Mineral Resource tonnes of around 213 Mt at Sishen. As we make progress in the Sishen beneficiation projects, it is likely we will unlock a significant Resource potential in our world-class mineral endowment.

Disciplined capital allocation framework

A robust balance sheet is fundamental to business as it provides resilience in times of volatility and also enables taking advantage of opportunities when they arise. Kumba has deleveraged over the past year from net debt of R4.6 billion to net cash of R6.2 billion. It is vital to learn from the lessons of the extremely challenging last few years. We therefore believe that it is of overriding importance to have a conservative capital structure at this time, with widely acknowledged uncertainty about commodity prices, and a business that has just finished a radical reconfiguration. On this basis, we will not reinstate the dividend at this stage, but we will continue to keep this under review. The reinstatement of dividends remains a key priority for the half year.

Progressing our value accretive project pipeline

Over the medium term we have a variety of opportunities to deliver organic incremental production growth, with relatively low capital requirements and short paybacks. We are making progress on our project pipeline. The Kolomela modular is currently in ramp-up phase. The second modular plant at Sishen is expected to be commissioned in 2018, producing ~0.7 Mt over the life of mine, with indicative capex of roughly R400 million. We have been developing the UHDMS technology for some time and are pleased to note that the DMS upgrade to UHDMS has moved to pre-feasibility, with first production expected in 2020. In addition to increased production volumes, the upgraded plant may increase optionality to simplify and optimise the plant feed strategy and consequently simplify mining operations.

If we are to achieve our ambition of enhanced competitiveness it is essential that we build on the great strides we have made this year in improving productivity. Given the quality of the Kumba team, I am confident that we will be able to deliver on these ambitions, and that the Company will continue to demonstrate its ability to adapt quickly to whatever challenges may lie ahead.

Our holding company, Anglo American, continues to benefit from the much improved operational performance of a number of other high-quality iron ore, coal and nickel assets. As a result, Anglo American now has a much greater degree of optionality regarding asset retentions. Anglo American continues to work through all the potential options for its iron ore interests, recognising the high quality and performance of these businesses and ensuring that value is optimised for all shareholders. The retention of Kumba remains a viable position given the recent improvements. Notwithstanding this decision, Kumba has necessary measures in place to operate sustainably.

APPRECIATION

In closing, I would like to thank my new colleagues on the Kumba Board and executive, all of whom have provided valuable support and advice to me in my first few months as Chief executive. My thanks are due also to the entire Kumba team, who continues to demonstrate the incredible resilience and adaptability that has been necessary to ensure the Company’s continued success in these challenges.

I would especially like to thank Frikkie for his invaluable contribution and leadership over the past five years. Frikkie has played a crucial leadership role in ensuring Kumba’s financial sustainability during trying times. He will be missed as a valued member of the executive team.

It has been an incredible privilege working with the Kumba team over the past few months. I am looking forward to many years together in realising the Company’s full potential.

Themba Mkhwanazi
Chief executive

8 March 2017
OUR OPERATING CONTEXT

This year we have identified the following seven issues in our operating context that have important implications for our business model.

- Bottoming out of the iron ore price
- Flattening of the cost curve globally
- Anglo American portfolio restructuring of Kumba
- Operational excellence and company restructuring
- Changing regulatory environment and continuing policy uncertainty
- Heightened stakeholder expectations
- Nature of iron ore reserves and life of asset

BOTTOMING OUT OF THE IRON ORE PRICE

Bottoming out of low iron ore prices due to global supply and demand dynamics

Iron ore prices declined significantly from 2013 to 2015, from an annual average price of US$135/tonne CFR in 2013, down to US$56 tonne CFR over 2015 declining to a low of US$38.50 in December 2015. This price deterioration has been driven mainly by an oversupply of low-cost ore from Brazil and Australia, coupled with falling Chinese demand as the economy shifts from infrastructure-led growth (requiring early cycle commodities, such as iron ore and steel), to consumer-led growth (requiring late-cycle commodities, such as copper and platinum). During 2016 the iron ore price appears to have bottomed out, with an annual average price of US$58/tonne CFR, improving to US$79.65/tonne by the end of 2016. Indications are, however, that prices will remain under pressure for the foreseeable future as iron ore supply ramps up by an additional ~77 Mt by 2018, driven mainly by low-cost expansions in Brazil and Australia. Chinese crude steel production is seen to have peaked in light of the changing drivers to economic growth. While India will lead steel capacity expansions outside of China, iron ore import opportunities will be limited as government policies remain conducive to local iron ore and steel producers. In response to these conditions, we have structured our operations to ensure sustainability in a worst-case scenario. Our all-in breakeven price for 2016 was US$29/tonne, at the lower end of our market guidance of US$32 to US$40/tonne.

Implications for value

The volatile iron ore price has significant negative impact on revenues. We are a price-taker in the global iron ore market, and have a much smaller impact on supply dynamics than the larger producers in Australia and Brazil.

Our strategic response

How to win:
- Operate mines at lower unit costs
- Redesign mine pits

Where to play:
- Compete through premium products
A flattening of the global cost curve across the sector has shifted Kumba’s position on the cost curve. The fall and flattening of the iron ore price has been accompanied by a flattening of the production cost curve across the sector as a result of new low-cost supply, new efficiencies across the sector, lower freight rates and weaker currencies in key producer markets. With major producers bringing low-cost production on line, Kumba has moved from the second quartile on the cost curve in 2014 to the third quartile, necessitating a robust review of our business. Our potential for cost differentiation is constrained by a higher strip ratio, higher freight costs due to the distance to the main market in China. We also face challenges associated with increasing electricity costs. To remain competitive, we have shifted our strategic focus off volume to minimising unit cost, rightsizing capital expenditure and maximising cash generation. During 2016 we implemented numerous measures to conserve cash, targeting immediate cost savings and achieved a competitive cash breakeven at a price of US$29/tonne. We have made substantial progress this year in reducing costs through our strong focus on operational excellence measures.

Implications for value
To remain competitive, Kumba has successfully reduced costs. Our superior product portfolio also enables Kumba to realise a superior FOB price compared to our peers. Our unparalleled lump to fine ratio is a key enabler to create additional value in a low price environment.

Our strategic response
How to win:
- Operate mines at lower unit costs
- Redesign mine pits

Where to play:
- Compete through premium products
Uncertainty pending clarity on the outcome of Anglo American’s portfolio restructure

In February 2016, Anglo American announced its intention to restructure its portfolio, including Kumba Iron Ore, and the group had initiated a review to consider options to exit from Kumba at the appropriate time. We will be further strengthening our focus on driving value (rather than volume) to ensure that we remain competitive, and sustainable, notwithstanding the outcome of the Anglo American restructuring decision.

**Uncertainty pending clarity on the outcome of Anglo American’s portfolio restructure**

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**Implications for value**

Continuing uncertainty regarding the nature of the portfolio restructure in the Anglo American group. This also raises potential challenges in terms of employee morale.

**Our strategic response**

**How to win:**
- Operate mines at lower unit costs
- Redesign mine pits
- Implement the Operating Model
- Ad hoc sub-committee on the Board to oversee potential portfolio restructuring

**Where to play:**
- Compete through premium products

**How to win:**
- Extensive employee and contractor support

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**Operational Excellence and Company Restructuring**

Driving sustained efficiency improvements and organisational restructuring across the Company

As a result of the sustained period of depressed mineral and metal prices, mining companies globally have been exploring opportunities for systematic and sustainable cost reductions and productivity improvements. Our parent company, Anglo American, has been driving a radical restructuring of its portfolio. Kumba has similarly been driving an ambitious organisational restructuring programme, reducing staff headcount from 11,790 in 2015, to 8,332 as at 30 December 2016. This has been accompanied by a sustained drive to improve efficiencies through our operational excellence initiatives.

**Implications for value**

Our strong focus on operational excellence has delivered significant financial benefits, ensuring our continuing viability in a low commodity price environment. While effective organisational restructuring has positive implications in terms of immediate cost reductions and efficiency improvements, it also has negative implications, affecting employee morale, raising the potential for industrial unrest, and potentially leading to a loss of the critical skills needed for longer-term productivity.

**Our strategic response**

**How to win:**
- Operate mines at lower unit costs
- Redesign mine pits
- Implement the Operating Model
- Improve equipment efficiencies

**Where to play:**
- Compete through premium products

**How to win:**
- Extensive employee support
- Change management

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**Regulatory Measures and Continuing Policy Uncertainty**

More stringent regulatory measures accompanied by continuing high levels of policy uncertainty

In recent years there has been new legislation relating to resource extraction, company and tax law, labour relations, environmental, health and safety performance, and the delivery of social objectives such as housing, preferential procurement and transformation. Recent high-profile corporate incidents internationally (such as the VW emissions scandal and the Bento Rodrigues dam disaster in Brazil) have impacted negatively on trust in companies, and prompted increased regulatory action. In South Africa, regulatory and policy uncertainty remains a concern, including in particular with the Department of Mineral Resources’ proposed revisions to the Mining Charter and the Mineral and
OUR OPERATING CONTEXT

**OUR OPERATING CONTEXT CONTINUED**

Petroleum Resources Development Act Amendment Bill of 2013. There are challenges regarding the timely processing of applications for certain permits. It is also anticipated that the unwind of Exxaro’s existing BEE transaction during 2017 will impact SIOC’s empowerment status.

**Implications for value**
A stable, competitive and predictable regulatory framework is key for encouraging longer-term investment decisions. Increasing regulatory measures and uncertainty in the interpretation and application of legal requirements may impact the way we mine, result in greater compliance-related costs, and affect the quality of the critical relationship between business and government.

**Our strategic response**
- Key enablers:
  - Proactively engage with stakeholders
  - Responsible citizenship

**HEIGHTENED STAKEHOLDER EXPECTATIONS**
Increasing socio-political pressures, and heightened stakeholder expectations

Globally, mining companies are facing growing demands from more vocal stakeholder groups, often with competing interests: shareholders and investors are calling for improved financial performance, more transparency on executive compensation and sustainability performance; governments of most resource-dependent economies are seeking greater benefits from mining, and expect companies to assist in delivering on the expectations of their electorates; neighbouring communities are increasingly looking to mining companies to provide economic opportunities, infrastructure and social services that are traditionally the role of government; NGOs are becoming more active in holding companies to account on their performance; and employees and unions are increasingly expecting different power dynamics between employer and employee, as well as increased benefits.

**Implications for value**
Heightened stakeholder expectations and the increasingly vocal nature of their demands is testing the quality of the relationships that we rely on to create value. Maintaining these critical relationships, and finding the right balance between competing stakeholder interests, requires proactive engagement and response strategies.

**Our strategic response**
- Key enablers:
  - Proactively engage with stakeholders
  - Responsible citizenship

**NATURE OF IRON ORE RESERVES AND LIFE OF ASSET**

Nature of iron ore reserves and life of asset

In October 2016, the Department of Mineral Resources (DMR) notified Kumba that it had 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. SIOC is accordingly the exclusive holder of the mining rights at Sishen mine, Kolomela mine and Thabazimbi mine, as well as 100% of the relevant prospecting rights adjacent to Sishen mine and the Zandrivierspoort prospecting right. As of 31 December 2016, Kumba Iron Ore, from a 100% ownership reporting perspective, had access to an estimated haematite Ore Reserve of 744 million tonnes at an average unbeneficiated or feed grade of 59.7% Fe from its two mining operations: Kolomela (191.8 Mt @ 64.4% Fe, against a 50% Fe cut-off grade) and Sishen (552.2 Mt @ 58.0% Fe, against a 40% Fe cut-off grade). A 16% net decrease of 141.6 Mt (lower compared to the 150 Mt guided in 2015) is noted for the total Kumba Ore Reserve compared to 2015.

**Further details are provided in the Ore Reserves and Mineral Resources review (pages 70 – 77).**

**Implications for value**
Access to quality iron ore reserves, forms the foundation for our ability to generate revenue through the production and subsequent sale of high-quality iron ore.

**Our strategic response**
- How to win:
  - Operate mines at lower unit costs
  - Redesign mine pits

**Where to play:**
- Compete through premium products
CREATING VALUE FOR STAKEHOLDERS

FOR THE YEAR ENDED 31 DECEMBER 2016

SHAREHOLDERS AND INVESTORS

RECOVERY IN KUMBA SHARE PRICE
from R41 per share at 31 December 2015 to
R159 per share
at 31 December 2016

TOTAL DIVIDENDS PAID TO SHAREHOLDERS SINCE INCEPTION IN NOVEMBER 2006
R70 billion

TOTAL DIVIDENDS PAID TO BEE SHAREHOLDERS SINCE INCEPTION IN NOVEMBER 2006
R24.4 billion

EMPLOYEES

Total labour costs of R4.6 billion paid to our employees

Employment of locals
Sishen – 94%
Kolomela – 85%
Thabazimbi – 74%
Group – 91%

HDSA and women in management
HDSA in management – 62%
Women in management – 21%

Women in core mining – 16%

Training and development
Number of participants – 1,212
Expenditure – R84.9 million*
% HDSA – 94
% Women – 34

*Including professionals in training, artisans, apprentices and mining and plant learners.

COMMUNITIES

HIV related services supplied to 17,687 community members through the Ulysses Modise (UGM) Wellness Clinics
Dingleton resettlement
• Involving 521 households
• Providing additional schools, sports facilities and public libraries, at a cost of R2.3 billion (from 2013 to 2016)
• 46 Dingleton SMMEs received training from professional business development team

CUSTOMERS

Product quality – average Fe content %
64.1%
Lump: fine ratio
64:36

SUPLIERS

R2.85 billion spent on suppliers within a 100 km radius of our operations
R8.5 billion spent on procurement from HDSA businesses

For more detailed information relating to our employees, communities and suppliers refer to the sustainability report pages 23 to 52.
Given the challenges brought about by the volatile commodity sentiment and the impact that this has had on our operations, the importance of engaging proactively with stakeholders has taken on added significance. There are many diverse individuals and organisations that have a stake in Kumba. We have prioritised our stakeholders for targeted engagements, based on the relevance to our business strategy to them, as well as their relevance to issues that the Company needs to continuously address to create value, stay in business or grow.

The strategy focuses on proactively engaging with stakeholders on the significant changes Kumba is going through. The aim is to leave a positive legacy, secure an uninterrupted licence to operate and to develop sustainable communities during and after mining activities.

IDENTIFYING OUR PRIORITY STAKEHOLDERS

We have used the following criteria to prioritise the many individuals and organisations that have a stake in Kumba:

- The degree to which we depend on the stakeholder’s support in achieving our strategic goals;
- The degree to which the stakeholder can influence organisational performance;
- The relative importance of the stakeholder for the company as a whole;
- The significance of the issues linking the stakeholder to Kumba; and
- The risks that we are exposed to should we not deliberately plan our engagement with the stakeholder.

ENGAGING OUR KEY STAKEHOLDERS

Informed by the above criteria we have identified the following priority stakeholder groups. The following table summarises our key forms of engagement with each stakeholder group, and some of the priority issues raised by each group.

<table>
<thead>
<tr>
<th>STAKEHOLDER</th>
<th>ENGAGEMENT CHANNEL</th>
<th>KEY ISSUES RAISED</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investors, shareholders, BEE partners</strong></td>
<td>Investor days and roadshows, Annual reports, Website (inclusive Facebook/ Twitter), Results presentations, Mine visits, Workshops</td>
<td>Costs, growth and sustainability of the Company in context of volatile iron ore prices, Securing mining rights and other regulatory issues, Empowerment status, Labour relations, Dividends, Envision, Dingleton relocation issues, Logistical constraints on IOEC</td>
</tr>
<tr>
<td>Shareholders/investors (Anglo American plc, IDC and PIC), including our BEE partners (Exxaro, Envision and SIOC CDT) Analysts</td>
<td>Annual reports, Website (inclusive Facebook/ Twitter), Results presentations, Mine visits, Workshops</td>
<td>Impact of restructuring, Core labour rights, Company responsiveness to volatile iron ore prices, Housing and living conditions, Salaries and benefits, Envision, Health and safety issues, Employment equity issues</td>
</tr>
<tr>
<td><strong>Unions</strong></td>
<td>Ongoing dialogue through established channels, Operational leadership teams, Visible felt leadership (VFL), Tripartite Health and Safety Initiative</td>
<td>Dingleton relocation, SARS settlement, Thabazimbi exit, Approval of residual 21.4% share of Sishen mining right, Kumba performance</td>
</tr>
<tr>
<td>NUM, AMCU, Solidarity and UASA</td>
<td>Annual reports, Website (inclusive Facebook/ Twitter)</td>
<td>Dingleton relocation, SARS settlement, Thabazimbi exit, Approval of residual 21.4% share of Sishen mining right, Kumba performance</td>
</tr>
<tr>
<td><strong>Customers</strong></td>
<td>Annual reports, Website (inclusive Facebook/ Twitter)</td>
<td>Product/service quality, Security of supply</td>
</tr>
<tr>
<td>Export market</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ArcelorMittal SA</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Media</strong></td>
<td>Annual reports and website, Press releases, Meetings and presentations</td>
<td>Dingleton relocation, SARS settlement, Thabazimbi exit, Approval of residual 21.4% share of Sishen mining right, Kumba performance</td>
</tr>
<tr>
<td>National and local media</td>
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</tbody>
</table>
### Stakeholder Engagement Channels

<table>
<thead>
<tr>
<th>STAKEHOLDER</th>
<th>ENGAGEMENT CHANNEL</th>
<th>KEY ISSUES RAISED</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>South African government</strong>&lt;br&gt;National departments: Mineral Resources, Water and Sanitation, Environmental Affairs, Cooperative Governance and Traditional Affairs, Public Works and Finance&lt;br&gt;South African Revenue Service&lt;br&gt;Limpopo and Northern Cape provincial governments&lt;br&gt;District municipalities (DM) and local municipalities (LM) where Sishen, Kolomela and Thabazimbi mines operate – John Taolo Gaetsewe DM, Waterberg DM, Gamagara LM, Tsantsabane LM, Thabazimbi LM</td>
<td>- Annual reports&lt;br&gt;- Website (inclusive Facebook/ Twitter)&lt;br&gt;- Mine visits&lt;br&gt;- Meetings&lt;br&gt;- Presentations&lt;br&gt;- Workshops&lt;br&gt;- Newsletters&lt;br&gt;- Press releases&lt;br&gt;- Press conferences&lt;br&gt;- Mining Phakisa Labs&lt;br&gt;- Mining Industry Growth Development and Employment Task Team (MIGDETT)&lt;br&gt;- Mineral Development Board&lt;br&gt;- Rehabilitation</td>
<td>- Legal compliance, including especially on safety, health and environmental performance&lt;br&gt;- Mining rights including 21.4% residual share of Sishen&lt;br&gt;- Creating jobs through growth&lt;br&gt;- Transformation and B-BBEE delivery&lt;br&gt;- Sustained contribution to national tax base&lt;br&gt;- Domestic supply and pricing of iron ore and support for government's beneficiation strategy&lt;br&gt;- Community development and progress on implementation of social and labour plans&lt;br&gt;- Contribution to local infrastructure and service delivery&lt;br&gt;- Ensuring responsible governance practices and respect for human rights&lt;br&gt;- Thabazimbi exit&lt;br&gt;- Relocation of Dingleton</td>
</tr>
<tr>
<td><strong>Employees</strong></td>
<td>- Managers/team dialogues&lt;br&gt;- Surveys and employee presentations&lt;br&gt;- Company intranet and newsletters&lt;br&gt;- Electronic notice boards/public display screen&lt;br&gt;- Envision roadshows</td>
<td>- Impact of restructuring&lt;br&gt;- Salaries and benefits&lt;br&gt;- Housing and living conditions&lt;br&gt;- Career progression&lt;br&gt;- Health and safety issues&lt;br&gt;- Employment equity issues&lt;br&gt;- Production and performance&lt;br&gt;- Changes in shift patterns&lt;br&gt;- Envision</td>
</tr>
<tr>
<td><strong>Host communities</strong>&lt;br&gt;Thabazimbi community, Tsantsabane community, Gamagara community and our sending communities</td>
<td>- Socio-Economic Assessment Toolbox (SEAT) and other community engagement sessions&lt;br&gt;- Complaints and grievance procedure&lt;br&gt;- Annual reports&lt;br&gt;- Website (inclusive Facebook/Twitter)</td>
<td>- Procurement and employment opportunities&lt;br&gt;- Enterprise development&lt;br&gt;- Community investment initiatives&lt;br&gt;- Nature of engagement structures&lt;br&gt;- Management of environmental impact&lt;br&gt;- Transparency and engagement measures&lt;br&gt;- Financial compensation for Dingleton community</td>
</tr>
<tr>
<td><strong>NGOs</strong></td>
<td>- Annual reports&lt;br&gt;- Website&lt;br&gt;- Written correspondence&lt;br&gt;- Meetings</td>
<td>- Funding for community development&lt;br&gt;- Collaboration on community projects&lt;br&gt;- Transparency in environmental disclosures</td>
</tr>
<tr>
<td><strong>Political parties</strong>&lt;br&gt;African National Congress (ANC), Democratic Alliance (DA) and Economic Freedom Front (EFF)</td>
<td>- Annual reports and website&lt;br&gt;- Engagements</td>
<td>- Similar to government issues above</td>
</tr>
<tr>
<td><strong>Business peers</strong>&lt;br&gt;Chamber of Mines&lt;br&gt;Local business forums</td>
<td>- Annual reports and website&lt;br&gt;- Meetings and presentations</td>
<td>- Mining Charter review and its impact on the industry&lt;br&gt;- Local procurement&lt;br&gt;- General knowledge sharing on our approach to managing material issues</td>
</tr>
<tr>
<td><strong>Suppliers</strong>&lt;br&gt;Contractors&lt;br&gt;Transnet&lt;br&gt;Other suppliers</td>
<td>- Direct supplier engagements&lt;br&gt;- Annual reports and website</td>
<td>- Procurement opportunities&lt;br&gt;- Contract terms&lt;br&gt;- Promoting local procurement&lt;br&gt;- Development of a supplier park in Kathu&lt;br&gt;- Safety, health and wellbeing, and human rights of employees of contracting companies/suppliers&lt;br&gt;- Iron Ore Export Channel tariffs and penalties&lt;br&gt;- Collaboration with junior miners</td>
</tr>
</tbody>
</table>
OUR OPERATING CONTEXT AND STRATEGY: ADDRESSING STAKEHOLDER INTERESTS

ADDRESSING STAKEHOLDER INTERESTS CONTINUED

PRIORITY ISSUES RAISED DURING THE YEAR

The table below provides a brief overview of the key issues that these stakeholders have raised. Our approach to, and progress in addressing these issues is provided in relevant sections of this integrated report as well as our sustainability report.

THE SOCIAL AND ECONOMIC EFFECT OF THE DECLINE IN IRON ORE PRICES

The low commodity price environment has had a significant impact not only on the sector’s profitability but also more broadly across the South African economy, with lower profits impacted negatively on the value distributed through wages, taxes, dividends and procurement. Various platforms exist for government, industry and labour to collaborate in finding solutions to stimulate growth and stabilise the industry. To remain sustainable, Kumba reconfigured Sishen and Kolomela operations and ceased all operations at Thabazimbi mine.

<table>
<thead>
<tr>
<th>STAKEHOLDER INTEREST</th>
<th>INTERESTED STAKEHOLDERS</th>
<th>COMPANY RESPONSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understanding the market environment</td>
<td>Employees and unions</td>
<td>Proactive engagement to foster alignment of expectations across stakeholder groups</td>
</tr>
<tr>
<td>Implications for sustainability of the company</td>
<td>Government (three tiers)</td>
<td>Transparent implementation of new organisational structures</td>
</tr>
<tr>
<td>Impact of downscaling on value distributed to stakeholders</td>
<td>Communities</td>
<td>Sishen turnaround strategy</td>
</tr>
<tr>
<td>Measures in place to mitigate impacts on employees, local municipalities, communities and economy</td>
<td>Shareholders and analysts</td>
<td>Sishen social impact assessment</td>
</tr>
<tr>
<td>Change in leadership of the organisation</td>
<td>Analysts</td>
<td>Consultations with stakeholders on a social closure plan for Thabazimbi mine</td>
</tr>
<tr>
<td></td>
<td>Political leadership</td>
<td>Proactive engagement</td>
</tr>
<tr>
<td></td>
<td>ArcelorMittal SA</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Transnet</td>
<td></td>
</tr>
<tr>
<td></td>
<td>South African Revenue Service (SARS)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Media</td>
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</tr>
</tbody>
</table>

CONducive REGULATORY ENVIRONMENT

The DMR publishes the Reviewed Broad-Based Black Economic Empowerment Charter for the South African Mining and Minerals Industry (Mining Charter) for comments and the Mineral and Petroleum Resources Development Amendment Bill has been returned to Parliament for further consultation.

<table>
<thead>
<tr>
<th>STAKEHOLDER INTEREST</th>
<th>INTERESTED STAKEHOLDERS</th>
<th>COMPANY RESPONSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact of the new Mining Charter targets</td>
<td>Government/regulatory agencies</td>
<td>Meaningful participation in tripartite processes</td>
</tr>
<tr>
<td>Impact of changes in the Amendment Bill</td>
<td>Chamber of Mines</td>
<td>Engage with the aim of reaching a common understanding of shared value with stakeholders</td>
</tr>
<tr>
<td>Compliance</td>
<td>Unions</td>
<td>Co-creation of favourable Act and Charter</td>
</tr>
<tr>
<td></td>
<td>Political leadership</td>
<td>Gap analysis and compliance plan</td>
</tr>
<tr>
<td></td>
<td>Shareholder interest groups</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Analysts</td>
<td></td>
</tr>
</tbody>
</table>

RELOCATION OF DINGLETON RESIDENTS

During 2016, 281 of the remaining Dingleton homeowners were relocated, together with a number of businesses and public offices. It was anticipated that the relocation project would be completed at the end of 2016. However, a minority of the homeowners are holding out for additional compensation notwithstanding the generous treatment in line with the International Finance Corporation Performance Standards.

<table>
<thead>
<tr>
<th>STAKEHOLDER INTEREST</th>
<th>INTERESTED STAKEHOLDERS</th>
<th>COMPANY RESPONSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Progress in the implementation of the relocation project</td>
<td>Northern Cape provincial government</td>
<td>Consultation with key stakeholders</td>
</tr>
<tr>
<td>Livelihoods of the Dingleton community after relocation</td>
<td>Gamagara communities</td>
<td>Develop initiatives that empower the Dingleton community, to ensure sustainable livelihoods post relocation</td>
</tr>
<tr>
<td></td>
<td>Gamagara local government</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Dingleton community and their representatives</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Shareholders</td>
<td></td>
</tr>
<tr>
<td></td>
<td>NGOs, media and DMR</td>
<td></td>
</tr>
</tbody>
</table>
MATERIAL RISKS AND OPPORTUNITIES

Notwithstanding the significant headwinds experienced in the iron ore market and the challenges introduced by organisational changes within the business, Kumba remains resilient.

Kumba’s robust risk management process and frameworks have enabled the Company to remain resilient in the volatile iron ore market, characterised by an extremely low price environment in the first half of the year and a notable recovery in the second half. This has enabled the Company to enhance its ability to adapt to an ever-changing operating environment while taking advantage of the recovery to create sustainable value for all stakeholders.

The Risk Committee oversees risk management on behalf of the Board through regular feedback by management on all risk-related activities. The committee continually assesses all risk governance structures and lines of defence in conjunction with the Audit Committee to ensure that roles, responsibilities and accountabilities for identifying, managing, mitigating, reporting and escalating risks within the Company are defined.

For further responsibilities of the committee refer to the Governance section on page 84.

The Risk Committee and management team promotes a culture of risk governance and awareness throughout the organisation.

Kumba’s Risk Management Process

Risk assessments

- Identify risks and opportunities
- Risk analysis
- Risk evaluation

Monitoring and review

Communication and consulting

Risks and opportunities

- Top 20 and emerging risks
- Top 20
- Operational and functional risks
- Enterprise risks
- Project risk
- Business risks
- Operational risk (sites)

Monitoring and report

- The Board (Quarterly)
- Risk Committee (Quarterly)
- Management Risk Committee (Quarterly)
- Executive Committee (Monthly)
- Operations (Mine sites, logistics and functions)

* Ensure that appropriate controls and responses are in place to mitigate the risks and manage identified opportunities (recorded in risk registers).

** Regularly analysing and monitoring the effectiveness of current controls (three lines of defence). Regular and timely reporting to the Executive Committee, the Risk Committee and the Board. Risk management is integrated within management’s everyday agenda to ensure that mitigation actions for identified risks are implemented.

Risk Appetite

Kumba defines risk appetite as the nature and extent of the risk the Company is willing to accept in relation to the pursuit of its objectives.

The Risk Committee continually defines and reviews the risk appetite levels to determine internal boundaries for prudent decision making, risk taking and highly efficient governance. Our risk appetite was reviewed in the context of an ever-changing external and internal environment to ensure decision-making is aligned with the organisation’s business strategy, improves the resilience of the organisation and creates sustainable value.

Risk appetite and tolerance is high on the Board’s agenda and is a core consideration of our enterprise risk management approach.

At the Board risk workshop held in 2016, the Board interrogated the current methodology used to determine the appetite and tolerance levels. The Board concluded that having a defined risk appetite and tolerance statement was imperative to the effective functioning of the risk management process.

As such, a policy to guide the defining and reviewing of appetite and tolerance levels will be developed to further enhance this area of risk management and governance.

Kumba looks at risk tolerance from the perspective of severity of the consequences should the risk materialise, any relevant internal or external factors influencing the risk, and the status of management actions to mitigate the risk. If a risk exceeds tolerance, it will threaten the achievement of objectives and may require a change in strategy. Risks that are approaching the limit of Kumba’s risk tolerance levels may require management actions to be accelerated or enhanced in order to ensure the risks remain within acceptable levels.
PURSUING OPPORTUNITIES

The risk management process supports the business in achieving its strategic objectives and also provides a platform for identification and realisation of opportunities. Despite the difficult conditions, Kumba continues to adapt to the continuously changing business environment and positions itself to take advantage of opportunities in order to deliver sustainable value for all stakeholders.

Kumba’s management considers the Company’s key opportunities to include:

- Reconfiguring our operating plans by prioritising areas of lower stripping ratios in order to reduce costs, improve profitability and preserve cash
- Shift from a volume- to a value-based strategy to reduce the amount of waste mined and save costs
- Sharing of resources between Sishen and Kolomela, and taking advantage of synergies with other mines within the Northern Cape
- Continuing with the implementation of the low-grade technology strategy for extension of operations post 2030
- Implementing value-adding technology into our mining and beneficiation processes to reduce our unit cost and make our operations safer
- Implementing the Kumba Way of Work at our operations to ensure that all work is adequately planned, scheduled and resourced.

RESIDUAL RISK RATINGS

Outlined in the heat map above is the residual rating per key/material risk for Kumba. Residual risk is the remaining risk exposure after all identified mitigation measures have been applied. A key contributor to the current high residual risk ratings are the external factors beyond management's control.

Due to improvement in risk rating, the following risks are no longer included in the top ten risks:

- Fiscal compliance and regulatory certainty
- Funding
- Residual mining right
The following is a detailed outline of Kumba’s current key risks as identified, together with their potential impacts and mitigating actions. We have considered both internal and external risks. Our mitigation strategies depend on the severity of impact and likelihood of occurrence of the risks we face.

### 1. Commodity Markets and Exchange Rate Fluctuations

<table>
<thead>
<tr>
<th>ROOT CAUSE</th>
<th>IMPACT ON VALUE</th>
<th>MITIGATING ACTIONS</th>
<th>OUTLOOK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commodity prices are determined primarily by global supply and demand. Demand is influenced by global economic growth, mainly in Europe and Asia (especially China). The anticipated ramp-up in low-cost iron ore supply from the majors and the shift in the Chinese economy from infrastructure-led growth to consumer-led growth will add downward pressure on current price levels. Exchange rates remain volatile reflecting various macro-economic factors.</td>
<td>A decline in iron ore prices adversely impacts revenues, margins, cash position and credit rating. Revenue is in US$, while some capital and other expenditure are incurred in US$, most of the costs are denominated in Rand. A weaker Rand can partially offset losses from low ore prices.</td>
<td>Key iron ore market indicators and trends are constantly monitored, with the aim of ensuring a timely and effective response to price changes and also achieve optimal price realisation.</td>
<td>Market fundamentals for iron ore remain uncertain. Although the current iron ore prices remain relatively high, the shift in Chinese market drivers and anticipated additional supply from the low-cost producers creates uncertainty on the sustainability of current price levels.</td>
</tr>
</tbody>
</table>

### 2. Stakeholder Relations and Social Licence to Operate

<table>
<thead>
<tr>
<th>ROOT CAUSE</th>
<th>IMPACT ON VALUE</th>
<th>MITIGATING ACTIONS</th>
<th>OUTLOOK</th>
</tr>
</thead>
<tbody>
<tr>
<td>There are growing expectations of mining companies by government and communities, fuelled in part by community activism and slow levels of local government service delivery that have resulted in reliance on mining companies. Communities in areas adjacent to our operations continuously increase their demands for procurement opportunities. Key engagements with the Dingleton community are ongoing with a view to achieve successful relocation of the remaining residents to Kathu.</td>
<td>A failure to manage stakeholder relationships, in particular unions, local communities, government and non-governmental organisations, may result in disruption of operations, misalignment in expectations and adverse impact on our reputation and social licence to operate.</td>
<td>Identify and prioritise stakeholder issues and implement a comprehensive, Exco-approved stakeholder engagement policy. Align stakeholder expectations to current operational and economic dynamics impacting the ability to create sustainable value. Continue with existing local economic development programmes to empower local suppliers and seek further local procurement opportunities for local suppliers. Ongoing engagements with the remaining Dingleton households to ensure a successful relocation.</td>
<td>The environment is continuously monitored and change management processes will be implemented to ensure that the organisation remains resilient and continues to generate sustainable value for all stakeholders.</td>
</tr>
</tbody>
</table>

STRATEGIC FOCUS AREA

Key enabler: Stakeholder engagement
### 3. SAFETY

**ROOT CAUSE**
There are inherent safety and health risks associated with mining activities across the value chain. The continuously changing operating environment and conditions heighten the safety risk.

**IMPACT ON VALUE**
- Apart from physical harm to employees and contractors, failure to maintain high safety levels may impact negatively on employee morale, the achievement of production targets, and our licence to operate.

**MITIGATING ACTIONS**
- Various initiatives have been implemented as part of our commitment to zero harm:
  - Implementation of safety improvement plans
  - Focus on priority unwanted events and critical controls
  - Focus on leadership and improved safety culture
  - Preventing repeat incidents through effective learning from incidents
  - Driving disciplined and consistent execution of the basics and compliance with safety standards

**OUTLOOK**
- A continued focus on reinforcing safety practices that eliminate harm and fatalities. Improvement in change management practices to anticipate hazards and prevent harm.

**STRATEGIC FOCUS AREAS**
- Key enablers:
  - Responsible citizenship
  - Employee support

### 4. OPERATIONAL PERFORMANCE

**ROOT CAUSE**
Risk exposure in this area is primarily a result of potential adverse mining conditions delaying or hampering our ability to produce targeted quantities. Our ability to meet operational targets may be hampered by: mining equipment performance and efficiency; pit constraints; adverse weather conditions; low feedstock which limits flexibility; and failure of key equipment. Above inflationary cost increases and increased strip ratios negatively impact our operating margins and targets.

**IMPACT ON VALUE**
- Inability to achieve production targets and rising unit costs impact directly on profitability and cash flow

**MITIGATING ACTIONS**
- Management oversight of operational performance is ensured through monitoring of KPIs and regular operational and executive consultations
- Continue to implement the Operating Model, a work management system to ensure that all work is adequately planned, scheduled and resourced
- Initiatives in place to prioritise high-risk areas and drive performance
- Execute revised Sishen mine plan
- Continued implementation of cost savings initiatives

**OUTLOOK**
- Targeted efforts to significantly improve operational efficiencies to drive achievement of operational targets and utilisation of current equipment fleet.
- Focused equipment maintenance to improve availability and reliability.

**STRATEGIC FOCUS AREAS**
- How to win:
  - Implement the Kumba Way of Work
  - Use technology to extract maximum value
## 5. THIRD-PARTY INFRASTRUCTURE

### Root Cause
As many aspects of the logistics chain are out of Kumba’s control, the associated risks require careful management and trusted business partnerships. We export our ore to customers through a single-channel rail and port owned and operated by Transnet. Key infrastructure requires significant upgrade and/or maintenance (mid-life refurbishment). Revised Sishen plan may result in utilisation below the allocated rail capacity in the iron ore export channel (IOEC). There is increased pressure to renegotiate long-term commercial contracts with Transnet.

### Impact on Value
- An adverse impact on logistical capabilities and failure to obtain supporting facilities may pose a business continuity risk
- Potential penalties incurred for non-utilisation of allocated capacity
- Increase in freight costs
- Unavailability of key infrastructure may have an impact on delivery of products to our customers

### Mitigating Actions
- Ongoing management of our relationship with Transnet
- Entering into long-term agreements to secure supply of services
- Potential synergies with other mines in the Northern Cape
- Interactions with Transnet to look for cost-effective alternatives for major maintenance/upgrades to limit the potential impact of the mid-life refurbishment
- Identify additional tonnage opportunities to limit possible penalties

### Outlook
Some of the port infrastructure needs to go through a structured maintenance (mid-life refurbishment) period in 2018 or 2019, which may result in a reduction in capacity. We are engaging with Transnet, to quantify the impact and to work on alternatives to mitigate the impact of the shutdown/downtime.

---

## 6. SIOC EMPOWERMENT STATUS

### Root Cause
The lock-in period for shareholders (specifically Exxaro’s shareholding as well as the Envision scheme) has expired in November 2016.

It is anticipated that there will be a change in shareholding at Exxaro, with the current BEE shareholders selling off their shareholding. The anticipated reduction of black shareholders will be an estimated 30%. This will have an impact on SIOC’s BEE status.

### Impact on Value
- Depending on the outcome of the finalisation of the empowerment principles in the Mining Charter III (MC III), a possible change in the BEE status may impact our licence to operate

### Mitigating Actions
- Monitor developments with regards to finalisation of the new MC III to guide direction on the position to be taken on future BEE structure
- A review of other ESOP options to replace Envision post expiration in 2016 is underway, along with a review of the rest of the BEE ownership agreements
- Put a legal strategy in place, to address empowerment issues related to the MC III

### Outlook
Continuous engagement and consultation with industry and regulator on empowerment principles envisaged in MC III.

---

### Strategic Focus Areas

**Key enablers:**
- Stakeholder engagement

**Responsible citizenship**
MATERIAL RISKS AND OPPORTUNITIES CONTINUED

7. MINING LEGISLATION/REGULATORY CHANGES AND REGULATORY AUTHORISATIONS

ROOT CAUSE
Increase in legislation covering the broad spectrum of activities across the business value chain, in particular on the nature of mining rights, transformation, and safety, health and environmental performance. Uncertainty remains with regards to finalisation of the Mineral and Petroleum Resources Development Act (MPRDA) and Mining Charter III (MC III), which in their current state have provisions that may adversely impact the industry.

IMPACT ON VALUE
- Changes in the regulatory environment could require changes to the way we mine, and/or increase production costs.
- Failure to comply could result in the suspension of necessary authorisations, licences and rights. A lack of regulatory certainty impacts our ability to take long-term investment decisions.

MITIGATING ACTIONS
- Monitor regulatory developments and ensure readiness to comply with new legislation.
- Monitor and report on our compliance with all applicable legislation and legislative changes.
- Engage regularly with government – both directly as a company as well as in conjunction with other mining industry participants – on all key legislative issues including specifically on the MPRDA and MC III.

OUTLOOK
Continue to participate in industry engagements with a view to reach finality on issues relating to the MPRDA and MC III.

8. ADAPTING TO CHANGE

ROOT CAUSE
The current operating environment is characterised by continuous change which requires the Company to have the agility to adapt while not compromising the long-term sustainable value required by shareholders. Key changes include:
- A volatile iron ore market
- Significant change in mining plans
- Changes in the regulatory frameworks under which we operate
- Changes in leadership in key roles
- Review of processes and structures to align with current operating environment
- Change in working environment which introduces safety risks for employees
- Required improvements in operating efficiencies and drive towards further cost savings which require a motivated workforce
- Review by Anglo American of its portfolio of assets

IMPACT ON VALUE
- Short-term focused actions in adapting to change may compromise the long-term sustainable value of the organisation
- Lack of agility in adapting to change may destroy value and hinder Kumba’s competitiveness

MITIGATING ACTIONS
- Strategy process in place focusing on the short and medium to long-term goals of the organisation to create sustainable value
- Awareness of the market conditions (capital markets and global supply and demand dynamics) to align management decisions and strategy with the commodity cycle
- Employee engagement process in place to inform employees about key strategy and change initiatives to ensure they are aligned to the Company’s objectives
- Succession in place for key roles within Kumba
- Key initiatives in place to continuously review and improve the Operating Model to ensure achievement of efficiencies and cost savings

OUTLOOK
The environment is continuously monitored and change management processes will be implemented to ensure that the organisation remains resilient and continues to generate sustainable value for all stakeholders.

STRAIGHT FOCUS AREAS

Key enabler:
- Stakeholder engagement
### 9. LABOUR RELATIONS

**ROOT CAUSE**
Kumba has gone through a significant restructure at operations following changes in the mine plan. Key skills and change in shift rosters are required to ensure new structures are embedded.

Due to the decline of Kumba’s share price, the Envision II maturity resulted in zero payout to employees.

The current wage agreement expires in June 2017 and will be re-negotiated.

**IMPACT ON VALUE**
- Lack of workforce engagement, inability to fill key positions, conclusion of a new wage agreement and settle a new work roster may impact on the delivery of operational plan.

**MITIGATING ACTIONS**
- Continuous engagement with trade unions to achieve agreement on the new shift rosters and new wage agreement
- A review of other employee share schemes to replace Envision are underway. This will be concluded once the position on MC III is confirmed.
- A comprehensive employee engagement and communication plan regarding the status of Envision II has been rolled out.

**OUTLOOK**
The current wage agreement is due to expire in June 2017. Preparations are underway to ensure successful negotiations with the trade unions.

**STRICTIV FOCUS AREA**
Key enabler: Stakeholder engagement

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### 10. CYBER RISK

**ROOT CAUSE**
Cyber attacks are becoming increasingly frequent and sophisticated throughout the world. With increased use of technology and integration of operating technology platforms, the exposure for cyber attacks exists.

**IMPACT ON VALUE**
- Cyber attacks can lead to financial loss, access to commercially sensitive information or disruption to operations.

**MITIGATING ACTIONS**
- Established cyber security strategy in place supported by the Anglo American group
- Information management framework and policies in place to guide user behaviour and raise security awareness
- Continuous security monitoring to identify and respond to security threats
- Investment in technology to test and continuously improve our cyber security

**OUTLOOK**
Continuous monitoring of cyber risks and continue to invest in security capability to respond to an ever-evolving threat.

**STRICTIV FOCUS AREA**
Key enabler: Use technology to extract maximum value
OUR STRATEGY

Kumba’s strategic focus is to position ourselves for long-term sustainability, while ensuring our immediate viability over the short term given the challenging price environment. Our strategy focuses on actions aimed at making the Company more competitive and sustainable within the context of the low price environment that is forecast for the foreseeable future.

The strategy focuses on value creation, as opposed to the earlier focus on volume expansion when prices were high. The strategy is structured around three key focus areas: ‘where’ we want to do business; ‘how’ we set ourselves up to win in a depressed price environment; and what ‘enablers’ need to be in place to successfully implement the strategy.

In October 2016, we reviewed our strategy as part of the new leadership’s on-boarding process. The strategy presented in our 2015 Integrated Report remains largely unchanged. Our strategic ambitions, however, have been updated to focus the organisation on our drive to eliminate fatalities through a culture of zero harm, given the disappointing safety performance we had in 2016.

The strategy is supported by several strategic initiatives, on which progress is monitored and reported through a programme support office.

In 2017, we will be placing a particular focus on the following five key strategic initiatives:

Achieving a step change in our safety, health and environmental performance
- With priority attention on: eliminating fatalities and achieving our objective of zero harm; reducing dust emissions at Sishen and delivering on our rehabilitation strategy at Sishen.

Maximising the return potential of our assets
- Increasing the productivity of Kumba’s assets is a powerful driver of returns at low risk, we need to deliver sustainable cash flow that is not dependent on price recovery. Kumba is embedding a culture of cost efficiency and productivity by taking advantage of every opportunity to generate value from mine through to market. During 2017 the aim is to achieve a 20% improvement in mining equipment productivity through optimising shift changes, increasing labour availability and improving mine infrastructure. By integrating technology across the value chain it will also deliver improvements in efficiencies. The implementation of Advanced Process Control in the plant at Kolomela, contributed to an increase in plant throughput, as well as a 2% rise in the lump to fine ratio, this technology will be rolled out at Sishen in 2017.

Progressing our value accretive project pipeline
- Over the medium term Kumba has a variety of opportunities to deliver organic incremental production growth, with relatively low capital requirements and short paybacks. We are making progress on our project pipeline. The Kolomela modular is currently in ramp-up phase. The second modular plant at Sishen is expected to be commissioned in 2018, producing ~0.7 Mt over the life of mine, with indicative capex of roughly R400 million. We have been developing the UHDM technology and this has moved to pre-feasibility, with first production expected in 2020. In addition to increased production volumes, the upgraded plant may increase optionality to simplify and optimise the plant feed strategy and consequently simplify mining operations.

Adopting technology to improve safety, efficiency and resource utilisation
- In 2014 we developed a fit-for-purpose technology strategy, aimed specifically at enabling Kumba to deliver on our business strategy. This ensures the implementation of the best possible technologies available throughout the mining value chain from exploration to beneficiation. An example is automated drilling (rolled out at Kolomela mine) which has improved safety and reduced costs through better efficiency and quality of drilled holes. A project that reinforces our focus on safety has been the development of autonomous braking for haul trucks. We introduced an active collision avoidance system to prevent imminent collision by means of automatic speed adjustment and brake application. Kumba is the first open cast operator in the world to successfully test this technology which will be rolled out to the rest of the fleet in the next few years. The upgrade of the Sishen DMS plant to UHDM has progressed to a stage where we can now declare additional Mineral Resource tonnes of 213 Mt at Sishen. This is likely to unlock a significant Resource potential in Kumba’s world-class mineral endowment.

Disciplined capital allocation framework
- A robust balance sheet is fundamental to business as it provides resilience in times of volatility and also enables taking advantage of opportunities when they arise. Kumba has deleveraged over the past year from net debt of R4.6 billion to net cash of R6.2 billion. It is essential to have a conservative capital structure at this time, with the uncertainty about commodity prices, and a business that has just implemented a radical reconfiguration. The reinstatement of dividends remains a key priority for the half year.
OUR STRATEGY

Our strategy

To be a successful and sustainable African supplier of quality iron ore to global and local markets while delivering superior value to our stakeholders.

AMBITION
We aspire to drive shareholder returns in the top quartile of our peer group through the price cycle, by extracting maximum value from our high-quality asset portfolio.

WHERE TO PLAY

<table>
<thead>
<tr>
<th>Focus on the Northern Cape, as the region contains the most attractive ore bodies for both current operations and targeted brown fields exploration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extend life of current mines through low-grade projects, using UHDMs technology to produce more ore and less waste</td>
</tr>
<tr>
<td>Compete through premium products to maximise price premium realised and to maintain differentiated customer relationships</td>
</tr>
<tr>
<td>Maintain optionality to grow in West and Central Africa when the price recovers</td>
</tr>
</tbody>
</table>

HOW TO WIN

<table>
<thead>
<tr>
<th>Redesign of Sishen and Kolomela pits to extract maximum value from the ore body in a lower price environment. Optimise production in line with IOEC capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use technology to extract maximum value from our ore. Focus on step-change opportunities</td>
</tr>
<tr>
<td>Implement the Kumba Way of Work to ensure the right people in the right roles produce the right outcomes through effective processes and systems</td>
</tr>
</tbody>
</table>

KEY ENABLERS

<table>
<thead>
<tr>
<th>Align marketing and operational activities to ensure product produced efficiently matches customer needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reinforce our reputation for product quality and consistency</td>
</tr>
<tr>
<td>Proactively engage with key stakeholders to reinforce our partnership approach</td>
</tr>
<tr>
<td>Provide leadership through responsible citizenship, displaying care for safety, health and the environment</td>
</tr>
<tr>
<td>Provide extensive support to our employees to help them through the Kumba change journey</td>
</tr>
</tbody>
</table>
OUR PERFORMANCE: PERFORMANCE AGAINST STRATEGIC OBJECTIVES

PERFORMANCE AGAINST STRATEGIC OBJECTIVES

Kumba’s full year results reflect continued volatile market conditions. During 2016 Kumba’s realised FOB iron ore price recovered to an average of US$64/tonne resulting in a 13% increase in revenue to R40.8 billion. Operating profit increased by 78% compared to 2015.

FOCUSED EXCELLENCE

INCREASED REVENUE
(2015: R36.1 billion)

R40.8 billion

MINING COSTS DECREASED BY
17% in real terms

HEADLINE EARNINGS
(2015: R3.8 billion)

R8.7 billion

SETTLEMENT AGREEMENT REACHED WITH SARS

SISHEN 21.4% RESIDUAL MINING RIGHT GRANTED

2017 OUTLOOK

Resetting the cost base, stabilising operating performance and improving financial health, has made Kumba more resilient and better positioned to cope with volatile market conditions. Improving productivity, alongside ongoing strict capital discipline and the realisation of appropriate pricing for Kumba’s high-quality products are very compelling levers to generate attractive returns with low risk for shareholders. The core focus for 2017 will 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 enhanced profitability.
STRATEGIC FOCUS AREA

1. WHERE TO PLAY

We are maintaining our focus on the Northern Cape as the foundation for ensuring our immediate sustainability and meeting our longer-term growth ambitions. In addition to implementing measures to extend the life of our current mines, we are also looking to compete through premium products and differentiated customer relationships, with the aim of maximising the price premium we unlock through our superior product.

We will be maintaining our focus on the Northern Cape region as it contains the most attractive ore bodies for both current operations and targeted brownfields exploration, providing the necessary foundation to ensure our immediate sustainability and meet our longer-term growth ambitions.

We have been deepening our understanding of the full potential of the Northern Cape region through our application of leading-edge exploration technologies. We believe that over the long term, current production levels could be sustained through development in the Northern Cape, unlocking the region’s full potential through our Kolomela extension activities, and realising targeted opportunities for joint ventures and acquisitions of appropriate rights.

The Sishen mine’s future potential is dependent on the Company’s success in identifying and/or developing beneficiation methodologies to beneficiate low-grade haematitic iron ore material. Reasonable prospects for eventual economic extraction must still be proved via project studies, especially considering beneficiation methodologies and market requirements, which are at pre-concept level at this point in time.

The Sishen area has significant low-grade potential that unlocks further ultra-high density medium separation (UHDM) production opportunities, while the Central and Kolomela areas and surrounds have significant dense medium separation (DMS)/direct shipping ore (DSO) potential. This can be achieved by evaluating all possibilities to extend the reserve life of our current mines based on our understanding of the geology and through exploration programmes around our Sishen and Kolomela operations.

Short-term opportunities include:
- Optimising resources and utilising on-lease resources to grow Kolomela to produce above 14 Mtpa;
- Extending the Kolomela reserve life with adjacent resources around the operation.

Medium- and long-term opportunities for extending the life of current mines include:
- Using our proven UHDM technology to treat the significant volumes of low grade material available at Sishen to produce more ore and less waste, and to extend Sishen’s life beyond 2030; first production is expected by 2020, and is expected to add 2 Mtpa over Sishen’s life of mine.
Due to the geographical and geological nature of our operations, we are not able to compete with the big iron ore producers in terms of volume. We have thus chosen to compete by maximising our price premium and maintaining differentiated customer relationships through the supply of premium products. Different customers value different aspects of our iron ore. By understanding the technical needs of our customers, we are able to offer them our niche products.

The highest quality and most important iron ores for steelmaking are haematite (Fe₂O₃) and magnetite (Fe₃O₄). Haematite is the more sought-after ore and the preferred raw material in efficient steelmaking mills. Our iron ore reserves are all of high-quality haematite allowing us to produce both high-quality lump (64.0% Fe) and high-grade sinter fines (63.5% Fe) for the domestic and export markets. We are unique in that we are primarily a lump ore producer with a product of recognised exceptional chemical and metallurgical quality.

From a long-term growth perspective, given the declining endowment base in South Africa we recognise the need to maintain the optionality of accessing ore-bodies elsewhere in Africa when the price recovers. After a diligent targeting process, we have identified a list of opportunities that have the potential to provide Kumba with this longer-term optionality. We are maintaining a watching brief on this list to ensure that we remain in a position to engage these targets should it become viable.
Our second strategic focus area relates to how we deliver on our ambitions. We have identified and prioritised a key set of activities aimed at extracting maximum value from the ore body, by optimising production, investing in step-change technology and increasing operational efficiencies through implementation of the new operating model.

We have redesigned the Sishen and Kolomela pits to extract maximum value from the ore bodies in a lower price environment. This is in line with our strategy to focus on value (cash generation) over volume to safeguard the mines’ viability at lower prices.

- At Sishen, the pit has been reconfigured in 2015 to a lower cost shell design over the reserve life and as a result mining activities, equipment requirements and people structures have been adjusted accordingly. The mine is expected to produce ~ 27 to 28 Mt of iron ore and ~150 to 160 Mt of waste. This will result in an increase in the strip ratio to around four, over the medium term. During 2017 we will target an average improvement of 20% in mining equipment efficiencies. The mine has built stockpiles and contractor capacity in place to mitigate risks in delivery. Sishen mine will continue to explore opportunities to feed the plants from secondary sources.

- At Kolomela, mining is now concentrated in the Leeuwenfontein and Klipbankfontein pits with re-opening of the Kapstevel pit in 2017. Kolomela is expected to exceed production of ~13 to 14 Mtpa in 2017, with further improvements in plant efficiency and throughput rates delivered by the Operating model. The ramp up of the DMS modular plant is expected to be completed in 2017 and will add 0.7 Mtpa. Waste guidance remains at 50 Mt to 55 Mt with an average strip ratio of ~3.9 in the medium term and the average life of mine strip ratio of 3.8.

We aim to sustainably operate our mines at a lower unit cost to remain competitive through a lean support and core cost base and a step-up in productivity.

Kumba will maximise the return potential of its assets through productivity initiatives and using the Operating Model while maintaining strict cost discipline, these initiatives will:
- Increase mining efficiencies
- Improve geological confidence and mine to plan compliance
- Build buffer stockpiles
- Enhance plant efficiencies
- Maintain the focus on product quality

Kumba will aim to keep Sishen’s unit cash cost growth below mining inflation and offset higher mining volumes through productivity improvements and strict cost management given the higher waste requirements for 2017 of ~150 to 160 Mt. Kolomela’s unit cash costs are likely to increase principally due to the commissioning of the DMS modular plant.

Driving Lower Unit Costs: Our 2016 Performance

During the year strict cost discipline continued to deliver meaningful results:
- Restructuring of Sishen mine to a lower cost pit shell and increased productivity at Kolomela lowered costs by US$4/tonne
- Reduction in capex due to reconfiguration at Sishen realised savings of US$8/tonne
- Price realisation lowered the breakeven price by US$7/tonne
- Impact of the section 189 at Sishen mine increased costs with once-off US$2/tonne
- Total uncontrollable costs (mainly currency) declined by US$3/tonne

With these savings Kumba achieved an all-in average cash breakeven price of US$29/tonne compared to US$49/tonne in 2015, lower than the bottom of the guided range of US$32 to US$40/tonne.
Technology remains an important lever to improve safety, efficiencies and resource utilisation. Our immediate focus is on using proven ultra-high DMS technology to beneficiate ore as low as 40% Fe. Over the longer term, alternative concentrate technologies could treat ore as low as 30% Fe, thereby lowering the cut-off grade and sustain Sishen post its current mine life.

We are currently implementing a technology roadmap that seeks to accelerate the adoption of technology to improve safety, efficiency and resource utilisation, in the process delivering greater value to all stakeholders.

The roadmap has been divided into three different horizons:
- Implementing the best possible technologies available today to improve safety, help operators to maximise productivity and efficiencies while driving down costs and optimising the value chain (one to four years)
- Removing people from harm, building integrated autonomous operations and implementing real-time efficiency management (four to eight years)
- Smart mining in the future, which incorporates clean and sustainable mining using the latest technological advancements (+eight years)

Over the past two years, the team has aggressively implemented new technology at Sishen and Kolomela. Recent successes include:
- The use of high-tech geophysical modelling techniques that have improved our understanding of where best to look for new deposits in the Northern Cape
- The conversion of drilling equipment to full automation at Kolomela, improving drilling efficiency and the quality of drilled holes, lowering drilling costs and improving safety by limiting dust and noise exposure for operators
- Implementing advanced process control (APC) at Kolomela, contributing to an increase in plant throughput and a 2% increase in the lump:fine ratio
- Dispatch modular upgrades at Sishen and Kolomela
- Assessing beneficiation technologies for application to ultrafine material to unlock value from what was previously regarded as waste material to saleable grade

The ‘Kumba Way of Work’, is a structured management system underpinned by the Operating Model, that provides a sequenced and repeatable set of work steps that guide people to achieve the intended purpose of their team’s work in the most efficient manner. By assisting in achieving stability, reducing variation and providing clarity, the Operating Model is a critical element of our cost-cutting drive across the business.

During 2016 the Operating Model implementation schedules were updated and revised for both Kolomela and Sishen to account for the delays experienced in the first half of the year as a result of the restructuring at both mines. The new schedules are extremely aggressive and will require diligence in their execution. The immediate focus for Kolomela has been on stabilising the plant and implementing work management in the heavy mobile equipment (HME) section. The focus at Sishen has been on work management implementation in the HME section and throughout the rest of mining.
Delivering on our strategic commitments on ‘where to play’ and ‘how to win’ requires a strong focus on our key strategic enablers. This includes reinforcing our reputation across all stakeholder groups, aligning our marketing and operational activities, demonstrating leadership on responsible citizenship, displaying care for safety, health and the environment, and providing extensive support to our employees to help them through the Kumba change journey.

By understanding our clients’ expectations we are able to develop and deliver the appropriate high-quality products, allowing us to strengthen our relationships with clients and consolidate our position in an increasingly competitive global market. We undertake customer segmentation studies to understand which of our customers value particular physical and/or chemical properties in our products. Together with mine planning information, we use this information to tailor our product specifications to better match customer demands.

Our approach to producing ore for the export market at our Sishen and Kolomela mines is outlined in the following diagram:

This year our total export sales of 39.1 Mt were 4.4 Mt lower than in 2015, as a result of planned lower production at Sishen. Domestic sales to ArcelorMittal SA amounted to 3.4 Mt.

Given that we cannot compete with the large iron ore producers in terms of volume and proximity to China, we will compete by reinforcing our reputation for consistently delivering a high-quality product. Our high average Fe content (64.1%) and lump to fine ratio (64% lump) remain critical as they enable us to differentiate and sell our products in an over supplied iron ore market and attract price premiums relative to standard products sold in the market.

Since 2012 we have been placing a particular emphasis on maintaining product quality and increasing lump ratio, as both of these features attract premiums against the standard product sold in the market.
OUR PERFORMANCE: PERFORMANCE AGAINST STRATEGIC OBJECTIVES

PERFORMANCE AGAINST STRATEGIC OBJECTIVES CONTINUED

OUR 2016 PERFORMANCE
We have performed well this year in maintaining the quality and consistency of both our standard lump and standard fine product:

- Kumba's FOB price improved by US$11/tonne for 2016, driven by stronger iron ore prices, lower freight and improved prices across our customer geographies. (The average Platts 62% index increased only by US$3/tonne.)
- Kumba maintained a balanced customer portfolio and we are able to select customers who value the qualities of our products.

Further details on our sales during the reporting period are provided below.

EXPORT SALES AND PRICES

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total export sales (Mt)</td>
<td>39.1</td>
<td>43.5</td>
<td>40.5</td>
</tr>
<tr>
<td>Contract (%)</td>
<td>72</td>
<td>72</td>
<td>72</td>
</tr>
<tr>
<td>Spot (%)</td>
<td>28</td>
<td>28</td>
<td>28</td>
</tr>
<tr>
<td>Average FOB price realised (US$/tonne)</td>
<td>64</td>
<td>53</td>
<td>91</td>
</tr>
</tbody>
</table>

EXPORT SALES GEOGRAPHICAL SPLIT

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe/MENA/America</td>
<td>14</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Japan and Korea</td>
<td>17</td>
<td>20</td>
<td>21</td>
</tr>
<tr>
<td>India and other Asia</td>
<td>5</td>
<td>7</td>
<td>12</td>
</tr>
<tr>
<td>China</td>
<td>64</td>
<td>63</td>
<td>57</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

OUR 2016 PERFORMANCE: FOCUSED ENGAGEMENTS

- Following an extensive engagement process, the Department of Mineral Resources (DMR) has granted the residual 21.4% undivided share of the mining right for the Sishen mine to SIOC. As a result, SIOC is now the 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 converted in 2009. The Notarial Executed Amendment to the Sishen mining right to cater for the inclusion of the residual 21.4% undivided share was done on 1 March 2017. The next step is to register the amendment in the Mineral and Petroleum Titles Registration Office, this is currently in process.
- We have continued to consult extensively with our employees, initiated under the facilitation of the Commission for Conciliation, Mediation and Arbitration (CCMA) regarding the restructuring process across the Company.
- Following the closure of Thabazimbi mine, we have concluded an agreement to transfer the operation, including statutory obligations. An appropriate stakeholder process has been developed to communicate the rationale and potential collective benefits of this transfer, and to ensure appropriate stakeholder contributions and engagement in the transfer process.
- We have had regular engagement with the DMR throughout the year, both through the Chamber of Mines and bi-laterally, on the draft revised Mining Charter published in April 2016. The most contentious item has been the ownership element, where the ‘once empowered, always empowered’ principle has been rejected; ownership is to be measured at mining licence level, and employees, communities, and entrepreneurs must have a minimum of 5% ownership each. This would require wholesale restructuring of existing deals and topping up where BEE owners have exited, which the mining industry will not be able to afford.
- Relocation of the Dingleton community to a new purpose-built suburb in Kathu is largely completed, ensuring full adherence with requirements set out in International Finance Corporation (IFC) Performance Standards; ongoing engagements are being undertaken with a small number of community members who are refusing to leave.
- Kumba 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. 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 was computed on a basis that is consistent with the settlement agreement.
Ensuring **proactive engagement** with our key stakeholders, and being held to account by them on our performance and disclosure, **assists us in delivering on our strategic focus areas**. Interacting with stakeholders has become particularly important in the context of the current challenging operating environment. We will continue to engage with all our key stakeholders on a frequent basis to ensure that they are **kept informed of significant changes** impacting their relationship with the business.

A brief overview of some key stakeholder initiatives during the year is presented on page 48.

**Further detail is provided in our review on addressing stakeholder interests on page 30 to 32.**

We believe strongly that demonstrating leadership in responsible citizenship makes us more competitive: it **safeguards the health and safety of our employees**, assists us in **attracting and retaining skills**, minimises our **environmental footprint**, enhances **resource efficiencies**, and is essential in maintaining our **social licence to operate**.

The following tables provide a brief review of our performance on our most material safety, health and environmental issues, as well as of our performance on social investment activities. A more detailed review of our sustainability performance is provided in our sustainability report, available at [http://www.angloamericankumba.com/investors/annual-reporting.aspx](http://www.angloamericankumba.com/investors/annual-reporting.aspx).
## Performance Against Strategic Objectives

### Safety
- **Two fatalities** (2015: 0)
- **35 lost-time injuries**, down from 41 in 2015
- **Lost-time injury frequency rate** (LTIFR) of 0.28 against our target of 0.20 (2015: 0.23)
- **Total recordable case frequency rate** (TRCFR) of 0.78 against a target of 0.78 (2015: 0.89)
- **39 high potential incidents**, significantly down on 76 in 2015
- 
  Strong focus this year on managing our top 10 priority unwanted events, improving the monitoring and effectiveness of critical controls, and improving reporting of high potential incidents and high potential hazards

### Health
- **No new cases of noise-induced hearing loss** (NIHL) down from 7 in 2015
- **23 new TB cases diagnosed**, higher than the 21 cases recorded in 2015
- **92%** of all employees tested in our HIV Counselling and Testing campaigns (Target: 90%; 2015: 90%)
- 
  Exposure reduction plans, and comprehensive medical surveillance programmes, continue to be implemented with the primary focus on noise and dust

### Environmental
- **No significant ‘medium’ or ‘high impact’ (levels 3 to 5) environmental incidents** reported (2015: 1)
- **Exceeded our water savings target**, saving 6.7 million m³ of water (target: 5.6 million m³) and on track to meet our Company-wide water target of reducing water consumption by 34% by 2020
- **Emitted 0.94 million tonnes of CO₂e (Mt CO₂e)**, a 22% reduction on 2015, exceeding our targeted 0.7% reduction
- **27 environment-related community complaints** at Sishen and Kolomela (2015: 23) relating mainly to water supply, potential sinkholes forming within the Gamagara River and wild animals killing goats on a farm
- **PM10 dust emission levels** continue to pose a challenge at Sishen
- **Progress in addressing rehabilitation backlogs continues to be impacted by low top soil volumes and financial constraints. 20.5 ha rehabilitated at Sishen (target: 13 ha) and 14.5 ha at Kolomela (target: 20 ha)**

### Community Social Issues
- **Spent R2.85 billion** on suppliers based in the communities within 100 km radius of our operations (2015: R5.67 billion), representing a 25.9% of total supplier expenditure (2015: 29.2%), exceeding our target of 20%
- **Spent R8.5 billion** on HDSA businesses (2015: R15.2 billion)
- **Spent R1.3 million** to fund seven SMEs, creating around 101 new jobs
- **Our social spend was R67 million**, in line with our target of 1% net profit after tax
- **247 community complaints** were submitted through formal procedures at our various operations, mainly relating to the Dingleton resettlement and to environmental impacts (such as blasting and dust) from Sishen mine’s operations. All were assessed and 235 were resolved
Challenging conditions in the iron ore market have necessitated the creation of a **leaner and more effective, product-focused business**. During 2015 and 2016 we have reconfigured our Sishen and Kolomela mines through revised mine plans and organisational restructuring, while ensuring that we have the most capable people in the right roles to deliver effectively and efficiently on our strategic objectives. The decision was also made to close the Thabazimbi mine.

Regrettably, this restructuring process has resulted in a significant reduction in workforce numbers over the last two years. Throughout this difficult process, we have sought to manage retrenchments as transparently and fairly as possible. At year end, our workforce totalled 8,332 employees, down from 11,790 in 2015. As a result of the restructuring process, Kumba’s employee turnover rate (measured as the number of permanent employee resignations as a percentage of total permanent employees, including voluntary separation packages) was 49.5% significantly up from 13% in 2015. Excluding the retrenchment of 2,500 full-time employees, the rate was 4.5%, which is well below the 7.6% industry benchmark.

This year, the change process focused on reducing the number of direct roles (involved in production) at Sishen mine, to meet the needs of a smaller, more focused operation. The total restructuring exercise (including the 30% reduction in headcount of Sishen mine support services in 2015) resulted in a 32.5% reduction in headcount at Sishen, affecting permanent employees and contractors. During the year nine employees at Sishen were transferred to Kolomela mine. At our Thabazimbi mine, which ceased all activities in 2016, the second phase of retrenchments was effected during May 2016. This involved 333 permanent employees and five fixed-term employees. At year end, the mine had 63 full-time permanent employees and 25 full-time contractor positions, to manage the closure.

We have made **concerted efforts throughout the year to support employees** in managing the challenges associated with the organisational restructuring. We have implemented a **culture programme** aimed at creating a work environment that will encourage employees to willingly give their best to support this. We held workshops on building resilience, entrepreneurial skills and career guidance, and offered workshops on financial issues. A **holistic employee assistance programme** for all staff is provided through a dedicated support hub. To help individuals to cope emotionally we have expert counsellors on site. We offer one-on-one coaching on coping with change, and on health and wellness counselling, as well as coaching sessions for managers. To assist employees in **managing the change process** we have run workshops on building resilience, entrepreneurial skills and career guidance. We also offer workshops on financial counselling, early retirement, debt counselling, and pension and provident fund advice. Counselling services are available for all employees, including through a confidential 24-hour helpline.

All employees retrenched during 2015 and 2016 were offered R12,000 in financial support for **skills acquisition in any area**. A total of 610 applications, amounting to R6.54 million, were processed and directed to various training providers. We also provided non-financial skills development support including housing assistance for three months.

Industrial relations have been stable amid changes in union representations at the mines. Membership within bargaining units is still dominated by NUM at 56% of the total bargaining unit population. AMCU membership at 22% and Solidarity at 16%.

Further information on our activities in supporting employees is provided in our sustainability report.

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**EMPLOYEE ENGAGEMENT AND SUPPORT: OUR 2016 PERFORMANCE**

- Industrial relations continue to be stable, with no work stoppages experienced since 2012
- Total employee headcount of 8,332, down by 3,458 on 2015
- Labour turnover increased to 49.5% in 2016 (2015: 13%) due mainly to the organisational restructuring and retrenchments across the group
- Invested R211 million on employee training and development (4.6% of total payroll) (2015: R275 million; 6.9% of total payroll)
OUR PERFORMANCE: CHIEF FINANCIAL OFFICER’S REVIEW

CHIEF FINANCIAL OFFICER’S REVIEW

Frikkie Kotzee – Chief financial officer

Kumba’s full year results reflected a robust financial performance despite uncertain and volatile commodity prices. Revenue showed a 13% increase to R40.8 billion due to the recovery in the realised FOB iron ore price – averaging US$64/tonne in 2016, up from US$53/tonne in 2015. Operating profit was 78% higher than in 2015 (excluding the impairment recognised for Sishen in 2015). Headline earnings per share increased by 131% to R27.30.

Strict capital and cost discipline delivered significant results. Kumba ended the year with a net cash position of R6.2 billion, compared to a net debt position of R4.6 billion in 2015. Excluding mineral royalties, deferred stripping and impairments, operating expenses were 18% lower than last year as the transformation of our cash cost base increased cash generated from operations to R17.2 billion. Capital expenditure was down 65% to R2.4 billion. Kumba delivered exceptional results and our aim remains to continue working towards growing sustainable free cash flow and reinstating the dividend.

Following the decision to close the Thabazimbi mine in 2015, mining activities ceased in September 2015 and the remaining plant operations ceased in 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.

The Thabazimbi mine assets and related liabilities that will transfer to ArcelorMittal SA have been presented separately in the balance sheet as assets and liabilities of the disposal group held for sale at 31 December 2016.

<table>
<thead>
<tr>
<th>Financal Overview*</th>
<th>31 December 2016</th>
<th>31 December 2015</th>
<th>% change</th>
<th>31 December 2014</th>
<th>31 December 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>40,767</td>
<td>36,138</td>
<td>13</td>
<td>47,597</td>
<td>54,461</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>(25,451)</td>
<td>(33,494)</td>
<td>(24)</td>
<td>(28,405)</td>
<td>(26,076)</td>
</tr>
<tr>
<td>Operating expenses (excluding royalty, deferred stripping costs and impairment)</td>
<td>(24,782)</td>
<td>(30,177)</td>
<td>(18)</td>
<td>(28,628)</td>
<td>(24,742)</td>
</tr>
<tr>
<td>Impairment</td>
<td>(4)</td>
<td>(5,978)</td>
<td>(100)</td>
<td>(439)</td>
<td>–</td>
</tr>
<tr>
<td>Mineral royalty</td>
<td>(986)</td>
<td>(191)</td>
<td>416</td>
<td>(1,176)</td>
<td>(2,157)</td>
</tr>
<tr>
<td>Deferred stripping capitalised</td>
<td>321</td>
<td>2,852</td>
<td>(89)</td>
<td>1,838</td>
<td>823</td>
</tr>
<tr>
<td>Operating profit</td>
<td>15,316</td>
<td>2,644</td>
<td>479</td>
<td>19,192</td>
<td>28,385</td>
</tr>
<tr>
<td>Operating margin (%)</td>
<td>38</td>
<td>7</td>
<td>40</td>
<td>52</td>
<td></td>
</tr>
<tr>
<td>Profit attributable to:</td>
<td>11,144</td>
<td>627</td>
<td>1,677</td>
<td>14,148</td>
<td>20,300</td>
</tr>
<tr>
<td>Equity holders of Kumba</td>
<td>8,621</td>
<td>469</td>
<td>1,738</td>
<td>10,724</td>
<td>15,446</td>
</tr>
<tr>
<td>Non-controlling interest</td>
<td>2,523</td>
<td>158</td>
<td>1,497</td>
<td>3,424</td>
<td>4,854</td>
</tr>
<tr>
<td>Headline earnings</td>
<td>8,724</td>
<td>3,792</td>
<td>130</td>
<td>11,006</td>
<td>15,443</td>
</tr>
<tr>
<td>Effective tax rate (%)</td>
<td>26</td>
<td>69</td>
<td>25</td>
<td>28</td>
<td></td>
</tr>
<tr>
<td>Cash generated from operations</td>
<td>17,218</td>
<td>13,841</td>
<td>24</td>
<td>21,769</td>
<td>29,354</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>2,353</td>
<td>6,752</td>
<td>65</td>
<td>8,477</td>
<td>6,453</td>
</tr>
<tr>
<td>Net (cash)/debt</td>
<td>(6,165)</td>
<td>4,604</td>
<td>(234)</td>
<td>7,929</td>
<td>1,796</td>
</tr>
<tr>
<td>Equity</td>
<td>36,536</td>
<td>25,167</td>
<td>45</td>
<td>27,001</td>
<td>27,184</td>
</tr>
</tbody>
</table>

*Including discontinued operations.
OPERATING PROFIT

<table>
<thead>
<tr>
<th>Year</th>
<th>Rand billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>23.6</td>
</tr>
<tr>
<td>2013</td>
<td>28.4</td>
</tr>
<tr>
<td>2014</td>
<td>19.2</td>
</tr>
<tr>
<td>2015</td>
<td>2.7</td>
</tr>
<tr>
<td>2016</td>
<td>15.3</td>
</tr>
</tbody>
</table>

HEADLINE EARNINGS PER SHARE

<table>
<thead>
<tr>
<th>Year</th>
<th>Rand per share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>38.83</td>
</tr>
<tr>
<td>2013</td>
<td>48.09</td>
</tr>
<tr>
<td>2014</td>
<td>34.32</td>
</tr>
<tr>
<td>2015</td>
<td>11.82</td>
</tr>
<tr>
<td>2016</td>
<td>27.30</td>
</tr>
</tbody>
</table>

PERFORMANCE SUMMARY

- Increase in average FOB iron ore prices achieved – US$64/tonne (including price realisation of US$7/tonne)
- Operating expenses decreased to R25.5 billion from R33.5 billion (including impairments), principally as a result of the stringent cash preservation measures implemented. The main drivers of the decrease in cost were:
  - R1.4 billion reduction in overhead costs
  - R2.7 billion due to reconfiguration of the Sishen pit
  - Draw down of stock, which added R947 million
  - R669 million lower freight costs due to lower freight rates
  - Partially offset by R2.6 billion lower waste stripping deferred to the balance sheet and inflationary linked input cost pressure of R995 million
- Operating profit of R15.3 billion increased by 78% (2015: R8.6 billion excluding impairment). Kumba’s operating profit margin increased to 38% (2015: 24%), 41% from mining activities (2015: 27%). The weakening of the Rand/US$ exchange rate and recovery in iron ore prices during 2016 contributed to the increase in profitability
  - Headline earnings of R27.30 per share increased substantially from R11.82 in 2015
  - No dividends, due to continued market volatility
- Net cash position of R6.2 billion due to cash cost savings and reduced capex
- Prudent capital management
  - Significant capital reductions, R2.4 billion compared to R6.8 billion in 2015

REVENUE

The group’s total revenue of R40.8 billion (comprising R38.0 billion from mining and R2.8 billion from shipping operations) was 13% higher than 2015 revenue (R36.1 billion). This was mainly due to the 21% recovery in average realised FOB export prices, which increased revenue by R4.3 billion year-on-year and the 15% weaker Rand against the US Dollar, raising revenue by R4.6 billion, this was partially offset by the 5.3 Mt decrease in sales volumes due to reduced production at Sishen, which reduced revenue by R3.6 billion.

This year Kumba sold 42.5 Mt, 39.1 Mt on the export market, 10% lower than 2015. Export sales to China accounted for 64% of the Company’s total in line with 2015. Exports to Japan and South Korea decreased to 17% of the total. Sales to Europe and MENA increased to 14% of total sales during the year.

Domestic sales of 3.4 Mt were 0.9 Mt lower than 2015, as a result of reduced ArcelorMittal SA off-take from Sishen. Sales to ArcelorMittal SA were made under the new pricing agreement, based on Export Parity Price at an average of around R836/tonne.
OUR PERFORMANCE: CHIEF FINANCIAL OFFICER’S REVIEW

CHIEF FINANCIAL OFFICER’S REVIEW CONTINUED

**REVENUE**

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining operations</td>
<td>36,138</td>
<td>40,767</td>
</tr>
<tr>
<td>Shipping</td>
<td>3,412</td>
<td>2,747</td>
</tr>
<tr>
<td>Movement up</td>
<td>4,321</td>
<td>4,622</td>
</tr>
<tr>
<td>Movement down</td>
<td>3,649</td>
<td>3,649</td>
</tr>
</tbody>
</table>

**OPERATING EXPENDITURE**

Mining costs were down 17% in real terms aided by lower mining volumes, fuel prices and contractors’ rates, partly offset by lower capitalisation of deferred stripping costs.

Cost movements were driven principally by inflationary-linked input cost pressure of R1 billion and higher royalty costs as a result of the higher free-on-rail revenue. These were offset by lower cash costs of R3.5 billion due to the lower mining volumes including overhead cost savings of R1.4 billion.

An 11% decrease in shipped tonnes, together with a 15% decrease in freight rates, resulted in R669 million lower selling and distribution costs. Engagement with Transnet is ongoing to mitigate possible penalties in contractual rail volumes, as a result of lower production from Sishen.

**OPERATING EXPENDITURE¹**

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining operations</td>
<td>27,325</td>
<td>24,461</td>
</tr>
<tr>
<td>Inflation, forex and non-cash savings</td>
<td>5,506</td>
<td>5,379</td>
</tr>
<tr>
<td>Other savings</td>
<td>3,995</td>
<td>3,117</td>
</tr>
<tr>
<td>Sishen</td>
<td>1,899</td>
<td>1,395</td>
</tr>
<tr>
<td>Kolomela</td>
<td>2,734</td>
<td>2,611</td>
</tr>
<tr>
<td>Thabazimbi</td>
<td>86</td>
<td>947</td>
</tr>
<tr>
<td>Mining (1,755)</td>
<td>2,771</td>
<td>494</td>
</tr>
<tr>
<td>Deferred stripping</td>
<td>1,855</td>
<td></td>
</tr>
<tr>
<td>Stock movement</td>
<td>97</td>
<td></td>
</tr>
<tr>
<td>Logistics 669</td>
<td>542</td>
<td>127</td>
</tr>
<tr>
<td>Shipping</td>
<td>1,271</td>
<td>15,365</td>
</tr>
<tr>
<td>Selling and distribution</td>
<td>1,271</td>
<td>15,365</td>
</tr>
</tbody>
</table>

¹Excluding mineral royalty and impairment charge.
Our performance

**UNIT CASH COSTS**

**Sishen mine**

Sishen's unit cash cost benefited from 85 Mt lower mining volumes and reduced 5% to R296/tonne, compared to R311/tonne in 2015, this was offset by a 4% increase in inflationary input costs of R13/tonne and lower capitalisation of deferred waste stripping costs of R77/tonne driven by a lower stripping ratio (2016: 3.3 compared to 5.7 in 2015).

In 2017, our target is to keep Sishen’s unit cash cost, net of capitalisation of deferred stripping cost, below mining inflation through productivity initiatives. The Operating Model will be used to achieve a 20% improvement in mining equipment efficiencies and maintain cost discipline.

**KOLOMELA UNIT CASH COSTS**

At Kolomela unit cash costs increased by R23/tonne mainly due to a ramp-up in mining volumes in support of further production volume growth. The mine contained cost escalation at 3%, well below inflation, aided by lower fuel prices. Unit cash costs amounted to R201/tonne, an increase of 13% on 2015. While cost escalation added R5/tonne, lower capitalisation of deferred stripping increased unit costs by R9/tonne, offset by increased production volumes of around R12/tonne.

Looking to the year ahead, Kolomela cash unit cost, net of capitalisation of deferred stripping cost, is anticipated to increase mainly due to the commissioning of the DMS modular plant, which attracts higher crushing costs at a lower plant yield, but still remains extremely profitable at an iron ore price above US$40/tonne.

We aim to keep the growth of Kolomela’s unit cash costs below mining inflation by targeting a 20% improvement in fleet efficiency for 2017.

The ramp up of the modular plant is expected to be completed in 2017.
Kumba agrees settlement with SARS
On 3 February 2017, Kumba announced its agreement with 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 tax years up to 2015, and an additional R1.0 billion was 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.

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

Kumba has always conducted itself as a responsible corporate tax payer, and has continually sought expert advice over the years. We believe this agreement is appropriate and in the best interest of both parties.

Kumba spent R2.4 billion on capital in 2016. This included expansion capex of R0.9 billion (mainly on the Dingleton relocation project), R1.2 billion on stay-in-business (SIB) activities such as heavy mining equipment and infrastructure, and R321 million on deferred stripping.

Capital expenditure for 2017, including deferred stripping, is expected to be in the range of R2.6 billion to R2.8 billion, increasing to between R3.5 billion and R3.7 billion for 2018, excluding unapproved projects.

Impairment assessment
In the prior year, Kumba recognised an impairment loss 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 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 mine of R0.4 billion was considered not to be significant and therefore no portion of the impairment charge previously recognised was reversed.

### Capital expenditure analysis

<table>
<thead>
<tr>
<th></th>
<th>2015 (Rand million)</th>
<th>2016 (Rand million)</th>
<th>12 months 31 December 2017</th>
<th>12 months 31 December 2018</th>
<th>Medium-term forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approved expansion</td>
<td>870</td>
<td>856</td>
<td>~300</td>
<td>~100</td>
<td>~300 – 100</td>
</tr>
<tr>
<td>Deferred stripping</td>
<td>2,852</td>
<td>321</td>
<td>900 – 1,000</td>
<td>1,700 – 1,800</td>
<td>~300 – 1,000</td>
</tr>
<tr>
<td>Sishen</td>
<td>2,508</td>
<td>88</td>
<td>600 – 700</td>
<td>1,400 – 1,500</td>
<td>900 – 1,000</td>
</tr>
<tr>
<td>Kolomela</td>
<td>344</td>
<td>233</td>
<td>~300</td>
<td>~300</td>
<td>~300 – 1,000</td>
</tr>
<tr>
<td>SIB Sishen</td>
<td>2,418</td>
<td>875</td>
<td>900 – 1,000</td>
<td>1,000 – 1,100</td>
<td>900 – 1,000</td>
</tr>
<tr>
<td>SIB Kolomela</td>
<td>612</td>
<td>301</td>
<td>~500</td>
<td>~700</td>
<td>~500 – 700</td>
</tr>
<tr>
<td><strong>Total approved capital expenditure</strong></td>
<td><strong>6,752</strong></td>
<td><strong>2,353</strong></td>
<td><strong>2,600 – 2,800</strong></td>
<td><strong>3,500 – 3,700</strong></td>
<td><strong>3,500 – 3,700</strong></td>
</tr>
<tr>
<td>Unapproved expansion</td>
<td>–</td>
<td>–</td>
<td>~200</td>
<td>~400</td>
<td>~200 – 400</td>
</tr>
<tr>
<td><strong>Total approved and unapproved capital expenditure</strong></td>
<td><strong>6,752</strong></td>
<td><strong>2,353</strong></td>
<td><strong>2,800 – 3,000</strong></td>
<td><strong>3,900 – 4,100</strong></td>
<td><strong>3,900 – 4,100</strong></td>
</tr>
</tbody>
</table>

1 Unapproved capex includes high-level estimates for the project pipeline. All guidance based on current forecast exchange rates. Cash capex depicted in table.
OUR PERFORMANCE

CASH FLOW
This year, cash generated amounted to R17.2 billion, 24% higher than in 2015 (R13.8 billion). The cash was used to pay income tax of R3.4 billion (2015: R0.6 billion), mineral royalties of R1 billion (2015: R0.4 billion) and capital expenditure of R2.4 billion (2015: R6.8 billion).

NET DEBT AND LIQUIDITY
During the year Kumba made exceptional progress in strengthening the balance sheet. The group ended 2016 with net cash of R6.2 billion, compared to a net debt position of R4.6 billion in 2015. Continued robust operational focus allowed for strong cash generation notwithstanding the volatile iron ore price environment. Total committed facilities are R16.5 billion and mature in 2020. The Board approved the early settlement of the term facility on 3 February 2017 and the loan was repaid on 13 February 2017, effectively reducing the group's committed debt facilities to R12 billion. Financial guarantees issued in favour of the DMR in respect of environmental closure liabilities were R2.8 billion. As a result of the annual revision of closure costs a further shortfall of R311 million arose in respect of the rehabilitation of the Thabazimbi mine (of which ArcelorMittal SA has guaranteed R300 million of this amount by means of bank guarantees issued in favour of SIOC). Guarantees will be issued in due course.
OUR PERFORMANCE: CHIEF FINANCIAL OFFICER’S REVIEW

SHAREHOLDER RETURNS
Kumba's share price recovered significantly during the year from R41 at 31 December 2015 to R159. The share price history since listing is presented below. Given the uncertain iron ore price environment, dividends will be reinstated at the appropriate time.

KUMBA CLOSING SHARE PRICE

CHANGE IN ESTIMATES
The measurement of the environmental rehabilitation and decommissioning provisions are 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. This resulted in an insignificant increase in provisions.

The effect of the change in estimate, which was applied prospectively from 1 January 2016, is detailed below:

<table>
<thead>
<tr>
<th>Change in estimates</th>
<th>Rand million</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decrease in environmental rehabilitation provision</td>
<td>(6)</td>
<td></td>
</tr>
<tr>
<td>Increase in decommissioning provision</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Decrease in profit attributable to the owners of Kumba</td>
<td>(3)</td>
<td></td>
</tr>
<tr>
<td>Rand per share Decrease in earnings per share attributable to the owners of Kumba</td>
<td>—</td>
<td></td>
</tr>
</tbody>
</table>

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.

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:

<table>
<thead>
<tr>
<th>Results of discontinued operation</th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>612</td>
<td>878</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>(571)</td>
<td>(930)</td>
</tr>
<tr>
<td>Operating profit/(loss)</td>
<td>41</td>
<td>(52)</td>
</tr>
<tr>
<td>Net finance income</td>
<td>4</td>
<td>94</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>45</td>
<td>42</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(42)</td>
<td>(132)</td>
</tr>
<tr>
<td>Profit/(loss) after income tax of discontinued operation</td>
<td>3</td>
<td>(90)</td>
</tr>
<tr>
<td>Attributable to owners of Kumba</td>
<td>2</td>
<td>(69)</td>
</tr>
<tr>
<td>Attributable to non-controlling interest</td>
<td>1</td>
<td>(21)</td>
</tr>
<tr>
<td>Profit/(loss) from discontinued operation</td>
<td>3</td>
<td>(90)</td>
</tr>
<tr>
<td>Cash flow from discontinued operations</td>
<td>Net cash flows from operating activities</td>
<td>279</td>
</tr>
</tbody>
</table>
SIOC and ArcelorMittal SA have entered into an agreement to transfer Thabazimbi mine to ArcelorMittal SA. The agreement is expected to become effective in 2017, subject to certain conditions. Mining operations at Thabazimbi ceased in 2015. 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.

In line with the requirements of IFRS 5, Thabazimbi mine’s assets and related liabilities that will transfer to ArcelorMittal SA will be presented as part of non-current assets 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 ArcelorMittal SA.

<table>
<thead>
<tr>
<th>Assets of disposal group held for sale and the associated liabilities</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSETS</td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>8</td>
</tr>
<tr>
<td>Biological assets</td>
<td>18</td>
</tr>
<tr>
<td>Investments held by environmental trust</td>
<td>296</td>
</tr>
<tr>
<td>Long-term payments and other receivables</td>
<td>515</td>
</tr>
<tr>
<td>Inventories</td>
<td>5</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>96</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>938</strong></td>
</tr>
<tr>
<td>LIABILITIES</td>
<td></td>
</tr>
<tr>
<td>Non-current provisions</td>
<td>(822)</td>
</tr>
<tr>
<td>Current provisions</td>
<td>(114)</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>(936)</strong></td>
</tr>
<tr>
<td><strong>Net carrying amount sold</strong></td>
<td><strong>2</strong></td>
</tr>
</tbody>
</table>

**THE OUTLOOK REMAINS CHALLENGING**

While the substantial restructuring at Sishen mine was implemented successfully, we remain focused on improving operational efficiencies to realise the full potential of our assets, to provide confidence in delivery and enhance profitability.

Kumba will continue with disciplined capital allocation and prioritising the reinstatement of dividends.

I would like to thank Norman for the past five years. It has certainly been a challenging period, but I could not have asked for a better boss, partner, mentor and friend. I have learned a tremendous amount from him, and wish him well in his new role.

I would like to conclude by thanking all my colleagues in the finance team for their support during this year of transition. All decisions made were well implemented and executed.

After five years serving as Chief financial officer and with a strengthened balance sheet and a major restructuring of the business successfully executed, I believe the time is right for me to step down.

It has been very rewarding professionally and I have had the privilege of working with an exceptional Board and management team.

**Frikkie Kotzee**  
Chief financial officer

8 March 2017
### SUMMARISED CONSOLIDATED BALANCE SHEET as at 31 December 2016

<table>
<thead>
<tr>
<th>Rand million</th>
<th>Audited</th>
<th>Audited</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 December</td>
<td>31 December</td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>32,131</td>
<td>32,671</td>
</tr>
<tr>
<td>Biological assets</td>
<td>2</td>
<td>11</td>
</tr>
<tr>
<td>Investments held by environmental trust</td>
<td>559</td>
<td>818</td>
</tr>
<tr>
<td>Long-term prepayments and other receivables</td>
<td>84</td>
<td>581</td>
</tr>
<tr>
<td>Inventories</td>
<td>2,889</td>
<td>2,560</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>87</td>
<td>1</td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td>35,752</td>
<td>36,642</td>
</tr>
<tr>
<td>Inventories</td>
<td>4,604</td>
<td>5,056</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>5,253</td>
<td>3,212</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>10,665</td>
<td>3,601</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td>20,552</td>
<td>11,869</td>
</tr>
<tr>
<td><strong>Assets of disposal group classified as held for sale</strong></td>
<td>938</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>57,212</td>
<td>48,511</td>
</tr>
</tbody>
</table>

| **EQUITY** |         |         |
| Shareholders' equity | 27,850 | 19,320 |
| Non-controlling interest | 8,686 | 5,847 |
| **Total equity** | 36,536 | 25,167 |

| **LIABILITIES** |         |         |
| Interest-bearing borrowings | 4,500 | 8,000 |
| Provisions | 1,967 | 2,717 |
| Deferred tax liabilities | 7,462 | 7,680 |
| **Non-current liabilities** | 13,929 | 18,397 |
| Interest-bearing borrowings | - | 205 |
| Provisions | 164 | 349 |
| Trade and other payables | 3,741 | 3,407 |
| Current tax liabilities | 1,906 | 986 |
| **Current liabilities** | 5,811 | 4,947 |
| **Liabilities of disposal group classified as held for sale** | 936 | - |
| **Total liabilities** | 20,676 | 23,344 |
| **Total equity and liabilities** | 57,212 | 48,511 |

### OUR PERFORMANCE: CHIEF FINANCIAL OFFICER’S REVIEW

#### MANUFACTURED ASSETS

**Discontinued operations**

SIIOC and ArcelorMittal SA have entered into an agreement to transfer Thabazimbi mine to ArcelorMittal SA, which is expected to become effective in 2017, subject to certain conditions. Mining operations at Thabazimbi ceased in 2015. 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 SIIOC 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 ArcelorMittal SA will be presented as part of non-current assets 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 ArcelorMittal SA.

#### NATURAL RESOURCES

These investments may only be utilised for the purposes of settling decommissioning and rehabilitation obligations. Investments for Thabazimbi mine shown as part of Assets of disposal group held for sale.

#### FINANCIAL CAPITAL

The group has issued financial guarantees in favour of the DMR in respect of its environmental rehabilitation and decommissioning obligations to the value of R2.6 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). ArcelorMittal SA has guaranteed R429 million of this amount by means of bank guarantees issued in favour of SIIOC. As a result of the annual revision of closure costs a further shortfall of R311 million arose in respect of the rehabilitation of the Thabazimbi mine. Guarantees for the shortfall will be issued in due course. ArcelorMittal SA has guaranteed R300 million of this amount by means of bank guarantees issued in favour of SIIOC.

Kumba ended 2016 with net cash of R6.2 billion. Total debt facilities at year end amounted to R24.8 billion, of which R20.3 billion was undrawn.

The group's committed debt facilities of R16.5 billion (R4.5 billion term facility and R12 billion revolving facility) mature in 2020. The Board approved the early settlement of the term facility on 3 February 2017, 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. Kumba was not in breach of any of its financial covenants during the year.

#### NATURAL RESOURCES

The total rehabilitation and decommissioning provision of the group was R2.8 billion (including discontinued operations) at the end of 2016 (2015: R2.3 billion).

The measurement of this provision is a key area where management’s judgement is required. The closure provisions are updated at each balance sheet date for change in future cash flows and the discount rate. The life of mine plan on which accounting estimates are based only included proved and probable ore reserves as disclosed in the ORMR. This resulted in an insignificant increase in these provisions.

The group’s working capital position remains healthy, ensuring sufficient reserve to cover short-term positions.

Net working capital increased by R1.3 billion from 31 December 2015 to R6.1 billion. This increase is mainly due to an increase in trade receivables of R2.0 billion, due to higher iron ore prices compared to the previous year.
Our performance

SUMMARISED CONSOLIDATED INCOME STATEMENT for the year ended

The group’s total revenue increased by 13%, mainly as a result of the recovery in the average realised FOB iron ore prices and 15% weaker average Rand/US$ exchange rate offset to an extent by 4.4 Mt lower export sales volumes. Capesize freight rates from Saldanha to China averaged US$6.81/tonne resulting in a decrease of R665 million in freight revenue.

NATURAL RESOURCES

MANUFACTURED ASSETS

Operating expenses, excluding impairments, decreased by 10% as a result of the stringent cash preservation measures implemented. Mining costs decreased 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 at Sishen.

MANUFACTURED ASSETS AND NATURAL RESOURCES

Operating profit of R15.3 billion (excluding the impairment) increased by 78% (2015: R8.6 billion). Kumba’s operating profit margin increased to 38% (2015: 24%), 41% from mining activities (2015: 27%). The reduction in controllable costs, complemented by the recovery in iron ore prices outlined previously improved profitability.

TAXATION

The group’s effective tax rate decrease to 26% (2015: 69%). Including R1.0 billion accounted for the settlement agreement with SARS.

SEGMENT ANALYSIS (Rand million)

<table>
<thead>
<tr>
<th></th>
<th>Sishen mine</th>
<th>Kolomela mine</th>
<th>Thabazimbi mine</th>
<th>Logistics</th>
<th>Shipping operations</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2016</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>26,644</td>
<td>10,764</td>
<td>612</td>
<td></td>
<td>2,747</td>
<td>–</td>
<td>40,767</td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,992</td>
<td>943</td>
<td>2</td>
<td></td>
<td>–</td>
<td>145</td>
<td>3,091</td>
</tr>
<tr>
<td>Staff costs</td>
<td>3,045</td>
<td>738</td>
<td>62</td>
<td>29</td>
<td>–</td>
<td>717</td>
<td>4,591</td>
</tr>
<tr>
<td>Operating profit²</td>
<td>14,194</td>
<td>6,539</td>
<td>41</td>
<td>(5,379)</td>
<td>(370)</td>
<td>290</td>
<td>15,315</td>
</tr>
<tr>
<td><strong>2015</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>23,869</td>
<td>7,980</td>
<td>877</td>
<td>–</td>
<td>3,412</td>
<td>–</td>
<td>36,138</td>
</tr>
<tr>
<td>Depreciation</td>
<td>2,428</td>
<td>732</td>
<td>–</td>
<td>6</td>
<td>–</td>
<td>157</td>
<td>3,323</td>
</tr>
<tr>
<td>Staff costs</td>
<td>3,048</td>
<td>642</td>
<td>429</td>
<td>30</td>
<td>–</td>
<td>517</td>
<td>4,666</td>
</tr>
<tr>
<td>Operating profit²</td>
<td>4,273</td>
<td>4,423</td>
<td>(52)</td>
<td>(5,506)</td>
<td>(247)</td>
<td>(247)</td>
<td>2,644</td>
</tr>
</tbody>
</table>

¹ The segment information includes the results of the discontinued operation (Thabazimbi mine) and therefore differs from the information presented in the summarised income statement.
² After impairment charge.
### SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

<table>
<thead>
<tr>
<th>Rand million</th>
<th>Audited 31 December 2016</th>
<th>Audited 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total equity at the beginning of the year</td>
<td>25,167</td>
<td>27,001</td>
</tr>
<tr>
<td>Changes in share capital and premium</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treasury shares issued to employees under employee share incentive schemes</td>
<td>197</td>
<td>180</td>
</tr>
<tr>
<td>Purchase of treasury shares</td>
<td>(180)</td>
<td>–</td>
</tr>
<tr>
<td>Changes in reserves</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity-settled share-based payment</td>
<td>513</td>
<td>469</td>
</tr>
<tr>
<td>Vesting of shares under employee share incentive schemes</td>
<td>(197)</td>
<td>(180)</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>8,442</td>
<td>592</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>–</td>
<td>(2,505)</td>
</tr>
<tr>
<td>Changes in non-controlling interest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>2,469</td>
<td>290</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>–</td>
<td>(796)</td>
</tr>
<tr>
<td>Equity-settled share-based payment</td>
<td>125</td>
<td>116</td>
</tr>
<tr>
<td>Total equity at the end of the year</td>
<td>36,536</td>
<td>25,167</td>
</tr>
</tbody>
</table>

Comprising

| Rand million | | |
| 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 |

Shareholders’ equity | 27,850 | 19,320 |

| | Audited 31 December 2016 | Audited 31 December 2015 |
| Attributable to the owners of Kumba | 27,850 | 18,534 |
| Attributable to non-controlling interest | – | 786 |
| Non-controlling interest | 8,686 | 5,847 |
| Total equity | 36,536 | 25,167 |

Dividend (Rand per share)

| | | |
| Interim | – | – |
| Final | – | – |

### SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2016

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

Total shares in issue was 322,085,974 (2015: 322,085,974) and treasury shares held were 2,797,627 (2015: 1,109,732). All treasury shares are held as conditional award under the Kumba bonus share plan.

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

<table>
<thead>
<tr>
<th>AUDITED</th>
<th>RESTATED</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 DECEMBER 2016</td>
<td>31 DECEMBER 2015</td>
</tr>
<tr>
<td>Cash generated from operations</td>
<td>17,218</td>
</tr>
<tr>
<td>Income from investments</td>
<td>2</td>
</tr>
<tr>
<td>Net finance costs paid</td>
<td>(319)</td>
</tr>
<tr>
<td>Taxation paid</td>
<td>(3,363)</td>
</tr>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td>13,538</td>
</tr>
<tr>
<td>Additions to property, plant and equipment</td>
<td>(2,353)</td>
</tr>
<tr>
<td>Loan repaid by joint venture</td>
<td>–</td>
</tr>
<tr>
<td>Proceeds from the disposal of property, plant and equipment</td>
<td>9</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td>(2,344)</td>
</tr>
<tr>
<td>Purchase of treasury shares</td>
<td>(180)</td>
</tr>
<tr>
<td>Dividends paid to owners of Kumba</td>
<td>–</td>
</tr>
<tr>
<td>Dividends paid to non-controlling shareholders</td>
<td>–</td>
</tr>
<tr>
<td>Net interest-bearing borrowings repaid</td>
<td>(3,705)</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td>(3,885)</td>
</tr>
<tr>
<td><strong>Net increase in cash and cash equivalents</strong></td>
<td>7,309</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of year</td>
<td>3,601</td>
</tr>
<tr>
<td>Foreign currency exchange gains on cash and cash equivalents</td>
<td>(245)</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of year</strong></td>
<td>10,665</td>
</tr>
</tbody>
</table>

HEADLINE EARNINGS for the year ended

<table>
<thead>
<tr>
<th>AUDITED</th>
<th>AUDITED</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 DECEMBER 2016</td>
<td>31 DECEMBER 2015</td>
</tr>
<tr>
<td>Reconciliation of headline earnings</td>
<td></td>
</tr>
<tr>
<td>Profit attributable to owners of Kumba</td>
<td>8,621</td>
</tr>
<tr>
<td>Impairment charge</td>
<td>4</td>
</tr>
<tr>
<td>Net loss on disposal and scrapping of property, plant and equipment insurance proceeds</td>
<td>186</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>8,811</td>
</tr>
<tr>
<td>Taxation effect of adjustments</td>
<td>(54)</td>
</tr>
<tr>
<td>Non-controlling interest in adjustments</td>
<td>(33)</td>
</tr>
<tr>
<td><strong>Headline earnings</strong></td>
<td>8,724</td>
</tr>
<tr>
<td><strong>Headline earnings (Rand per share)</strong></td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>27.30</td>
</tr>
<tr>
<td>Diluted</td>
<td>27.16</td>
</tr>
</tbody>
</table>

FINANCIAL CAPITAL

The group’s cash generated from operations increased 24% to R17.2 billion compared to R13.8 billion in 2015. The cash was used to pay income tax of R3.4 billion (2015: R0.6 billion), mineral royalties of R1.0 billion (2015: R0.4 billion) and R3.9 billion (2015: R4.1 billion) paid to employees in salaries and wages. In line with the group’s cash preservation strategy, the Board suspended dividends for 2015 and remained suspended in 2016.

In 2016 R2.4 billion (2015: R6.8 billion) was spent on capital, to protect the balance sheet by cancelling, reducing the cost or delaying the capital expenditure.

REGULATORY UPDATE

21.4% undivided share of the Sishen mine mineral rights

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.

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 (EPP) based supply agreement between SIOC and ArcelorMittal SA 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.

Mining Charter

Significant uncertainty remains around the draft Mining Charter III process which may impact future empowerment of mining companies. 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.
**OUR PERFORMANCE: OPERATIONAL PERFORMANCE**

**OPERATIONAL PERFORMANCE**

**SISHEN MINE**

Driving our turnaround plan to meet and exceed global productivity benchmarks

**ABOUT SISHEN MINE**

Sishen mine is the largest operation in our portfolio, producing around 70% of our annual iron ore production. Located in the Northern Cape province, close to the town of Kathu, the mine has been in operation since 1953 and is one of the largest single open-pit mines in the world. All our mined ore is transported to the beneficiation plant where it is crushed, screened and beneficiated. We are the only haematite ore producer in the world to fully beneficiate its product, made possible through our dense medium separation (DMS) and jig technology. At year end the mine had 4,040 permanent full-time employees and 1,426 full-time contractors.

**STRATEGIC PURPOSE**

To deliver waste of 150 to 160 Mt, ensuring sustainable zero harm production of 27 to 28 Mtpa through an empowered workforce, while securing the future.

**SISHEN PERFORMANCE SUMMARY**

In response to the challenging price environment – and in line with our strategy to focus on value over volume – we have reconfigured the Sishen pit to a lower-cost shell configuration that will allow for a more flexible approach, reduce execution risk and lower capital cost over the life of mine. Our focus this year has been on completing the Sishen turnaround plan to sustainably produce ~27 to 28 Mt per annum.

- **Lost-time injury frequency rate (LTIFR) of 0.25 (2015: 0.22), with 1 fatality (2015: 0)**: ✓
- **Granting by DMR of 21.4% residual mining right**: ✓
- **Waste removal of 137.1 Mt, down 85.1 Mt on 2015 levels, due to the redesign of the pit at the lower end of the market guidance for 2016**: ✓
- **Production of 28.4 Mt, down 3.0 Mt on 2015 levels and exceeded market guidance for 2016**: ✓
- **Unit costs of R296/tonne: R15/tonne down on 2015, due to lower mining volumes**: ✓
- **R11.4 million investment in social and community projects in line with reduced profits**: ❌
- **Successful finalisation and implementation of new mine plan**: ✓
- **Restructuring of workforce completed without interruption**: ✓
- **Sishen modular plant progressed to feasibility phase, expected commissioning in 2018**: ✓
- **ISO 14001, ISO 9001, OHSAS 18001 certified**: ✓
OUTLOOK
- Increase in strip ratio from 3.3 to exceeding ~4 in the medium term, average LoM stripping ratio of ~4
- Waste movement is expected to be around 150 to 160 Mt
- Production guidance for 2017 is 27 to 28 Mt
- It is expected that the reserve life will remain stable at ~17 years due to the lower production rates
- This mining profile requires more precise execution at Sishen, and additional more effective implementation of the Operating Model, which has already resulted in a 30% improvement in efficiency in internal waste mining activity
- Upgrade of the Sishen DMS to UHDMS is now in pre-feasibility phase, first production is expected by 2020 and will add ~2 Mtpa
- Strong focus on productivity using the operating model to ensure stable run rates, build up of stockpiles and contractor capacity in place to ensure targets are met
- Second modular plant is expected to be commissioned in 2018, producing ~0.7 Mtpa with a cost of about R400 million

SISHEN WASTE

<table>
<thead>
<tr>
<th>Year</th>
<th>Mt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>119.0</td>
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<tr>
<td>2012</td>
<td>133.5</td>
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<td>2014</td>
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<tr>
<td>2015</td>
<td>222.2</td>
</tr>
<tr>
<td>2016</td>
<td>137.1</td>
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</table>

SISHEN PRODUCTION

<table>
<thead>
<tr>
<th>Year</th>
<th>Mt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>38.9</td>
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<tr>
<td>2015</td>
<td>11.1</td>
</tr>
<tr>
<td>2016</td>
<td>11.0</td>
</tr>
</tbody>
</table>

SISHEN UNIT CASH COSTS

<table>
<thead>
<tr>
<th>Year</th>
<th>Rand per tonne</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>311</td>
</tr>
<tr>
<td>2016</td>
<td>299</td>
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<tr>
<td>2015 Inflation</td>
<td>80</td>
</tr>
<tr>
<td>2015 Cost escalation</td>
<td>311</td>
</tr>
<tr>
<td>2015 Mining volume</td>
<td>133</td>
</tr>
<tr>
<td>2015 Production volume</td>
<td>77</td>
</tr>
<tr>
<td>2015 Deferred stripping</td>
<td>28</td>
</tr>
<tr>
<td>2016 Unit cash cost</td>
<td>299</td>
</tr>
</tbody>
</table>

1Sishen reconfigured to lower cost pit shell.
### KOLOMELA PERFORMANCE SUMMARY

Revised mining plans, including deferral of mining at one of three pits, have been implemented. Mining to be concentrated on two primary pits with the third pre-stripped pit re-phased to the first half of 2017. Integrating technology across the value chain to deliver improvements in efficiencies. The advanced process control (APC) was implemented in the plant, contributing to an increase in plant throughput and a 2% increase in the lump:fine ratio.

<table>
<thead>
<tr>
<th>Lost-time injury frequency rate (LTIFR) of 0.48 (2015: 0.20), with 1 fatality (2015: 0)</th>
<th>Production of 12.7 Mt was 0.6 Mt higher than 2015</th>
<th>Waste volumes of 50.2 Mt were 4.5 Mt higher than 2015 levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Unit costs of R201/tonne, R23/tonne up on 2015 due to the increased stripping ratio and commissioning of DMS modular plant</th>
<th>Mine plan optimised including ramp-up of production to 13 to 14 Mtpa in 2017</th>
<th>Modular plant commissioned in Q3 of 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reserve life decreased from 21 to 18 years as production ramps up</th>
<th>R16.1 million investment in social and community projects in line with reduced profits</th>
<th>ISO 14001, ISO 9001 certified, OHSAS 18001 compliant</th>
</tr>
</thead>
<tbody>
<tr>
<td>=</td>
<td>=</td>
<td>✓</td>
</tr>
</tbody>
</table>

### OUTLOOK

- Waste mining is expected to be in the range of 50 Mt to 55 Mt
- Ramp-up production for 2017 to 2020 to produce between 13 and 14 Mtpa, with further improvements in plant efficiency and throughput rates, which will be delivered through the Operating Model and technology initiatives
- Ramp up of DMS modular plant is expected to be completed in 2017, contributing 0.7 Mtpa
KOLOMELA WASTE

Mt

KOLOMELA PRODUCTION

Mt

KOLOMELA UNIT CASH COST

Rand per tonne

Unit cash cost
Impact of deferred stripping on unit cash cost

Inflation
Prices
Mining volume
Production volume
Deferred stripping

2015
2016
THABAZIMBI MINE

SIOC and ArcelorMittal SA have entered into an agreement for the transfer of the Thabazimbi mine to ArcelorMittal SA. The agreement is expected to become effective in 2017, subject to certain conditions precedent.

ABOUT THABAZIMBI MINE
Located in the Limpopo province, Thabazimbi mine has been in operation since 1931, making it the oldest iron ore mine in the country. Mining activities took place in three pits using conventional opencast methods, with ore being processed through a single processing facility. The mine produced primarily high-grade haematite ore (more than 62% (Fe) ore content), and has historically sold its production exclusively to ArcelorMittal SA. After a comprehensive review, in July 2015 the Board resolved to close Thabazimbi mine. All mining operations, including mining, processing and dispatching, ceased on 1 September 2016.

THABAZIMBI PERFORMANCE SUMMARY

<table>
<thead>
<tr>
<th>0.4 Mt produced – processed from previously mined material</th>
<th>Lost-time injury frequency rate (LTIFR) of 0, with 0 fatalities</th>
<th>Mine closure progressing according to plan, guided by global best practice and in full consultation with affected parties. This process will run in parallel to the proposed transfer of the mine until such time as all conditions precedent are met and the transfer can commence</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

OUTLOOK
- SIOC and ArcelorMittal SA reached an agreement to transfer the Thabazimbi mine to ArcelorMittal SA by means of a section 11 transfer under the Minerals and Petroleum Resources Development Act (MPRDA).
- The transfer is dependent on certain conditions being met, most notably: competition authority approval, cession of the Thabazimbi mining rights in terms of section 11 of MPRDA, and a satisfactory due diligence investigation by ArcelorMittal SA. On fulfilment of these conditions, the employees, assets and liabilities, as well as full responsibility for Thabazimbi’s closure and rehabilitation (including social closure costs), will transfer to ArcelorMittal SA at a nominal consideration plus 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.
- A detailed stakeholder engagement plan has been developed to communicate the rationale and potential collective benefits of this transfer, and to ensure appropriate stakeholder contributions and engagement in the transfer process.
SALDANHA BAY RAIL AND PORT

Volume railed hampered by Kumba’s operational challenges and exacerbated by the planned maintenance shutdown and subsequent slow ramp up thereafter in the third quarter of 2016

ABOUT SALDANHA BAY RAIL AND PORT
Located in Saldanha Bay in the Western Cape province, the Saldanha Bay port is owned and operated by Transnet, a state-owned entity. The port is connected to Sishen and Kolomela mines by Transnet’s Sishen/Kolomela-Saldanha iron ore export channel (IOEC) railway line. Iron ore is exported from the port to markets in the Asia-Pacific, Europe and the Middle East and North Africa

STRATEGIC PURPOSE
Successfully focusing on improved blending strategies in Saldanha Bay port, striving to further improve the quality consistency of our products

SALDANHA BAY RAIL AND PORT PERFORMANCE SUMMARY

39.8 Mt railed to Saldanha Bay port, down 2.6 Mt on 2015, in line with lower production from Sishen mine

38.7 Mt shipped from Saldanha Bay port, 4.8 Mt down on 2015 due to the reconfigured mine plan

Export sales of 39.1 Mt were 4.4 Mt down on 2015

Saleable stocks reduced to optimal level of 3.5 Mt

VOLUMES RAILED

<table>
<thead>
<tr>
<th>Year</th>
<th>Mt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
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<tr>
<td>2012</td>
<td>31.4</td>
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<td>2015</td>
<td>30.2</td>
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<td>2016</td>
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Sishen | Kolomela

VOLUMES SHIPPED

<table>
<thead>
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<th>Year</th>
<th>Mt</th>
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</thead>
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<tr>
<td>2014</td>
<td>40.1</td>
</tr>
<tr>
<td>2015</td>
<td>43.5</td>
</tr>
<tr>
<td>2016</td>
<td>38.7</td>
</tr>
</tbody>
</table>

OUTLOOK
- Total sales are expected to be between 40 and 42 Mt in 2017
- We plan to optimise our rail allocation with our revised production profile emanating from the Sishen mine plan reconfiguration
- Engagements with Transnet are ongoing regarding penalties on rail shortfalls and tariff increases
- Transnet has informed us of their intention to refurbish certain key equipment in the Saldanha Bay port in 2018. We are working with Transnet to mitigate any potential impact this might have in 2018
OUR PERFORMANCE: ORE RESERVES AND MINERAL RESOURCES

ORE RESERVES AND MINERAL RESOURCES

SALIENT FEATURES

As deliberated in the Ore Reserve and Mineral Resource section of the 2015 Kumba Iron Ore Integrated Report, the focus in 2016, as in 2015, remained on ensuring that Kumba could be competitive in both the near and long term through reducing costs and converting to a value-over-volume strategy. Despite the rally in the iron ore price in 2016, it is still widely acknowledged that the fundamental trend for iron ore prices in the long term remain under pressure1, as such the long-term forward looking iron ore price used to derive Ore Reserves and Mineral Resources decreased by 7% from 2015, while the forward looking Rand to US$ exchange rate weakened by 10% year-on-year.

These were the major contributing factors that resulted in the year-on-year reduction of the Sishen mine Ore Reserve by 18% due to the selection of a significantly smaller but more cost efficient pit layout. Accordingly, the exclusive Mineral Resource decreased by 19% from 2015 to 2016 due to a substantial decrease in size of the resource shell. It would be expected that the impact on the Mineral Resource would have been more pronounced than 19% but it was mitigated by the addition of 213.4 Mt of low-grade Mineral Resources inside the pit layout after the relevant Kumba and Anglo American plc committees approved the Sishen low-grade project concept and pre-feasibility A study.

Kolomela mine’s Ore Reserves decreased by 10% year-on-year, primarily due to production. The Kolomela Mineral Resources increased by 8%, predominantly 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 Kumba is in the process of compiling a closure application for the Thabazimbi mining rights. No Ore Reserves therefore remain and the Mineral Resources have been removed from the Kumba Mineral Resource portfolio as Kumba can no longer demonstrate reasonable prospects for eventual economic extraction.

The average annual Saleable Product from Sishen mine reduced from 36.5 Mtpa to 26.0 Mtpa as a result of the transition to a lower cost pit shell and a focus on “value over volume”. As a result the reserve life has increased from 15 to 17 years.

In October 2016, the Department of Mineral Resources (DMR) notified Kumba that it had, after taking all the relevant considerations into account, 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. As a result of the grant of the residual 21.4% undivided share, SIOC became the sole and exclusive holder of the right to mine iron ore and quartzite at the Sishen mine.

1 “… iron ore demand could decline by more than 25% over the next 20 years as a result of the weakening demand for steel and increased recycling…” (McKinsey Quarterly; October 2016)

INTRODUCTION AND SCOPE

Reporting

The 2016 Kumba Ore Reserve and Mineral Resource Statement as contained in this report, is an extract from the online Ore Reserve and Mineral Resource Statement (website: http://www.angloamericankumba.com/investors/annual-reporting.aspx), which in turn is a condensed version of the full 2016 in-house Kumba Resource and Reserve Statement and Audit Committee Report, derived from detailed site-specific Reserve and Resource Committee Reports; the latter structured to address all aspects listed in the Checklist and Guideline of Reporting and Assessment Criteria Table of the SAMREC Code.


The policy is supported by reporting procedures and templates, which channel the reporting requirements down to a site specific level, to ensure that Kumba meets the necessary Johannesburg Stock Exchange Listings Requirements.

Kumba will in 2017 adapt to the reporting requirements as listed in the 2016 Edition of the SAMREC Code.

The information on Ore Reserves and Mineral Resources was prepared by or under the supervision of Competent Persons as defined in the SAMREC Code. All Competent Persons have sufficient experience relevant to the style of mineralisation and
type of deposit under consideration and to the activity which they are undertaking. All the Competent Persons’ consent to the inclusion in this statement of the information in the form and context in which it appears. All Competent Persons informing the 2016 Kumba Iron Ore Reserve and Resource Statement assumed responsibility by means of signing a Competent Person appointment letter, kept by the Company’s Principal – Mineral Resources and Geometallurgy, at Kumba’s Centurion Gate Office in Pretoria, South Africa.

**Governance and assurance**

Being a listed minerals company on the Johannesburg Stock Exchange (JSE), Kumba strictly adheres to the SAMREC Code as dictated by section 12 of the JSE listing rules, when reporting remaining Mineral Resources and Ore Reserves on an annual basis. The requirements of the reporting code are captured in the Company’s Reserve and Resource reporting policy and procedures and templates which are aligned with the requirements of the SAMREC Code as well as the relevant Anglo American plc Resource and Reserve Reporting technical standard and associated reference document.

Apart from the annual in-house peer review of site-specific Ore Reserve and Mineral Resource Statements, Kumba is subject to a comprehensive programme of reviews aimed at providing assurance in respect of Ore Reserve and Mineral Resource estimates. The reviews are conducted by suitably qualified competent persons from within the Anglo American Group, or by independent consultants.

The frequency and depth of the reviews is a function of the perceived risks and/or uncertainties associated with a particular Ore Reserve and/or Mineral Resource.

Three technical independent audits were conducted in 2016:

- **TECT Geological Consulting** reviewed the Kolomela mine implicit solids models (compiled using new software technology) that will be used as a base for the 2017 geological block modelling and Mineral Resource estimation, to verify the integrity of the models. Overall, TECT was satisfied with the implicit solids models. No major errors or significant adverse changes were observed.

- **AMC Consultants** reviewed the Sishen mine planning process. AMC found that:
  - In general, the mine planning process is well established and appropriate, comprising mine planning tools and outputs consistent with industry standard
  - The alignment of mine planning horizons is adequate, although there is duplication which is mostly redundant
  - The process of communication of mine plans to mine production is well established and generally consistent with the industry standard.

- **SRK Consulting** was appointed in 2016 to conduct a detailed independent technical review of the internal Kumba Iron Ore Mineral Resource and Ore Reserve portfolio (as at 30 June 2016). The SRK findings in relation to the mid-year Mineral Resources and Ore Reserves estimates are summarised below:
  - SRK has reviewed the data collection, geological modelling and Mineral Resource estimates, including independent validations of the parameters and results used in the estimates, and consider the data to be sufficiently reliable to generate Mineral Resource estimates. The geological modelling is undertaken in a rigorous manner, and is consistent with the geological interpretation, and the available drilling, geophysical surveys, and structural mapping.
  - SRK has a comprehensive set of standards and procedures in place at each of the operations and projects in order to ensure that there is consistency between the geological modelling approach and Mineral Resource estimates. SRK is of the opinion that the documented procedures and controls are sufficient to ensure that the Mineral Resource estimates are compliant with the SAMREC Code 2016. Kumba undertakes a comprehensive validation of its geological models and Mineral Resource estimates, including peer review and validation, at each stage of the data collection, modelling and estimation.
  - The LoM process at Kumba is governed by the AA Standards and compliance is measured on a yearly basis. Sishen and Kolomela mines both follow the same LoM planning process. The pit optimisation process adheres to the standards and is well managed. At Sishen mine the geological and mining modifying factors are well defined and backed by the value chain reconciliation process. At Kolomela mine the modifying factors are backed by the value chain reconciliation process but less history is available and therefore planned modifying factors are less reliable.

The next full Ore Reserve and Mineral Resource external audit is planned for Sishen mine in 2017 and for Kolomela mine in 2018.

In addition to the technical independent audits conducted in 2016, an unscheduled independent internal due diligence audit was conducted on the Sishen 2016 geological model, input into the model, and associated Mineral Resource estimation and reporting by the Mining Geology and Reconciliation and Mineral Resource Departments of Anglo American plc. This review has found that the geological model and associated publicly reported Mineral Resource estimates for Sishen have no fatal flaws.
Furthermore a mandatory pre-feasibility A2 stage-gate review was conducted on the Sishen low-grade project, including the geological model used to front-end-load the study. Anglo American plc’s Mineral Resource department reviewed the geology and approved the project’s pre-feasibility study from a geological perspective. The project was subsequently approved by the relevant Kumba and Anglo American plc Investment Committees, which enabled Sishen mine to include the low-grade ore in its 2016 Mineral Resource portfolio. A conservative approach was followed whereby only the low-grade ore in the pit layout instead of all low-grade ore in the resource shell was included in the 2016 Mineral Resource portfolio.

Ore Reserve and Mineral Resource estimates

The Ore Reserve and Mineral Resource estimates stated in this Integrated Report are reported on a 100% basis irrespective of attributable shareholding. The latter is however indicated per site in the relevant tables as a percentage (and must be multiplied with the stated Ore Reserve and Mineral Resource figures to derive the portion directly attributable to Kumba).

The estimates serve as an indication of Kumba’s Ore Reserve and Mineral Resource status, or those remaining, at 31 December 2016, and compares it with the Ore Reserves and Mineral Resources as estimated at 31 December 2015 and reported on 8 April 2016.

It is not an inventory of all mineral occurrences identified, but is an estimate of those, which under assumed and justifiable technical, environmental, legal and social conditions, may be economically extractable at current (Ore Reserves) and has reasonable prospects for eventual economic extraction (Mineral Resources).

The term “Ore Reserves” in the context of this report has the same meaning as “Mineral Reserves”, as defined by the SAMREC Code. In the case of Kumba, the term “Ore Reserves” is preferred because it emphasises the difference between these and Mineral Resources.

An independent long-term price line (Platts 62% index) and exchange rate and modified with Kumba-based forecasts of lump and Fe premiums, deleterious element adjustments and freight tariffs was agreed and forms the basis of Ore Reserves and Mineral Resources presented in this document. The latter is applied to site-specific mining block models, in combination with a forward extrapolation of current site-specific budgeted cost figures, to derive a set of pit shells for each site during the annual pit optimisation process. A so-called optimal (revenue factor ~1) shell is chosen for each site and engineered into a pit design or layout, which spatially constrains the currently economically mineable Ore Reserves.

The Ore Reserves are furthermore derived from the in situ Measured and Indicated Mineral Resource portion within the pit layout only, through the modification thereof into run-of-mine, to account for site-specific mining efficiencies and other design, technical, environmental, legal and social aspects. The resultant Proved and Probable Ore Reserves are further modified into Saleable Product, considering site-specific beneficiation efficiencies. Cut-off grades are also assigned to ensure site-specific run-of-mine or Ore Reserve schedules that ensure the sustainable delivery of Saleable Product that complies with client product specifications.

Mineral Resources are declared in addition to or exclusive of Ore Reserves.

Apart from cut-off grades, which consider the current and at least concept approved foreseen beneficiation processes, Kumba spatially distinguishes Mineral Resources from other Mineral occurrences by applying a resource shell (site specific 2 x revenue factor shell derived during annual pit optimisation process) to the latest site-specific three-dimensional geological models3, with the Mineral Resource portion considered to have reasonable prospects for eventual economic extraction.

Inferred Mineral Resources considered in life of mine plans are separately indicated in the Exclusive Mineral Resource table, with the extrapolated portion of the Inferred Mineral Resources outside the life of mine plans quoted in the footnotes of the Exclusive Mineral Resource Statement.

Ore Reserve and Mineral Resource estimation and classification processes are described in more detail in the online Ore Reserve and Mineral Resource Statement.

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2 The Anglo-American plc standard project approval process involves the separation of a pre-feasibility study into a phase A and phase B, with separate stage-gate reviews to consider further investment.

3 Geological models are three-dimensional spatial unitised models that define the iron ore bodies in relation to the host rock and waste in terms of estimated volumes and associated in situ grades and relative densities.
Attributable ownership

For this report, all Ore Reserve and Mineral Resource estimates, whether Kumba's attributable ownership in the specific mineral asset is less than 100% or not, are reported as 100%; with the percentages attributable to Kumba separately indicated in the relevant tables per site. The overall proportion attributable to SIOC, Kumba and Anglo American plc is summarised in the table below.

<table>
<thead>
<tr>
<th>Mineral asset</th>
<th>% owned by SIOC</th>
<th>% owned by Kumba</th>
<th>% owned by other</th>
<th>% owned by AA plc via Kumba</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kolomela mine</td>
<td>100.0</td>
<td>100.0</td>
<td>76.3</td>
<td>73.9</td>
</tr>
<tr>
<td>Sishen mine</td>
<td>100.0</td>
<td>100.0</td>
<td>76.3</td>
<td>73.9</td>
</tr>
<tr>
<td>Thabazimbi mine</td>
<td>100.0</td>
<td>100.0</td>
<td>76.3</td>
<td>73.9</td>
</tr>
<tr>
<td>Zandrivierspoort project</td>
<td>50.0</td>
<td>50.0</td>
<td>38.2</td>
<td>37.0</td>
</tr>
</tbody>
</table>

1. SIOC is 76.3% owned by Kumba, and in turn Kumba is 69.7% owned by Anglo American plc (as at 31 December 2016 – time of reporting). The year-on-year increase in shareholding is a result of the unwinding of SIOC’s Envision participation share scheme in November 2016.
2. In 2016, the DMR notified Kumba that it had granted the residual 21.4% undivided share of the mining right to SIOC's Sishen mine. This residual mining right will be incorporated into the 78.6% Sishen mining right that SIOC successfully converted in 2009. SIOC is currently attending to the necessary requirements to lodge this granted right for registration.
3. SIOC and ArcelorMittal SA announced that they have entered into an agreement to transfer Thabazimbi mine to ArcelorMittal SA. The transfer is dependent on certain conditions being met. For more detail please refer to page 65.
4. Zandrivierspoort is a 50:50 joint venture between ArcelorMittal SA and SIOC in a company called Polokwane Iron Ore Company.

Security of tenure

All Ore Reserves and Mineral Resources (in addition to Ore Reserves) quoted in this document for the Kumba mining operations are held under notarially executed mining and prospecting rights granted in terms of the Mineral and Petroleum Resources Development Act 28 of 2002 (the MPRDA), the prospecting rights located immediately adjacent to the Sishen mine mining right.

In October 2016, the Department of Mineral Resources (DMR) notified Kumba that it had, after taking all the relevant considerations into account, 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. As a result of the grant of the residual 21.4% undivided share, SIOC became the sole and exclusive holder of the right to mine iron ore and quartzite at the Sishen mine. SIOC is accordingly the exclusive holder of the mining rights at Sishen mine, Kolomela mine and Thabazimbi mine, as well as 100% of the relevant prospecting rights adjacent to Sishen mine and the Zandrivierspoort prospecting right.

Kumba ensures annual reporting compliance as required by the latest Mineral and Petroleum Resources Development Act and the National Environmental Management Act via the management and monitoring thereof by its Mineral Rights section, in order to maintain security of tenure.

ORE RESERVES (AND SALEABLE PRODUCT)

As of 31 December 2016, Kumba from a 100% ownership reporting perspective, had access to an estimated Haematite Ore Reserve of 744 million tonnes at an average unbeneﬁciated or feed grade of 59.7% Fe from its two mining operations:

- Kolomela 191.8 Mt @ 64.4% Fe (against a 50% Fe cut-off grade)
- Sishen 552.2 Mt @ 58.0% Fe (against a 40% Fe cut-off grade)

A 16% net decrease5 of 141.6 Mt is noted for the total Kumba Ore Reserve compared to 2015.

   "It is expected that the 2016 Kumba Ore Reserves and Mineral Resources may decrease materially from those stated in 2015. …In addition, the continued softening of the iron ore market is expected to have a material impact on the 2016 Ore Reserves (~150 Mt reduction) and Mineral Resources."
# ORE RESERVES AND MINERAL RESOURCES CONTINUED

## 2016 ORE RESERVE STATEMENT (referenced against 2015)

<table>
<thead>
<tr>
<th>Operation/project</th>
<th>Operation status</th>
<th>Mining method</th>
<th>Ore type</th>
<th>% owned by Kumba</th>
<th>Reserve category</th>
<th>Tonnage (Mt)</th>
<th>Grade (% Fe)</th>
<th>Reserve Life**</th>
<th>Tonnage (Mt)</th>
<th>Grade (% Fe)</th>
<th>Reserve Life**</th>
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</thead>
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<tr>
<td><strong>Mining operations</strong></td>
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<tr>
<td>Kolomela mine</td>
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<td>Haematite</td>
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<td>Proved</td>
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### Footnotes to Ore Reserve table

* The cut-off grade assigned to Ore Reserves is variable and is dependent on the beneficiability and/or blending capacity of the modified ore scheduled as run-of-mine, which is iteratively determined during life of mine plan scheduling to achieve a scheduling grade target that is set to meet the client product specifications. The % Fe cut-off illustrated is therefore the lowest of a range of variable cut-offs for the various mining areas. It includes dilution material and can therefore, in certain cases, be less than the Mineral Resource cut-off grade.

** Reserve Life represents the period in years in the approved life of mine plan for scheduled extraction of Proved and Probable Reserves. The Reserve Life is limited to the period during which the Ore Reserves can be economically exploited. Where the scheduled Ore Reserves fall below 25% of the average annual production rate, the period beyond this is excluded from the Reserve Life, implying for example that the period beyond and including a year where the run-of-mine of an operation is made up of 24% Proved and Probable Ore Reserves and 76% Inferred Mineral Resources does not count towards Reserve Life.

For more detail refer to the online Ore Reserves and Mineral Resources Report (website: http://www.angloamericankumba.com/investors/annual-reporting.aspx).
### 2016 SALEABLE PRODUCT STATEMENT (referenced against 2015)

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<th>Saleable Product category</th>
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<th>2015 Metal-lurgical yield (%)</th>
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<th>Grade (% Fe) Average</th>
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### Footnotes to Saleable Product table

¹ Kolomela mine is primarily a direct shipping ore operation where Ore Reserves are crushed and screened to deliver Saleable Product at the required top sizes. The mine commissioned a small-scale modular dense media separation plant in 2016 to treat lower Fe-grade ore, resulting in a year-on-year decrease in the overall yield.

² Sishen mine beneficiates its high-grade Ore Reserves by means of a dense media separation plant and its lower grade Ore Reserves by means of a Jig facility to produce Saleable Product according to required client specifications. The mine furthermore commissioned a small-scale dense media separation plant in 2016 to treat a portion of the Jig plant discard and produce Saleable Product. Since additional Saleable Product is generated from discard, the overall yield increased year-on-year.

³ Thabazimbi mine’s production ceased in 2016.

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**Image:** Stockpiles of iron ore ready to be railed to the port of Saldanha.
EXCLUSIVE MINERAL RESOURCES

As of 31 December 2016, Kumba can report a remaining exclusive (in addition to Ore Reserves) Mineral Resource base estimated at 1.1 billion tonnes of which 638.2 Mt, at an average in situ grade of 55.5% Fe are assigned to the Kumba mining operations and associated on-lease projects. The Zandrivierspoort (prospecting right) magnetite deposit, contributes 476.1 Mt @ 34.5% Fe to the Kumba Resource base.

### 2016 EXCLUSIVE MINERAL RESOURCE STATEMENT (referenced against 2015)

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<th>Operation/project</th>
<th>% owned by Kumba</th>
<th>Resource category</th>
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<th>Average % Fe₃O₄*</th>
<th>% Fe Cut-off**</th>
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## 2016 EXCLUSIVE MINERAL RESOURCE STATEMENT (referenced against 2015) continued

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<tr>
<td><strong>Company</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kumba</td>
<td></td>
<td>Measured</td>
<td>295.1</td>
<td>421.4</td>
<td></td>
<td>49.7</td>
<td></td>
<td></td>
<td>56.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Indicated</td>
<td>454.3</td>
<td>415.8</td>
<td></td>
<td>43.6</td>
<td></td>
<td></td>
<td>46.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Measured &amp; Indicated</td>
<td>749.5</td>
<td>837.2</td>
<td></td>
<td>46.0</td>
<td></td>
<td></td>
<td>51.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Inferring (considered in LoMP)</td>
<td>81.4</td>
<td>86.4</td>
<td></td>
<td>62.7</td>
<td></td>
<td></td>
<td>61.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Inferring (outside LoMP)</td>
<td>283.5</td>
<td>291.7</td>
<td></td>
<td>43.3</td>
<td></td>
<td></td>
<td>44.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Grand total</strong></td>
<td>1,114.4</td>
<td>1,205.3</td>
<td></td>
<td>46.5</td>
<td></td>
<td></td>
<td>50.4</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Fe3O4 – Magnetite
** The cut-off grade quoted for all the Kumba sites except the Zandrivierspoort project, is a fixed chemical cut-off grade. In the case of Zandrivierspoort, the 21.7% Fe cut-off grade is a minimum value, with the cut-off grade being spatially dynamic. A minimum yield of 34.3% is required to define eventual economic extractability. This yield has been empirically derived considering the total in situ % Fe as well as the in situ Magnetite:Haematite ratio and a breakeven cost.

For more detail refer to the online Ore Reserves and Mineral Resources Report (website: http://www.angloamericankumba.com/investors/annual-reporting.aspx).
GOVERNANCE

Sound corporate governance provides a critical foundation, both for protecting stakeholder value and for achieving our strategic growth objectives. Independent Board oversight and guidance in relation to our operations and activities are key in monitoring and driving compliance, in ensuring good governance, in setting strategy, and in embedding the highest levels of integrity and professionalism that permeate through the organisation.

ROLE OF THE BOARD

The Board takes overall accountability for the success and sustainability of the Company. Its role is focused primarily on exercising sound leadership and independent judgement when considering the Company’s strategic direction and overall performance, while always remaining cognisant of the best interests of all stakeholders.

VALUE DISTRIBUTED IN 2016

<table>
<thead>
<tr>
<th>EMPLOYEES</th>
<th>R4.6 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDSA BUSINESSES</td>
<td>R8.5 billion</td>
</tr>
<tr>
<td>PROVIDERS OF FINANCE</td>
<td>R496 million</td>
</tr>
<tr>
<td>GOVERNMENT</td>
<td>R4.4 billion</td>
</tr>
</tbody>
</table>

GOVERNANCE FRAMEWORK

*Ad hoc independent sub-committee of the Board constituted to oversee the potential portfolio restructuring of Anglo American’s shareholding in Kumba and to ensure Kumba’s sustainability, notwithstanding any change in shareholding.
BOARD ACCOUNTABILITY TO SHAREHOLDERS

Structured approach to Board succession planning, with an approved strategy being implemented for the next five years

Constitution of a sub-committee of the Board to oversee the potential divestment of the majority shareholder while also protecting the interests of minority shareholders, and ensuring the Company’s sustainability

Periodic meetings between the Board and key stakeholders to ascertain their views on material governance imperatives

BOARD COMPOSITION

Diversity of background

- mining technical expertise
- commercial & business acumen and leadership
- legal and regulatory competence
- financial and risk management proficiencies
- stakeholder engagement experience

OUR POLICY IS TO BUILD A DIVERSE BOARD REPRESENTING A RANGE OF BACKGROUNDS

TRANSFORMATION

- 7 Black South Africans
- 3 White South Africans

GENDER REPRESENTATION

- 5 Women
- 5 Men
The Kumba Board

In keeping with the spirit of sound leadership, the Board promotes strong principles of integrity within the Company which aids in the entrenchment of sustained excellence in every facet of the business. The Board remains Kumba’s overall custodian of good corporate governance.

The Board's primary focus remains on playing a key role in the strategic direction of the Company. However, the Board also provides continuous oversight on material matters, acting as an independent check and balance to the executive management team, whose main responsibility remains to manage the business.

The directors are diverse in their academic qualifications, industry knowledge and experience, race, and gender. This diversity enables them to provide the Company with the relevant judgement and guidance to work effectively when conducting and determining the business affairs of Kumba.

KUMBA BOARD*

<table>
<thead>
<tr>
<th>Director</th>
<th>Designation</th>
<th>Appointment date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fani Titi</td>
<td>Independent non-executive director (Chairman)</td>
<td>1 October 2012</td>
</tr>
<tr>
<td>Themba Mkhwanazi</td>
<td>Executive director (Chief executive)</td>
<td>1 September 2016</td>
</tr>
<tr>
<td>Frikkie Kotzee</td>
<td>Executive director (Chief financial officer)</td>
<td>1 June 2012</td>
</tr>
<tr>
<td>Allen Morgan</td>
<td>Independent non-executive director (lead independent director)</td>
<td>9 February 2006</td>
</tr>
<tr>
<td>Buyelwa Sonjica</td>
<td>Independent non-executive director</td>
<td>1 June 2012</td>
</tr>
<tr>
<td>Dolly Mokgatle</td>
<td>Independent non-executive director</td>
<td>7 March 2006</td>
</tr>
<tr>
<td>Zarina Bassa</td>
<td>Independent non-executive director</td>
<td>2 December 2008</td>
</tr>
<tr>
<td>Nonkululeko Dlaminji</td>
<td>Non-executive director (IDC representative)</td>
<td>1 November 2016</td>
</tr>
<tr>
<td>Andile Sangqu</td>
<td>Non-executive director (Anglo American representative)</td>
<td>29 June 2015</td>
</tr>
<tr>
<td>Natascha Viljoen</td>
<td>Non-executive director (Anglo American representative)</td>
<td>8 February 2016</td>
</tr>
<tr>
<td>Seamus French</td>
<td>Alternate to N Viljoen and A Sangqu/Non-executive director</td>
<td>1 November 2016</td>
</tr>
</tbody>
</table>

* Stakeholders are requested to note that the composition of the Kumba Board was changed on 24 March 2017. As per the SENS announcement released on this day, the following took effect:
- The resignation of Zarina Bassa, effective 11 May 2017
- The appointment of Terence Goodlace as independent non-executive director, effective 24 March 2017
- The resignations of Andile Sangqu and Natascha Viljoen, effective 24 March 2017

Average length of service of executive directors: 3 years
Average length of service of non-executive directors: 1 year
Average length of service of independent directors: 7 years
Average length of service for the Board overall: 4 years

The Company considers five out of the 10 non-executive directors to be independent. Two of the 10 directors are representatives of our majority shareholders and two of the 10 directors represent executive management.

Brief biographies of all directors outlining their qualifications and skills are included on pages 16 to 17 of this report.
Eight Board meetings were held during 2016. The table below shows each director’s attendance at the Board meetings and the legends below explain the purpose of each meeting.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>F Titi (Chairman)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>8/8</td>
</tr>
<tr>
<td>ZBM Bassa</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>8/8</td>
</tr>
<tr>
<td>NB Mbazima</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>6/6</td>
</tr>
<tr>
<td>FT Kotzee</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>8/8</td>
</tr>
<tr>
<td>TM Mkhwanazi</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>1/1</td>
</tr>
<tr>
<td>DD Mokgatlie</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>8/8</td>
</tr>
<tr>
<td>AJ Morgan</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>8/8</td>
</tr>
<tr>
<td>LM Nyhonyha</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>7/8</td>
</tr>
<tr>
<td>AM O'Neill</td>
<td>✓</td>
<td>✓</td>
<td>R</td>
<td>R</td>
<td>R</td>
<td>R</td>
<td>R</td>
<td>R</td>
<td>2/2</td>
</tr>
<tr>
<td>BP Sonjica</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>8/8</td>
</tr>
<tr>
<td>A Sangqu</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>6/8</td>
</tr>
<tr>
<td>N Viljoen</td>
<td>NA</td>
<td>NA</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>A</td>
<td>A</td>
<td>✓</td>
<td>6/8</td>
</tr>
<tr>
<td>NS Dlamini</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>1/1</td>
</tr>
<tr>
<td>SG French</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>1/1</td>
</tr>
</tbody>
</table>

✓ Indicates attendance
A Indicates absence with an apology
R Resigned
NA Not appointed

* Special ad hoc Board meeting was called on short notice on 12 November 2016. F Titi, ZBM Bassa, FT Kotzee, TM Mkhwanazi, BP Sonjica, A Sangqu, N Viljoen and NS Dlamini attended the meeting.

Our Board charter
The Board charter regulates the parameters within which the Board operates and ensures the application of the principles of good corporate governance in all its dealings. Furthermore, the Board charter sets out the roles and responsibilities of the Board and individual directors, including the composition and relevant procedures of the Board. The Board charter is aligned with the provisions of all relevant statutory and regulatory requirements, including, among others, the Companies Act No 71 of 2008, as amended (the Companies Act), the JSE Listings Requirements, King IV and the Company’s Memorandum of Incorporation.

The Board charter is reviewed annually, or as and when required during the year. Due to significant changes in the JSE Listings Requirements and the King Code on Corporate Governance, during the year under review, the charter was accordingly updated in November 2016, together with the terms of reference of all the committees. In addition to the regulatory framework provided by the charter and terms of reference of the committees, Board members are encouraged to seek independent advice, at the Company's cost, during the execution of their fiduciary duties and responsibilities, if so needed. During the year under review, the Board sought independent advice in respect of the constitution and mandate of the special sub-committee of the Board. Members also have direct access to Kumba’s external and internal auditors, the Company secretary, and members of the executive management team, at all times.

Code of good corporate governance
The Board always endeavours to keep good corporate governance top of mind when dispensing its fiduciary duties and has complied with the recommendations of the King III Code of Governance for the year under review. With the introduction of King IV in the latter part of 2016, the Board has already undergone training to ensure continued application of the core fundamentals of ethical effective leadership, as envisaged in the King Code.
A transition has already begun to realign the already well entrenched King III principles to the King IV philosophy, principles and envisaged outcomes.

**Implementing a bolder approach to governance**
- Board training was provided in July 2016 by our external auditors on the impact and implementation of the principles as set out in King IV
- JSE executives provided guidance on interpretation and implementation of changes to the JSE Listings Requirements for the year under review
- The Board charter and the terms of reference of the various committees were reviewed to incorporate King IV principles and were approved by the Board in November 2016

**THE SISHEN IRON ORE COMPANY (PTY) LTD (SIOC) BOARD**

Governess at Kumba must take cognisance of the fact that its main operating subsidiary, SIOC, has a shareholding structure that reflects the BBBEE Code requirements of the Mining Charter and of the MPRDA. Our governance framework is structured in a manner that ensures that the two entities are legally independent and have fully operational but separate boards, with clearly defined responsibilities and authorities. The Company’s Delegation of Authority Framework (DAF) regulates the approval levels of each separate board.

The SIOC board comprises non-executive directors drawn from the entity’s minority shareholders, executive directors drawn from the Kumba Exco, and an independent non-executive director. The SIOC board has full authority over matters pertaining to SIOC. It does, however, take into account recommendations and suggestions from SIOC’s shareholders, including its majority shareholder, Kumba. In its governance of SIOC’s operations, the SIOC board is supported by Kumba’s Board committees and feedback on deliberations of Board committees’ meetings is provided at each SIOC board meeting.

<table>
<thead>
<tr>
<th>Director</th>
<th>Designation</th>
<th>Appointment date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Themba Mkhwanazi</td>
<td>Executive director (Chief executive) (Chairman)</td>
<td>1 September 2016</td>
</tr>
<tr>
<td>Frikkie Kotzee</td>
<td>Executive director (Chief financial officer)</td>
<td>1 June 2012</td>
</tr>
<tr>
<td>Connie Molusi</td>
<td>Non-executive director</td>
<td>23 August 2007</td>
</tr>
<tr>
<td>Mxolisi Mgqo</td>
<td>Non-executive director</td>
<td>24 June 2015</td>
</tr>
<tr>
<td>Mary Bomela</td>
<td>Independent non-executive director</td>
<td>21 August 2013</td>
</tr>
<tr>
<td>Billy Mawasha</td>
<td>Executive director</td>
<td>16 September 2013</td>
</tr>
<tr>
<td>Virginia Tyobeka</td>
<td>Executive director</td>
<td>6 November 2014</td>
</tr>
<tr>
<td>Aart van den Brink</td>
<td>Alternate director</td>
<td>1 September 2012</td>
</tr>
<tr>
<td>Johan Prins</td>
<td>Alternate director</td>
<td>1 April 2015</td>
</tr>
<tr>
<td>Riaan Koppeschaar</td>
<td>Alternate director</td>
<td>1 June 2016</td>
</tr>
</tbody>
</table>
Directors' independence

If a director has served for a period of more than nine years, best practice requires the Board to consider whether that director continues to be independent, in executing their fiduciary duties. The Board, upon recommendation from its Nominations and Governance Committee, has adopted the practice of annually reviewing directors’ independence if their tenure has reached nine years or more, and recommending to shareholders that they be re-appointed annually.

Based on the results of the evaluation, the Board will consider whether there is any evidence of any circumstance and/or relationship that would impair their judgement, to the extent that their independence is compromised. The process to evaluate the independence of the two directors appointed to the Board in 2006 was undertaken in February 2016, prior to the annual general meeting (AGM) in May 2016. This independent process will be repeated in 2017, and will continue, as long as the nine-year tenure is exceeded.

In respect of other directors, determination of independence is guided by King IV, the JSE Listings Requirements and other best practice. The Chairman of the Board is also subject to re-appointment by the Board and an annual evaluation of his independence and performance is carried out during the annual Board evaluation process.

The lead independent director provides the Chairman with feedback from the annual evaluation process.

Appointment of directors

The Nominations and Governance Committee recommends the appointment of new directors for approval by the Board according to a strategy adopted by the Board. The Board charter in place details procedures for appointments to the Board. Such appointments are formal and transparent and a matter for the entire Board, assisted by the Nominations and Governance Committee. When appointing directors, the Board takes cognisance of its needs in terms of skills, experience, diversity, size and demographics. In 2015, the Board also approved a Gender Diversity Policy, in line with the requirements of the JSE Listings Requirements.

Details of all Board members can be found on page 82.

Changes to the Board for the year under review

The Company has seen an introduction of four directors and the departure of two during the year under review. Mr Norman Mbazima stepped down from Kumba as a Chief executive officer and thus from the Board, effective on 31 August 2016. Mr Mbazima was appointed as an executive director on 1 September 2012. On 31 December 2016, Mr Litha Nyhonyha resigned as an independent non-executive director after diligently serving on the Board for five and a half years. Mr Nyhonyha was the Chairman of the Risk Committee and a member of various other committees.

Mr Thembba Mkhwanazi joined the Company as the Chief executive officer and as an executive director effective 1 September 2016.

Mr Frikkie Kotzee announced during February 2017 that he will step down as Chief financial officer after five years, effective on 11 May 2017.

Mrs Nonkululeko Dlamini was appointed as a non-executive director with effect from 1 November 2016, representing the Industrial Development Corporation (IDC), a 12.9% shareholder in Kumba.

Ms Natascha Viljoen was appointed as a non-executive director with effect from 8 February 2016 in replacement of Mr Tony O’Neill who resigned from the Board on 5 February 2016.

Mr Seamus French was also appointed as an alternate director to both Ms Natascha Viljoen and Mr Andile Sangqu, the current Anglo American representatives on the Board.

Non-executive directors’ fees

Details regarding non-executive directors’ remuneration are contained in the Remuneration Report on page 99. The 2017 annual general meeting (AGM) notice will contain further details of non-executive directors’ remuneration.

Responsibilities of the Chairman and Chief executive

The responsibilities of the Chairman and Chief executive are clearly defined and separated, as set out in the Board charter. While the Board may delegate authority to the Chief executive in terms of the Board charter, the separation of responsibilities is designed to ensure that no single person or group can have unrestricted powers and that appropriate balances of power and authority exist on the Board. The Chairman is responsible for leading the Board and for ensuring the integrity and effectiveness of the Board and its committees. In contrast, the Chief executive is responsible for the effective management and running of the Company’s business in terms of strategies and objectives approved by the Board.


**Rotation and election of directors**

Details regarding the rotation and election of directors is contained in the notice of the annual general meeting of 2017.

**Board and committee evaluations**

Each year, the Board conducts an assessment of its own performance and of the appropriateness and effectiveness of its procedures and processes. In addition, an external assessment is performed every three years that includes personal interviews with individual directors. An external assessment was carried out in 2015 and will be carried out again in 2018.

For the year under review, results from the various evaluations undertaken were articulated in a document tabled at the Nominations and Governance Committee and Board meetings held in November 2016. Issues that needed to be addressed to improve the Board’s and its committees’ performance were actioned accordingly. Although no significant matters of concern were noted from the evaluation, the Board took cognisance of areas in which improvement could be made and plans are being put in place to implement these improvements.

**STANDING BOARD COMMITTEES**

The Board has established five standing committees through which it executes some of its duties, namely the Audit Committee, Risk Committee, Social, Ethics and Transformation Committee, Human Resources and Remuneration Committee and Nominations and Governance Committee.

**Audit Committee**

As required by the Companies Act of 2008, the Audit Committee which has an independent role from management has been constituted. The committee comprises independent non-executive directors who collectively have the necessary financial literacy, skill and experience to perform the committee role and functions effectively.

The committee has reviewed and updated the terms of reference. This outlines the purpose and responsibilities of the committee, which include the following:

- To consider whether there is sufficient governance oversight of management’s process for preparing and presenting the integrated report and annual financial statements
- To review and monitor external auditor’s independence and objectivity and the effectiveness of the audit process
- Ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the audit process
- To review the management of risk and the monitoring of compliance effectiveness within the group in conjunction with the Risk Committee

The Audit Committee Chairman’s report is on pages 17 to 20 of the annual financial statements, which also elaborates on the 2016 activities of the committee.

**ATTENDANCE FOR THE YEAR UNDER REVIEW**

<table>
<thead>
<tr>
<th>Member</th>
<th>2 Mar 2016</th>
<th>10 Mar 2016</th>
<th>5 May 2016</th>
<th>19 Jul 2016</th>
<th>2 Dec 2016</th>
<th>Attendance</th>
</tr>
</thead>
<tbody>
<tr>
<td>ZBM Bassa (Chairman)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>5/5</td>
</tr>
<tr>
<td>DD Mokgatle</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>5/5</td>
</tr>
<tr>
<td>LM Nyhonyha</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>A</td>
<td>4/5</td>
</tr>
<tr>
<td>AJ Morgan</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>5/5</td>
</tr>
</tbody>
</table>

- ✓ Indicates attendance
- A Indicates absence with an apology
- Special meeting to sign-off 2015 reporting suite

Litha Nyhonyha resigned as a member of the Audit Committee on 31 December 2016 and the vacancy created by his resignation was filled through the appointment of Fani Titi on 7 February 2017.

**Risk Committee**

The Risk Committee provides risk governance guidance and oversight to support the organisation in setting and achieving its strategic objectives. As a sub-committee of the Board, the committee reviews the management of risks and monitors the effectiveness of compliance efforts in conjunction with the Audit Committee. The committee comprises all members of the Audit Committee and two additional non-executive directors. The Chairman of the Board is a permanent invitee at the Risk Committee meetings.

Although not members of the committee, the Chief executive and Chief financial officer, together with the heads of internal audit, information management, risk and compliance are permanent invitees to the meetings of the committee.

The terms of reference for the committee have been reviewed and updated to align with the principles introduced by King IV. The purpose and responsibilities outlined in the terms of reference include the following:

- To ensure the effectiveness, quality, integrity and reliability of the group’s risk management processes
- To monitor, develop, and communicate the processes for clarifying and managing risks across the group and to implement an effective policy and plan for risk management
- Provide guidance to the Board on how to determine what constitutes excessive risk taking and to set the level of risk appetite and tolerance
- To ensure the disclosure regarding risk is comprehensive, timely and relevant.

Refer to page 33 for information on how the Company manages its risks and opportunities.
ATTENDANCE FOR THE YEAR UNDER REVIEW

<table>
<thead>
<tr>
<th>Member</th>
<th>3 Feb 2016</th>
<th>5 May 2016</th>
<th>19 Jul 2016</th>
<th>23 Nov 2016</th>
<th>Attendance</th>
</tr>
</thead>
<tbody>
<tr>
<td>LM Nyonyha (Chairman)</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>C</td>
</tr>
<tr>
<td>ZBM Bassa</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>AJ Morgan</td>
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<tr>
<td>BP Sonjica</td>
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<td>A</td>
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<td>C</td>
<td>1/3</td>
</tr>
</tbody>
</table>

✓ Indicates attendance
A Indicates absence with an apology
C Due to urgent Board matters, meeting cancelled

Social, Ethics and Transformation Committee (Setco)

In line with regulation 43 of the Companies Act 2008, the Setco has been constituted. The committee comprises a majority of non-executive directors. In addition to committee members, the Chief executive, Executive heads of safety, health and environment, public affairs and human resources attended the committee meetings.

The terms of reference for the committee have been reviewed and updated to align with the principles introduced by King IV. The purpose and responsibilities outlined in the terms of reference include the following:

- To perform the functions described in Regulation 43(5) of the Companies Regulations 2011 in respect of the Company and the group.
- To recommend to the Board key policies and guidelines for the management of safety, sustainable development, health, environmental, social and ethics issues in the Company and the group.
- To implement and monitor compliance with the Code of Conduct to ensure that the Company remains true to its values and complies with policies and standards within the code.
- To review reports on the policies and performance of the group, the Company and its divisions and the progressive implementation of its safety, sustainable development, health, environmental, social, ethics and transformation policies and stakeholder inclusivity.

To consider the major findings of internal and external investigations into material safety, health and environment incidents, management’s response thereto and where necessary, making recommendations to the Board in respect of same.

To review key indicators on accidents and incidents and, where appropriate, ensure that such information is communicated.


ATTENDANCE FOR THE YEAR UNDER REVIEW

<table>
<thead>
<tr>
<th>Member</th>
<th>2 Feb 2016</th>
<th>5 Apr 2016</th>
<th>22 Nov 2016</th>
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<tr>
<td>DD Mokgatle (Chairman)</td>
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</tr>
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<td>A</td>
<td>1/3</td>
</tr>
</tbody>
</table>

✓ Indicates attendance
A Indicates absence with an apology

Human Resources and Remuneration Committee (Remco)

Remco acts as an independent and objective body that makes recommendations on the remuneration policies and practices for the executive directors, senior management and the Company in general. The committee comprises a majority of non-executive directors. In addition to the committee members, the Chief executive, the Executive head of human resources and the Anglo American plc Head of Reward attend the committee meetings.

The terms of reference for the committee have been reviewed and updated to align with the principles introduced by King IV. The purpose and responsibilities outlined in the terms of reference include the following:

- To facilitate the promotion of the strategic objectives and positive outcomes of the Company in the short, medium and long term by ensuring that the Company remunerates fairly, responsibly and transparently.
- To ensure the transparent and accurate reporting of remuneration matters.

The remuneration report for the year under review is on page 93.
GOVERNANCE: CORPORATE GOVERNANCE

Nominations and Governance Committee

The committee has an independent role, operating as an overseer and a maker of recommendations to the Board for its consideration and final approval. The committee does not assume the functions of management, which remain the responsibility of the executive directors, officers and other members of senior management. The committee comprises independent non-executive directors.

The committee assists the Board to ensure that:
- The Board regularly reviews its composition to enable it to execute its duties effectively
- The directors are appointed through formal processes
- Induction and ongoing training and development of directors takes place.

Formal succession plans are in place for key strategic roles. In addition, the committee attends to the following:
- Creates governance policies and procedures that define the roles and responsibilities of the Board
- Develops processes to enhance corporate governance best practice in the Company
- Initiates and oversees the annual evaluation of the Board, the Chairman, the Company secretary and the Board committees and their chairmen.

In line with the JSE’s Listings Requirements, the committee is chaired by the Chairman of the Board.

The Chief executive and Company secretary are permanent invitees to the committee.

Mr Litha Nyhonyha resigned from the Committee on 31 December 2016. He has not been replaced but the Committee remains properly constituted.

**Special Board sub-committee**

This special ad hoc sub-committee of the Board was constituted to oversee the potential divestment of Anglo American’s shareholding in Kumba. The committee is constituted entirely of independent non-executive directors and the Chief executive officer, the Chief financial officer and the Company secretary are permanent invitees.
All members of Exco have also been identified as prescribed officers of the Company in terms of the Companies Act.

Commitment to continued excellence
Our Executive Committee continually reviews the way we work by streamlining meetings, encouraging courageous and constructive discussions and eliminating duplication. We call it the “Kumba Way of Work”.

OTHER GOVERNANCE CONSIDERATIONS

Ethics and Code of Conduct
We are committed to conducting a business that is consistent with Kumba’s values and principles through guidelines and policies that set out ethical culture.

These policies guide our employees, our contractors, suppliers and all other stakeholders on how we conduct ourselves and the way we do business.

Kumba has upheld its principle of “zero tolerance” on unethical behaviour throughout its activities during the year under review. This has intrinsically been achieved through exercising rigorous ethics management and monitoring via a systematic and structured framework. Kumba has a clear governance structure charged with ethics management to ensure effective and efficient monitoring. The Board, through the Audit and Social and Ethics Committees is the ultimate custodian of ethics management as outlined in the Companies Act and the King Code. Kumba has established a Management Ethics Committee which is responsible for ongoing management of ethics and convenes on a quarterly basis to consider all ethics and integrity-related issues and reports to the Board committees. For efficiency purposes an Ethics Steering Committee was established, which meets on a monthly basis and reports to the Ethics Committee. Kumba has a dedicated Tip-offs Anonymous (whistleblowing) hotline, independently run by Deloitte.

The ethics function within Kumba is led by the Company secretary as the Ethics Officer who also serves as the Chairman of the Management Ethics Committee.

During the year under review, the Ethics Officer among other things has ensured that:
- Communication on unethical behaviour reporting platforms reached all our employees, suppliers, contractors, community and majority of our associates
- All reported incidents are thoroughly investigated either internally or by external forensic investigators and closed off within reasonable time

During the adjudication of cases, there is fairness and transparency
The results of each investigation are evaluated and an appropriate decision taken to ensure that corrective action addresses control failures.

The Ethics function is also responsible for the creation, implementation and awareness of the Company’s Business Integrity Policy and Code of Conduct.

Compliance
During the year under review the compliance manager reported into the Risk Committee on the level of regulatory compliance of Kumba to the applicable mining and related legislation, regulations, standards, best practices and codes that have been identified to be of importance. Kumba’s Regulatory Compliance Department worked together with the Risk Department and Anglo Business Assurance Services to ensure the alignment of the combined assurance providers approaches to monitoring and reporting. The alignment assisted the compliance manager to identify common risks and the introduction of regulatory monitoring themes during the year. The regulatory compliance controls and monitoring, that were introduced during the previous financial year, were continued during the current financial year. The outcome of the risk-based compliance monitoring of controls and mining activities, resulted in the Company adopting appropriate remedial and/or mitigating steps, where necessary, to comply with the spirit and letter of the findings.

The compliance manager reports operationally to the Company secretary and has regular direct contact with the Chief financial officer, Chief executive and senior management. In addition, the Compliance manager attends key management and governance meetings and reports into the Risk Committee.

Annual compliance certificate
The annual compliance certificate confirming the Company’s compliance with the JSE Listings Requirements was completed and submitted to the JSE on 14 February 2017.

Board induction and training
The Company’s induction programme for new directors and training plan for existing Board members aim to holistically address all aspects of being a director, including an understanding of the JSE Listings Requirements, the legal and regulatory framework of the industry, the Kumba operations, and other matters deemed important in ensuring that the directors are able to adequately conduct their fiduciary duties. Each newly appointed director is inducted through a tailored “induction plan”, which plan specifically focuses on their individual needs and areas of interest.
For the year under review, induction programmes were designed for Natascha Viljoen, Themba Mkhwanazi, Nonkululeko Dlamini and Seamus French. The output continues into the current year.

The training programme is also designed to meet the existing and emerging needs of the Board. For the year under review, the Board undertook training on 13 October 2016 on the governance around risk in the Company. Attention was paid to the application of risk appetite and tolerance levels within the organisation. On 19 July 2016, the Audit Committee received training on the annual technical IFRS update, JSE Listings Requirements as well as King IV.

**Company secretary**

Ms Avanthi Parboosing is the appointed Company secretary. Her primary role is to ensure that the Board is cognisant and aware of its fiduciary duties and responsibilities. The Company secretary plays a key role in providing guidance to the Board members on the execution of their duties, keeping the Board aware of relevant changes in legislation and corporate governance best practice. Other key performance areas of the Company secretary include overseeing the induction of new directors, orientation and ongoing education and induction of directors.

As part of her governance duties, she ensured that the Board and Board committee charters and terms of reference were updated. The Company secretary is also secretary to the Board committees and the Board members have unfettered access to the services of the Company secretary. The Company secretary is a prescribed officer.

An annual evaluation of the Company secretary was carried out by the Nominations and Governance Committee, on behalf of the Board. The results of the evaluation confirmed that the Company secretary continues to demonstrate the requisite level of knowledge and experience to carry out her duties. The Board is also comfortable that she maintains an arm’s length relationship with individual directors and confirms that she is not a director of the Company or any of its subsidiaries.

* Ms Parboosing tendered her resignation on 23 February 2017. Ms Parboosing has agreed to remain in her role until 30 June 2017.

**Trading in securities**

Kumba has a defined Trading in Securities Policy, which is in alignment with JSE Listings Requirements, and sets out provisions as to how trading is to be conducted by Kumba’s directors, directors of Kumba’s major subsidiaries, the Company secretary and relevant employees when dealing in the Company’s securities, to prevent the misuse of inside information.

The Kumba policy and JSE Listings Requirements prohibit directors and employees from trading in any securities relating to Kumba without obtaining prior approval from the Chairman or other designated directors.

Furthermore, directors are also required to publicly disclose any dealings in the Company’s securities by themselves or their associates. The JSE Listings Requirements has defined closed periods that prohibits the trading in Kumba securities during the following time periods:

- The time period from 1 January every year to the date on which the annual financial results are published (1 January 2016 to 9 February 2016);
- The time period from 1 July every year to the date on which interim financial results are published (1 July 2016 to 26 July 2016); and
- Any period when Kumba is trading under a cautionary announcement.

The prohibition applies equally to the directors, executive and designated employees’ associates. At the start of a closed period, directors and employees are formally advised of the commencement and duration of the closed period. In addition, ad hoc trading embargoes are imposed on individuals who possess price-sensitive information of a particular nature, at any given time, if it is in the opinion of Kumba that there exists a risk of insider trading.

**Conflict and declaration of interests**

A director or prescribed officer is prohibited from using his or her position, or confidential and price-sensitive information in order to achieve a benefit for himself or herself or any related third party, whether financial or otherwise. Directors and officers are also required to timeously inform the Board of conflicts, or potential conflicts, of interest that they may have in relation to particular items of business or other directorships. Comprehensive registers are maintained of individual directors’ interests in and outside the Company and these are updated and signed by the directors and noted by the Board at each Board meeting.

**Sponsor**

Kumba fully understands the role and responsibilities of the sponsor as stipulated in the JSE Listings Requirements and has cultivated a good working relationship with its sponsor, Rand Merchant Bank (RMB). The Company is satisfied that the sponsor has executed its mandate with due care and diligence for the year under review.
GOVERNANCE IN ACTION: ACCOLADES  KUMBA’S COMMITMENT TO GOOD GOVERNANCE, EXCELLENCE AND CREATIVITY RESULTED IN LOCAL AND GLOBAL RECOGNITION FOR OUR AWARD-WINNING PROJECTS, REPORTS AND PUBLICATIONS.

NO 1 IN THE EY EXCELLENCE IN INTEGRATED REPORTING AWARDS

7th PLACE IN THE NKONKI TOP 100 INTEGRATED REPORTING AWARDS

2nd PLACE IN THE INTEGRATED REPORTING AND ASSURANCE SERVICES (IRAS) SUSTAINABILITY DATA TRANSPARENCY INDEX IN THE METALS AND MINING ACTIVE OPERATION SECTION

A-LIST IN CDP’S GLOBAL 500 CLIMATE DISCLOSURE LEADERSHIP INDEX FOR A CONSECUTIVE YEAR FOR EXCELLENCE IN CARBON AND WATER PERFORMANCE DISCLOSURE.

CARBON DISCLOSURE LEADER FOR 2016 IN THE ENGAGED TRACKING (ET) CARBON RANKINGS. KUMBA WAS THE ONLY COMPANY FROM THE BRICS REGION TO MAKE THE GRADE.

INTERNATIONAL ASSOCIATION OF BUSINESS COMMUNICATION (IABC) SILVER QUILL AWARDS FOR EXCELLENCE IN STRATEGIC COMMUNICATION, PARTICULARLY WORK DEMONSTRATING SUPERIOR THINKING, FLAWLESS EXECUTION AND PROVEN RESULTS

OUR INTERNAL NEWSLETTER, INSITE, WAS JUDGED THE TOP INTERNAL NEWSLETTER IN THE COUNTRY FOR THE SECOND CONSECUTIVE YEAR AND A FINALIST IN THE BEST CORPORATE PUBLICATION OVERALL, WITHIN THE TOP FIVE

Image: After three years of featuring in the Top 10 of the EY Excellence in Integrated Reporting Awards, Kumba has made it to number 1 as the overall winner in 2016. From left: Johan Prins, Frikkie Kotzee, Nadia Schoeman and Avanthi Parboosing.
2016 has been a year of profound change for Kumba. During the year there was significant further restructuring across the Company, particularly at Sishen mine where there was a 32.5% reduction in headcount. In February, Anglo American announced its intention to restructure its portfolio in Kumba, while in September, we welcomed Themba Mkhwanazi as Kumba’s new Chief executive, following the departure of Mr Norman Mbazima who stepped down to focus on his role as Deputy chairman of Anglo American South Africa. I wish to thank Norman for his strong leadership over the last four years, steering the Company with great skill through what has been a particularly challenging time for the Company. I am very pleased to welcome Mr Themba Mkhwanazi, who brings valuable technical and management skills and experience from across the mining sector. I look forward to working with Themba in the years ahead.

Our remuneration activities this year have been affected by the tough operating environment. These conditions have highlighted the importance of driving further efficiencies across the Company, to ensure retention of skills and of having effective human resource and remuneration policies in place.

Our remuneration activities for this year were dominated by Kumba’s response to the volatile market conditions and subsequent restructuring at Sishen mine. These volatile conditions continued to place significant pressure on the Company’s business model and its employees, heightening the importance of having effective human resource and remuneration policies.
Company strategy over the short, medium and long term. Specific details on the executive remuneration of the Chief executive and Chief financial officer in relation to annual performance are provided in the remuneration report (see pages 100 to 102).

The Committee is responsible for reviewing Kumba’s disclosure on remuneration in its annual integrated report, and for ensuring that this disclosure is straightforward, accurate and complete, and aligned with best practice governance requirements. This disclosure should provide sufficient forward-looking information for shareholders to assess the remuneration policy and approve a resolution in terms of section 66(9) of the Companies Act, 2008.

RESPONDING TO STAKEHOLDER FEEDBACK ON OUR REMUNERATION ACTIVITIES
During the year we received some constructive feedback on our 2015 remuneration report. Meetings between shareholders, proxy advisers and the Chairman of the Board, the Company secretary and myself were proactively held prior to the 2016 AGM for the Company to understand gaps and areas of improvement in our remuneration philosophy, implementation and reporting.

CHANGES TO THE BOARD AND REMCO
In addition to the appointment of Mr Themba Mkhwanazi as Chief executive, there were various other changes to the Board this year, which are described in more detail in the Chairman’s review (page 7) and governance section (page 83). Some of these changes impacted the membership of Remco. On 31 December 2016, Mr Litha Nyhonyha resigned as an independent non-executive director after five and a half years of service on the Board, including 18 months on Remco. I wish to thank Litha for his contribution to the work of the Board and the Committee.

Given the nature of its responsibilities, it is important to ensure that Remco members have specific skills and expertise in human resources and remuneration, including the right depth of experience and independence to ensure the functioning of the Committee. The composition and independence of Remco is critical. We are in the process of reviewing the membership of the current committee, and looking to proactively recruit new directors with specific skills in the remuneration field to ensure that we have the right depth of experience and independence to ensure a smooth succession process within Remco over the longer term.

KEY DECISIONS AND ACTIVITIES THIS YEAR
Given the tough operating environment, we had to balance the drive for strict financial prudence with the imperative of retaining the skills and experience needed to implement Kumba’s ambitious turnaround strategy. While we acknowledge the concerns of shareholders and other stakeholders for restraint in executive pay, we believe strongly that our remuneration policy must remain sufficiently competitive to retain and motivate the required talent. A critical objective has been to ensure that we have the appropriate short-term incentives in place to retain the necessary technical skills for Kumba’s turnaround, particularly given the potential for skills loss and migration in this volatile environment.

I would like to highlight the following decisions the Committee took during 2016 (further detail on the Committee’s decisions over the year are provided on page 93):
- As a cost containment initiative, we approved a 2016 salary freeze for all executives, and for all employees on senior management categories.
- On the recommendation of Remco and the Board, shareholders approved a freeze to non-executive director remuneration.
- We reviewed and approved the 2016 share allocation awards under the Deferred Bonus Arrangement (DBA) and long-term incentive plan (LTIP) for the Chief executive and senior management. Due to the low share price at the time of allocation, the number of shares allocated was higher than in the previous years but still in line with policy. The volume of outstanding shares is less than 1% of issued capital; the approved aggregate limit for the DBA and LTIP share schemes is 10% of the issued share capital, but remain appropriate if considered over a three to five-year period.
- We continued to play an important oversight role regarding the human resource issues relating to the Thabazimbi closure and the restructuring processes at our Sishen and Kolomela operations, ensuring that due process is followed, and that employees are supported in managing the challenges associated with the organisational restructuring process.

Unwinding of the Envision II ESOP scheme
Unfortunately the decline in Kumba’s share price, resulting from the volatile commodity price environment, had a substantial negative impact on the second phase of Kumba’s broad-based employee share ownership scheme, Envision. Since 2011, the scheme has ensured that permanent employees below management level have become active stakeholders by having
a direct interest in the Company's profit, collectively holding 3% ownership of SIOC. Over Envision’s second tenure of five years R557 million was distributed to employees as dividend payments (~R75 000 per employee after tax). Sadly, when the second five-year phase of the scheme matured in November 2016, there was no capital pay out to participants as the outstanding loan amount was more than the value of Envision shares at unwinding. In anticipation of this outcome, we implemented a structured communications plan to manage expectations and to address queries regarding the dividend and maturity payments. The scheme has since been concluded and management is currently exploring various options for another employee share scheme or similar programme. In doing so, we will be assessing the implications of the revised Mining Charter requirements, once these have been clarified.

YEAR AHEAD
A key development in 2017 will be the negotiation and finalisation of a new wage agreement with recognised unions. The three-year wage agreement that we successfully concluded in June 2014 with the National Union of Mineworkers (NUM) and Solidarity for bargaining category employees, will lapse in June 2017. Since conclusion of the 2014 agreement we have seen an increase in membership of the Association of Mineworkers and Construction Union (AMCU) at Sishen and Kolomela, and a reduction in Solidarity membership at Kolomela. Membership within bargaining units is still dominated by NUM at 56% of the total bargaining unit population.

Under the guidance and mandate from Remco, management will engage actively with the recognised unions during the second quarter of 2017 to negotiate for a new wage agreement to be implemented from 1 July 2017. While we anticipate some tough discussions, I am confident that together we can conclude the negotiations with the same constructive and positive approach that characterised our previous negotiations, and that has been reflected in the very stable industrial relations climate that Kumba has enjoyed despite the significant restructuring.

APPRECIATION
I would like to thank my colleagues on the Committee for their assistance this year in delivering on our important responsibilities for progressive remuneration policies and practices. I extend my thanks also to Mr Themba Mkhwanazi and his executive team for their dedication and hard work over the year.

In closing I would like to extend my gratitude to Mr Frikkie Kotzee and Ms Avanthi Parboosing for their unwavering support and contribution during their tenure. They will be greatly missed and I wish them well for the future.

Allen Morgan
Chairman: Remco

8 March 2017
KEY REMUNERATION DEVELOPMENTS AND ACTIVITIES OF REMCO
The following are some of the key developments and activities of Remco during 2016:

Changes to the membership of Remco
- Litha Nyhonyha, independent non-executive director and member of the Remco, resigned with effect from 31 December 2016. Litha served on the committee since July 2015.
- Mr Norman Mbazima decided to step down as Chief executive officer of Kumba Iron Ore Limited after four years to focus on his role as Deputy Chairman of Anglo American South Africa, with effect from 31 August 2016.
- Mr Themba Mkhwazi has been appointed as Chief executive officer with effect from 1 September 2016, following Norman Mbazima's decision to step down.
- Mr Billy Mawasha, the Executive head of technical services and projects, was appointed as an acting Executive head of operations with effect from 1 October 2015 until 31 January 2016. Mr Mawasha was subsequently transferred to the position of Executive head of operations and integration with effect from 1 February 2016.
- Mr Glen McGavigan was appointed as Executive head of technical services and projects with effect from 1 August 2016. Mr McGavigan also serves on the Executive Committee of the Company, and has been appointed as a prescribed officer of Kumba.

Subsequent to year end
- Mr Frikkie Kotzee decided to step down as Chief financial officer of Kumba after five years, with effect from 11 May 2017.
- Mr Alex Mgadzah decided to step down as Executive head of safety and sustainable development after six years, with effect from 28 February 2017.
- Ms Avanthi Parboosing decided to step down as Company secretary after three years, with effect from 30 June 2017.

The iron ore market has continued to be volatile and consequently the Company's share price has had a significant negative impact on the Employee Share Ownership Plan (Envision). As a result of the fall in the Kumba share price, the Envision unit value also fell to zero since March 2015. Envision phase II came to an end in November 2016 and has been unwound. At inception of Envision phase II, the Envision Trust took on a loan from SIOC to purchase SIOC shares. The outstanding loan amount was more than the value of Envision shares at unwinding, effectively meaning that the Envision unit value was negative and there was no capital payout to participants. The committee also took the following key decisions during 2016:
- Due to tough operating conditions, the committee approved a 2016 salary freeze for executives and employees on management categories as a cost curtailment initiative.
- Reviewed and approved the 2015 performance assessments and performance incentive payments for the Chief executive and prescribed officers.
- Reviewed and approved the 2016 share allocation awards under the Deferred Bonus Arrangement (DBA) and long-term incentive plan (LTIP) for the Chief executive, and senior management. Due to the low share price at the time of allocation, the number of shares allocated was higher than in the previous years. The volume of outstanding shares is less than 1% of issued capital. The approved aggregate limit for the DBA and LTIP share schemes is 10% of the issued share capital and remains balanced as a result of low past awards.
- Approved the 2016 performance conditions for LTIP.
- Approved 2016 performance contracts of the Chief executive, the Chief financial officer as well as prescribed officers.
- Considered recommendations in relation to non-executive director remuneration for final recommendation by the Board to shareholders; The shareholders, on recommendation from Remco and the Board, approved a freeze to non-executive director remuneration.
- Reviewed and approved the emergency and succession plans for executive directors and other senior executives of the Company.
- Reviewed the remuneration disclosure in the integrated report to ensure that it was accurate and transparent and provided sufficient forward looking information for the shareholders to assess the remuneration policy and for passing a resolution in terms of section 66(9) of the Companies Act, 2008.
- Oversaw and guided the Thabazimbi closure, Sishen mine and Kolomela mine restructuring, specifically in relation to all human resource-related matters.
- Approved restructuring of executive packages to comply with the newly legislated retirement reforms at no extra cost to Company.
- Noted the unwinding of Envision phase II and approved the related communication plan. There was no capital payout to participants as the outstanding loan amount was more than the value of Envision shares at unwinding, effectively meaning that the Envision unit value was negative.

OBJECTIVES OF THE REPORT
This report covers the following aspects of remuneration in Kumba:

Part one
- Roles, responsibilities and constitution of Remco.
- An overview of key elements of remuneration for all employees, with detailed explanations for executive directors, prescribed officers and non-executive directors.
- An overview of reward policy and practices within Kumba.

Part two
- Details of remuneration outcomes and activities in 2016, namely remuneration paid to directors and executive management during 2016, including details of incentives awarded during the year and how they relate to performance.
PART ONE: REMUNERATION PHILOSOPHY AND POLICY

REMCO

Role of Remco and terms of reference
Remco assists the Board with remuneration policies and programmes in line with Company strategy and objectives, with a specific focus on executive and prescribed officer remuneration. Remco’s governance activities include:

- Approving:
  - Annual performance targets for both the Chief executive officer and the executive management team
  - Performance conditions and measures, objectives and targets for all performance-related rewards, fixed, variable and long term
  - Reward policies and programmes
  - Overall cost of remuneration increases awarded to employees, including the costs of short- and long-term incentives.

- Reviewing and making recommendations to the Board on:
  - Evaluation of the performance of executive directors against targets and business objectives
  - Remuneration of executive directors and executive management, including short-term incentive payments and long-term share awards, directly linked to the achievement of Company and individual performance targets.


Membership of Remco
The committee comprises the following independent non-executive directors:

- AJ Morgan (Chairman)
- F Titi
- Z Bassa

Frequency and attendance of committee meetings
In addition to committee members, the Chief executive, Executive head of human resources and the Anglo American plc Group head of reward attend meetings of the committee. Directors are not involved in any decisions regarding their own remuneration and are recused from such discussions and deliberations.

Remco met five times during the year and attendance is presented in the table on page 86. Abridged biographies for the members of Remco are available on pages 16 to 17 of this report as well as on the Company website at: www.angloamericankumba.com/about-us/leadership-teams/our-board.aspx.

REWARD APPROACH

Our remuneration philosophy underpins our strategy
Our reward philosophy forms an integral part of our employment ethos and supports Company strategy. Our reward strategy aims to:

- Motivate and engage employees to increase their level of commitment resulting in high levels of performance of individuals and teams
- Facilitate the attraction and retention of top talent and those employees with critical skills
- Maintain Kumba as an employer of choice
- Target the market median in respect of fixed pay, with variable performance-related pay, both short and long term, included in the total reward offering to ensure market competitiveness
- Ensure the fair, equitable and consistent application of our remuneration principles and policies
- Allow employees to share in the performance of the business.

Remco has the overarching responsibility to ensure that the principles of accountability, transparency, sustainability and good governance are enacted in all remuneration-related matters. This includes the critical link between executive remuneration and performance against strategy, with the ultimate aim of creating shareholder value.

ELEMENTS OF REMUNERATION

The key elements of our remuneration framework and structure which guides payments to all employees are shown on the following page, with a focus on executive directors and prescribed officers.
<table>
<thead>
<tr>
<th>STRATEGIC INTENT</th>
<th>REMUNERATION ELEMENTS</th>
<th>PAY DELIVERY</th>
<th>ELIGIBILITY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base salary</strong></td>
<td>Salary</td>
<td>Monthly</td>
<td>All employees</td>
</tr>
</tbody>
</table>
| ■ Attract people with the necessary competencies (knowledge, skill and attitude) to add value to our business  
■ Retain competent, high-performing employees who are engaged and demonstrate company values  
■ Ensure that pay is competitive and market-related  
■ Comply with legislative provisions and negotiated contractual commitments  
■ Support high-performing individuals and teams by aligning reward with performance  
■ Reinforce and enhance the principle that employees are key assets of our Company | Benefits | ■ Employer contribution to selected retirement funds  
■ Subsidised medical aid  
■ Life and disability insurance  
■ Housing allowances and five-year mortgage subsidy plan  
■ Study assistance for formal education | Other allowances | Job specific: Scarce skills, Transformation |
| **Performance incentives** | Performance bonus | Cash paid on monthly, quarterly or bi-annual basis, depending on circumstances at each site | Bargaining unit employees |
| ■ Aim to align achievement of production, safety and cost targets at operational level  
■ Encourage the achievement of stretch targets at company/business unit/functional/individual level  
■ Align management and shareholder interest  
■ Long-term retention | | The incentive is delivered in two parts:  
(i) Annual cash incentive  
(ii) Deferred cash bonus with a holding period of one year before vesting | Entry-level management (Band 6/12)  
Senior management and above |
| **Long-term incentives** | Long-term incentive plan (LTIP) | Delivered in conditional shares with specific performance conditions attached | Executive directors  
Prescribed officers and selected senior managers, excluding executive directors  
Junior management and below that do not participate in any of the other long-term incentives |
| ■ Retention of skills and direct alignment with shareholder interest  
■ Reward employees for contribution to long-term, sustainable Company performance  
■ Attract and retain key employees  
■ Long-term retention | Forfeitable shares | Delivered in forfeitable shares with a holding period of three years before vesting | |
| | Participation in employee share ownership plan (Envision) | Units awarded in terms of the rules of the ownership plan | |
EXECUTIVE DIRECTORS’ AND PRESCRIBED OFFICERS’ REMUNERATION

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

The remuneration of executive directors and prescribed officers consists of fixed and variable components that are designed to ensure a substantial portion of the remuneration package is linked to the achievement of the Company’s strategic objectives, thereby aligning incentives awarded to the creation of sustainable shareholder value.

Fixed remuneration

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

The Company contributes 12% of pensionable salary to approved retirement funds. Medical aid is subsidised at 60% of the contribution to a maximum amount determined by market comparisons. Risk insurance benefits include life cover and death-in-service benefits, subject to the rules of the approved Kumba retirement funds.

A portion of the approved fixed package and the annual performance incentive elements of the former Chief executive (N Mbazima) and the Chief financial officer is determined and paid in terms of separate employment agreements concluded between Kumba International Trading SARL (KITSA) and the respective executive director for services rendered to KITSA outside South Africa. The remuneration paid by KITSA is calculated according to the time spent by the executive director on services performed offshore. These figures are included in the emoluments table on page 103 of this report.

Variable remuneration

Variable remuneration consists of two elements: an annual performance incentive; and long-term incentive plans that run over a three-year performance period (and an additional two-year holding period in the case of the Chief executive).

ANNUAL PERFORMANCE INCENTIVE

<table>
<thead>
<tr>
<th>Purpose</th>
<th>The incentive is designed to reward and motivate the achievement of agreed Company financial, strategic and operational objectives, linked to key performance areas within cited employees’ respective portfolios. Through the deferred bonus arrangement, long-term sustained performance is encouraged.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligible participants</td>
<td>Executive directors, prescribed officers and management employees.</td>
</tr>
<tr>
<td>Elements</td>
<td>There are two elements to the incentive:</td>
</tr>
<tr>
<td></td>
<td>■ An annual cash incentive, linked to performance during the financial year, payable at the end of March of the year following the end of the financial year; and</td>
</tr>
<tr>
<td></td>
<td>■ A deferred bonus arrangement in which a proportion of the cash incentive is matched and awarded as:</td>
</tr>
<tr>
<td></td>
<td>i. 140% (150% for the Chief executive) of the cash incentive in deferred shares, which is awarded after the end of the relevant financial year. These bonus shares are linked to performance during the financial year in the same manner as the annual cash incentive, and are subject to a three to five-year (only for the Chief executive) holding period before vesting, during which it remains restricted. This is applicable to executive directors, prescribed officers and senior management.</td>
</tr>
<tr>
<td></td>
<td>ii. 70% of the cash incentive in deferred cash, which is awarded after the end of the relevant financial year. The deferred cash is linked to performance during the financial year in the same manner as the annual cash incentive, and is subject to a one-year holding period before vesting, during which it remains restricted. This is applicable to entry level management.</td>
</tr>
<tr>
<td>Performance measures</td>
<td>Managers within Kumba are measured on business-specific strategic value drivers aligned to operational and/or mine-specific strategic priorities as approved by the Board. In 2016 emphasis was placed on the following:</td>
</tr>
<tr>
<td></td>
<td>■ Leading and lagging safety indicators including safety leadership.</td>
</tr>
<tr>
<td></td>
<td>■ Total production and compliance to mine plan.</td>
</tr>
<tr>
<td></td>
<td>■ Cost optimisation (unit cost, Sishen and Kolomela mines)</td>
</tr>
<tr>
<td></td>
<td>■ Financial performance – EBIT, operating free cash flow (Kumba Iron Ore), earnings per share (as per Anglo American plc)</td>
</tr>
</tbody>
</table>
**ANNUAL PERFORMANCE INCENTIVE continued**

| Maximum value of annual performance incentive | The values of the annual performance incentive for executive directors and prescribed officers are: 
Chief executive
The Chief executive’s annual incentive is determined by measuring performance against overall Company targets (75%) and specific, individual key performance measures (25%) approved by the Board. The cash element of the incentive is capped at 70% of basic employment cost (BEC).  
Chief financial officer
The Chief financial officer participates in the Anglo American plc group performance management standard. This is based on a maximum on-target cash bonus percentage of 30%, an individual performance modifier (IPM) and a business multiplier (BM) that is determined at the end of the year, taking into account Kumba business performance against the targets set for the year.  
Prescribed officers
As with the case of the Chief financial officer, prescribed officers participate in the Anglo American plc group performance management standard. This is based on a maximum on-target cash bonus percentage of 25% or 30% of BEC, an IPM and a BM that is determined at the end of the year taking into account Kumba business performance against the targets set for the year.  
Business multiplier (BM) | The BM is determined and approved by the Anglo American plc group management committee (GMC) at the end of the year, taking into account Kumba business performance against the targets set for the year. The business multiplier has ranged between 0.5 and 1.3 over the past years.  
Individual performance modifier (IPM) | An IPM is based on individual performance ratings and is determined at business unit level and approved by the GMC. It ranges from 0 to 2.0.  
Maximum value of deferred bonus shares award | The maximum face value of the deferred bonus shares award is 150% for the Chief executive and 140% of the annual performance incentive for prescribed officers.  
Changes in 2016 | There were no changes in 2016. |

**KEY PERFORMANCE FOCUS AREAS FOR 2017**

<table>
<thead>
<tr>
<th>Key results area</th>
<th>Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safety</td>
<td>Leading and lagging indicators including safety leadership, fatalities, LTIFR, TRCFR and operational risk management.</td>
</tr>
</tbody>
</table>
| Production | ■ Total production  
■ Compliance to mine plan |
| Cost | ■ Unit costs  
■ Additional agreed initiatives |
| Financial | ■ EBIT  
■ Operating free cash flow (Anglo American plc)  
■ Earnings per share (Anglo American plc) |
**LONG-TERM INCENTIVES**

**LONG-TERM INCENTIVE PLAN (LTIP)**

<table>
<thead>
<tr>
<th>Description</th>
<th>The LTIP consists of conditional awards of shares vesting after three years, subject to the achievement of stretching performance conditions. Full voting and dividend rights will only accrue from the vesting date.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligible participants</td>
<td>Executive directors</td>
</tr>
<tr>
<td>Maximum value of the award</td>
<td>The maximum annual face value of the LTIP award is 150% of base salary for the Chief executive and 100% of base salary for the Chief financial officer.</td>
</tr>
</tbody>
</table>

**2016 performance measures**

Two performance conditions, measured over a three-year performance period, apply to each award:

<table>
<thead>
<tr>
<th>Performance indicator</th>
<th>Weighting</th>
<th>Threshold target</th>
<th>Stretch target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attributable return on capital employed (ROCE) achieved</td>
<td>50%</td>
<td>3%</td>
<td>13%</td>
</tr>
<tr>
<td>Total shareholder return (TSR) achieved</td>
<td>50%</td>
<td>Median TSR ranking</td>
<td>Upper quartile TSR ranking</td>
</tr>
</tbody>
</table>

TSR is further split into a 25% weighted JSE/FTSE mining index (this index is compiled by the FTSE but consists of JSE mining companies only) and 25% global iron ore peer group. The global iron ore companies comparator group comprises Fortescue Metals (Australia), Ferrexpo (Great Britain), Atlas Iron (Australia), Mount Gibson (Australia), Vale (Brazil), China Vanadium (China), Rio Tinto Ltd (Australia).

**VESTING SCHEDULE**

Targets are approved by Remco for each allocation and no re-testing of performance conditions is allowed. Shares that do not vest after three years in terms of the performance conditions will lapse.

**Changes in 2016**

The threshold and stretched targets on the ROCE achieved performance indicator, of respectively 3% and 13%, was agreed by Remco in 2016. The targets were previously 12% and 18% for threshold and stretch respectively. The reduction in the threshold and stretch ROCE targets for 2016 was a result of a much lower ROCE realisation potential anticipated over the performance period (2016 to 2018), based on the slump in the iron ore market and prolonged negative outlook during the time of award. The comparator group was changed by removing Cliffs Natural Resources (USA) and MMX Mineracao (Brazil) due to these companies no longer being suitable comparators on the TSR condition for the global iron ore peer group. However, seven global peer companies still remain in the comparator group which is a sufficient number for the calculation of the median and upper quartile of the TSR condition.

**Company limits**

The aggregate limit for the DBA and LTIP is 10% of the issued share capital. Shares are purchased in the market and not issued for purposes of settlement of the DBA or LTIP. The current level of outstanding shares is less than 1% of total issued share capital.
Executive directors’ and prescribed officers’ contracts of employment

Executive directors and prescribed officers are not employed on fixed-term contracts but have standard employment contracts with notice periods of up to 12 months.

There are no change of control provisions or any provisions relating to payment on termination of employment.

External Board and statutory appointments of executive directors and prescribed officers

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

NON-EXECUTIVE DIRECTORS’ FEES

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

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

Annual fees payable to non-executive directors were approved by shareholders at the AGM on 13 May 2016. No increases in fees were awarded for 2016. The fees are as follows:

<table>
<thead>
<tr>
<th>Capacity</th>
<th>2016/2017 fees per annum (Rand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman</td>
<td>Member</td>
</tr>
<tr>
<td>Board of directors</td>
<td>1,242,150</td>
</tr>
<tr>
<td>Audit Committee</td>
<td>297,300</td>
</tr>
<tr>
<td>Risk Committee</td>
<td>297,300</td>
</tr>
<tr>
<td>Social, Ethics and Transformation Committee</td>
<td>297,300</td>
</tr>
<tr>
<td>Human Resources and Remuneration Committee</td>
<td>297,300</td>
</tr>
<tr>
<td>Nominations and Governance Committee</td>
<td>N/A*</td>
</tr>
<tr>
<td>Special Board sub-committee</td>
<td>N/A*</td>
</tr>
</tbody>
</table>

* The Nominations and Governance Committee and special Board sub-committee are chaired by the Chairman of the Board and there are no additional fees paid for this responsibility.

PART TWO: DISCLOSURE ON THE IMPLEMENTATION OF POLICIES FOR THE FINANCIAL YEAR

GUARANTEED PAY ADJUSTMENTS

Average rate of increase for 2016

Due to the tough operating conditions, Remco approved a 2016 salary freeze for directors, executives and employees in senior management categories. The average increase for all other management employees was 5%.

There was no adjustment of offshore fees for 2016.

During 2014, Kumba and the representative trade unions signed a multi-year collective bargaining agreement for the period 1 July 2014 to 30 June 2017. The third and last year of the agreement was implemented on 1 July 2016. A total increase of 8% was granted in line with the agreement. Management will be engaging with the unions in the second quarter of 2017 to negotiate wage adjustments for 2017/2018.

ANNUAL PERFORMANCE INCENTIVE OUTCOMES

- Safety remains the key priority for the group. Regrettably two of our colleagues, Grahame Skansi and Gideon Dihasi, lost their lives in the first half of the year. 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).
- 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).
- 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. Overall labour relations have been stable throughout the year.
The mine delivered a strong improvement in operational performance for the full year, producing 28.4 Mt, exceeding our guidance of 27 Mt. Waste mined of 137.1 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% (excluding the impairment charge).

- **Controllable costs reduced by 34%**, the main drivers were:
  - R1.4 billion reduction in overhead costs, draw down of stock reduced costs by R947 million and R669 million lower freight costs due to lower freight rates, partially offset by
  - Inflationary linked input cost pressure of R955 million and R2.6 billion lower waste stripping deferred to the balance sheet

- **Prudent capital management** resulted in significant reductions in capital expenditure of R2.4 billion, 65% lower compared to the R6.8 billion in 2015. 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 and US$40/tonne.

### Strategic focus areas
- Provide responsible citizenship
- Implement the Operating Model
- Redesign of Sishen and Kolomela pits
- Sustainably operate mines at lower costs
- Compete through premium products

### Key performance indicators
- Safety: FIFR, TRCFR
- Production
- Cost – cash cost for Sishen and Kolomela mine

*Please refer to pages 14 to 15 to see detailed performance indicators.*

The annual cash incentive and award of bonus shares are based on performance against set targets. The 2016 performance outcomes for the Chief executive officers and the Chief finance officer are detailed below:

#### CHIEF EXECUTIVE PERFORMANCE (NB Mbazima) – 1 January 2016 to 31 August 2016

<table>
<thead>
<tr>
<th>Key result area</th>
<th>Below</th>
<th>Threshold</th>
<th>On target</th>
<th>Above</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Company performance (75%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production (15%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBIT (20%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating free cash flow (20%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unit cash costs (10%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AA plc EPS (5%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating free cash flow (5%)</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SSD modifier (10%)</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td><strong>Personal performance (25%)</strong></td>
<td></td>
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<td></td>
</tr>
<tr>
<td><strong>OVERALL PERFORMANCE</strong></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

* SSD – safety and sustainable development.
CHIEF EXECUTIVE PERFORMANCE (NB Mbazima) – 1 January 2016 to 31 August 2016 continued

Resulting BSP award
Cash award of 60.20% of maximum bonus awarded (based on 70% of annual basic employment cost (BEC)); Deferred shares are based on 150% of cash award. Total award split: 40% payable as cash, 40% payable as shares deferred for three years, 20% as shares deferred for five years.

Key performance commentary for the period under review
- Two fatalities during 2016.
- Zero level 4 and 5 environmental incidents.
- Total recordable injury frequency rate (TRCFR) 0.78 against a target of 0.75 (until August 2016).
- Top 10 risks under control and managed through the Operational Risk Management process.
- Total production volumes on target.
- EBIT exceeded stretched target.
- Operating cash flow exceeded stretched target.
- Sishen unit cash cost on threshold target.
- Kolomela unit cash cost exceeded stretched target.
- Optimum pit configuration developed at Sishen and Kolomela.
- Delivered on most of the cash flow improvement initiatives targeted.
- Extensive engagement and involvement with all governmental and regulatory stakeholders ensuring effective and efficient compliance.
- All planned activities completed with regards to the Anglo American portfolio review.
- Talent management completed within the constraints of the restructuring at Sishen mine.
- Anglo American plc EPS and operating free cash flow exceeded stretched targets.

CHIEF EXECUTIVE PERFORMANCE (TM Mkhwanazi) – 1 September 2016 to 31 December 2016

The incoming Chief executive, Mr TM Mkhwanazi, had been in the role for only four months during the year under review (September to December 2016). As such, and upon the recommendation of the committee, a portion of the 2016 performance assessment for Mr Mkhwanazi, specifically in relation to qualitative performance measures, has been deferred until the Remuneration Committee meeting in May 2017 to allow for performance assessment over a longer period of time.

In keeping with the principles of transparent disclosure, the Anglo American Coal SA short and long-term incentives relevant to the Chief executive are disclosed for this reporting period, and the Kumba Iron Ore 2016 awards, which will only be granted after the May 2017 review, will be disclosed during the next reporting period.

CHIEF FINANCIAL OFFICER PERFORMANCE (FT Kotzee)

<table>
<thead>
<tr>
<th>Key result area</th>
<th>Below</th>
<th>Threshold</th>
<th>On target</th>
<th>Above</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial strategy and planning (25%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial reporting (20%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mission critical projects (30%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>People and transformation (10%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Safety, health and environment (5%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investor relations (10%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>OVERALL PERFORMANCE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
CHIEF FINANCIAL OFFICER PERFORMANCE (FT Kotzee) continued

**Key performance commentary for the period under review**

- Two fatalities during 2016.
- Actively performed safety visible felt leadership interventions.
- Top 10 risks under control and managed through the Operational Risk Management process.
- Settlement reached with SARS 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.
- Successfully monitored key interface issues related to offshore (Singapore) activities that have an impact on Kumba, and ensured timeous resolution.
- Effectively supported Kumba strategy review and execution process.
- Delivered successful interim and year end reporting process for the 2015/2016 financial years.
- Effectively managed internal audit reports, ensuring management actions are timeously addressed.
- Actively supported the Anglo American portfolio restructuring and the impact thereof on Kumba.
- Effectively managed the reporting impact of the Sishen mine and Anglo American portfolio restructuring.
- Supported the securing of the 21.4% Sishen Residual Mining Right by driving all legal and relevant financial activities necessary to achieve this objective.
- Successfully supported the commencement of the final closure of Thabazimbi and the transfer to ArcelorMittal SA.
- Supported the Dingleton relocation project.
- Managed the Kumba balance sheet in a manner acceptable to the Kumba Board.
- Supported the successful reorganisation of the core operations.
- Supported the Chief executive in managing the culture and morale issues during the restructuring and ensured minimal disruptions to operations and organisational cohesiveness thereafter.

**LTIP VESTING OUTCOMES AND AWARDS**

Conditional LTIP awards made during 2014 in terms of the LTIP rules were subject to the following performance measures:

- Return on capital employed (ROCE) – 50%
- Total shareholder return (TSR) – 50%

**Attributable ROCE performance and vesting conditions**

<table>
<thead>
<tr>
<th>% of LTIP vesting</th>
<th>Performance level</th>
<th>Attributable ROCE target for 2014 award (vesting 2017)</th>
<th>Attributable ROCE achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>30%</td>
<td>Entry (lower)</td>
<td>58.4%</td>
<td>44%</td>
</tr>
<tr>
<td>60%</td>
<td>Target</td>
<td>61.5%</td>
<td></td>
</tr>
<tr>
<td>100%</td>
<td>Extended (upper)</td>
<td>64.6%</td>
<td></td>
</tr>
</tbody>
</table>

As a result of the actual ROCE performance being below the entry target of 58.4%, 0% of conditional shares subject to ROCE performance condition will vest in 2017.

**TSR performance and vesting conditions**

The percentage of the conditional shares that is subject to the TSR performance condition that will vest is determined by assessing the Company’s relative performance to a peer group in terms of TSR. The threshold target is the median of the comparator peer group with a stretch target of the upper quartile TSR ranking on the comparator peer group.

Kumba's TSR was below the median of the comparator peer group, therefore 0% of shares subject to this performance criterion will vest. All unvested shares will lapse.
### 2016 EMOLUMENTS

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

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2016</td>
</tr>
<tr>
<td><strong>Executive directors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NB Mbazima&lt;sup&gt;1&lt;/sup&gt;</td>
<td>7,067</td>
<td>662</td>
<td>3,639</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>11,368</td>
</tr>
<tr>
<td>TM Mkhwanazi&lt;sup&gt;2&lt;/sup&gt;</td>
<td>2,108</td>
<td>85</td>
<td>1,102</td>
<td>1,543</td>
<td>401</td>
<td>5,329</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>FT Kotzee&lt;sup&gt;3&lt;/sup&gt;</td>
<td>4,202</td>
<td>286</td>
<td>5,038</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td>13,377</td>
<td>1,033</td>
<td>9,779</td>
<td>1,543</td>
<td>491</td>
<td>26,223</td>
<td>29,402</td>
<td></td>
</tr>
<tr>
<td><strong>Non-executive directors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F Titi</td>
<td>1,242</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>1,242</td>
<td>1,227</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ZBM Bassa</td>
<td>209</td>
<td>661</td>
<td>–</td>
<td>870</td>
<td>757</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N Dlamini&lt;sup&gt;4&lt;/sup&gt;</td>
<td>52</td>
<td>–</td>
<td>–</td>
<td>52</td>
<td>–</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GS Gouws&lt;sup&gt;4&lt;/sup&gt;</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>116</td>
<td></td>
<td></td>
</tr>
<tr>
<td>KT Kweyama&lt;sup&gt;5&lt;/sup&gt;</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>50</td>
<td>–</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DD Mokgatle</td>
<td>209</td>
<td>798</td>
<td>1,007</td>
<td>893</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AJ Morgan</td>
<td>209</td>
<td>947</td>
<td>1,156</td>
<td>757</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>LM Nyhonyha</td>
<td>209</td>
<td>661</td>
<td>870</td>
<td>757</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AM O’Neill&lt;sup&gt;5&lt;/sup&gt;</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>207</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BP Sonjica</td>
<td>209</td>
<td>278</td>
<td>487</td>
<td>482</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>AH Sangqu</td>
<td>209</td>
<td>278</td>
<td>487</td>
<td>244</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N Viljoen&lt;sup&gt;6&lt;/sup&gt;</td>
<td>209</td>
<td>–</td>
<td>209</td>
<td>–</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td>2,757</td>
<td>3,623</td>
<td>6,380</td>
<td>5,763</td>
<td></td>
<td></td>
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<tr>
<td><strong>Prescribed officers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AC Loots&lt;sup&gt;9&lt;/sup&gt;</td>
<td>4,114</td>
<td>453</td>
<td>1,768</td>
<td>2,476</td>
<td>7,104</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B Mawasha&lt;sup&gt;10&lt;/sup&gt;</td>
<td>2,153</td>
<td>255</td>
<td>562</td>
<td>786</td>
<td>8,811</td>
<td>7,624</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GM Mc Gavigan&lt;sup&gt;11&lt;/sup&gt;</td>
<td>2,096</td>
<td>265</td>
<td>810</td>
<td>1,134</td>
<td>3,756</td>
<td>901</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y Mfolo</td>
<td>1,936</td>
<td>258</td>
<td>1,032</td>
<td>–</td>
<td>3,226</td>
<td>3,021</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LLA Mgadzah&lt;sup&gt;12&lt;/sup&gt;</td>
<td>1,897</td>
<td>219</td>
<td>1,895</td>
<td>–</td>
<td>4,011</td>
<td>3,463</td>
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</tr>
<tr>
<td>A Parboosing&lt;sup&gt;13&lt;/sup&gt;</td>
<td>5,940</td>
<td>2,630</td>
<td>3,682</td>
<td>2,398</td>
<td>17,300</td>
<td>13,690</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SV Tyobeka</td>
<td>2,253</td>
<td>270</td>
<td>938</td>
<td>1,313</td>
<td>4,774</td>
<td>4,362</td>
<td></td>
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</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td>20,389</td>
<td>4,370</td>
<td>9,635</td>
<td>9,391</td>
<td>2,398</td>
<td>46,183</td>
<td>37,328</td>
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<tr>
<td><strong>Total</strong></td>
<td>33,766</td>
<td>5,403</td>
<td>19,414</td>
<td>10,934</td>
<td>2,757</td>
<td>3,623</td>
<td>2,889</td>
<td>78,786</td>
</tr>
</tbody>
</table>

1. Resigned 31 August 2016. Emoluments include a base salary of R612,120 (EUR42,230) and retirement benefits of R153,030 (EUR10,558) (25% of base salary) paid by KITSA in respect of services rendered offshore during 2016.
2. Emoluments are from 1 September 2016. Cash bonus and LTIP value earned relate to an award made while the Chief executive was at Anglo Thermal Coal.
3. Emoluments include base salary of R1,119,731 (EUR77,250) paid by KITSA in respect of services rendered offshore during 2016. Cash bonus includes cash payment in lieu of 2016 BSP share award.
4. Resigned 5 February 2016. Cash bonus includes cash payment in lieu of 2016 BSP share award.
5. Resigned 30 September 2015. Cash bonus includes cash payment in lieu of 2016 BSP share award.
6. Cash bonus includes cash payment in lieu of 2016 BSP share award.
7. Resigned 5 February 2016. Cash bonus includes cash payment in lieu of 2016 BSP share award.
10. Emoluments include acting allowance in base salary for additional responsibilities as Acting head of operations for January 2016.
11. Emoluments include acting allowance in base salary for additional responsibilities as Acting head of technical services and projects until July 2016.
12. Cash bonus includes cash payment in lieu of 2016 BSP share award.
13. Cash bonus includes cash payment in lieu of 2016 BSP share award.
14. TS Smit is employed by Kumba Singapore Pte and emoluments are paid in Singapore Dollar. Included in benefits are cost of living allowances. The LTIP value and BSP shares awarded is settled in Anglo American plc shares.
### INTERESTS OF EXECUTIVE DIRECTORS AND THE PRESCRIBED OFFICERS

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

<table>
<thead>
<tr>
<th>Capacity and name</th>
<th>Granted awards</th>
<th>Vested awards</th>
<th>Outstanding awards</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of awards at 1 January 2016</td>
<td>Granted during 2016</td>
<td>Date of grant</td>
</tr>
<tr>
<td><strong>Executive directors</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonus Share Plan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NB Mbazima</td>
<td>42,477</td>
<td>143,520</td>
<td>01-Apr-16</td>
</tr>
<tr>
<td>FT Kotzee</td>
<td>16,674</td>
<td>48,555</td>
<td>01-Apr-16</td>
</tr>
<tr>
<td>LTIP</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NB Mbazima</td>
<td>105,805</td>
<td>313,980</td>
<td>01-Apr-16</td>
</tr>
<tr>
<td>TM Mkhwanazi</td>
<td>–</td>
<td>23,774</td>
<td>15-Sep-16</td>
</tr>
<tr>
<td>FT Kotzee</td>
<td>32,662</td>
<td>94,918</td>
<td>01-Apr-16</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td>197,618</td>
<td>624,747</td>
<td>51,598</td>
</tr>
<tr>
<td><strong>Prescribed officers</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonus Share Plan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VF Malie</td>
<td>5,526</td>
<td>89,057</td>
<td>01-Apr-16</td>
</tr>
<tr>
<td>B Mawasha</td>
<td>30,663</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>GM Mc Gavigan</td>
<td>12,673</td>
<td>37,376</td>
<td>01-Apr-16</td>
</tr>
<tr>
<td>Y Mfio</td>
<td>16,090</td>
<td>41,759</td>
<td>01-Apr-16</td>
</tr>
<tr>
<td>LLA Mgadzah</td>
<td>14,516</td>
<td>29,279</td>
<td>01-Apr-16</td>
</tr>
<tr>
<td>A Parboosing</td>
<td>5,293</td>
<td>18,688</td>
<td>01-Apr-16</td>
</tr>
<tr>
<td>SV Tyobeka</td>
<td>18,993</td>
<td>46,487</td>
<td>01-Apr-16</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td>103,753</td>
<td>262,646</td>
<td>21,304</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>301,371</td>
<td>887,393</td>
<td>72,902</td>
</tr>
</tbody>
</table>

1. Number of shares reflect full number due for vesting subject to performance conditions being met. As 50% of the performance conditions were met, only 9,937 shares realised.
2. Share award allocated to supplement total emoluments when transferred from Anglo Coal.
3. Number of shares reflect full number due for vesting subject to performance conditions being met. As 50% of the performance conditions were met, only 3,001 shares realised.
4. Forfeited awards: A total of 9,937 shares with a notional value of R794,920 were forfeited on 1 March 2016.
5. Forfeited awards: A total of 3,001 shares with a notional value of R240,080 were forfeited on 1 March 2016.
**DISTRIBUTION STATEMENT FOR 2016**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>4,593</td>
<td>4,666</td>
</tr>
<tr>
<td>Providers of finance</td>
<td>496</td>
<td>876</td>
</tr>
<tr>
<td>Government</td>
<td>4,377</td>
<td>949</td>
</tr>
<tr>
<td>Community spend</td>
<td>67</td>
<td>175</td>
</tr>
<tr>
<td>Shareholders</td>
<td>–</td>
<td>3,301</td>
</tr>
<tr>
<td>Value reinvested</td>
<td>2,608</td>
<td>1,005</td>
</tr>
<tr>
<td>Value retained</td>
<td>12,069</td>
<td>3,717</td>
</tr>
</tbody>
</table>

**DIRECTORS’ BENEFICIAL INTEREST IN KUMBA**

The aggregate beneficial interest in Kumba at 31 December 2016 of the directors of the Company and their immediate families (none of which has a holding greater than 1%) in the issued shares of the Company are detailed below. There have been no material changes to the shareholding since 2016 and the date of approval of the annual financial statements.

<table>
<thead>
<tr>
<th>Capacity and name</th>
<th>2016</th>
<th></th>
<th>2015</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Long-term</td>
<td>Total</td>
<td>Long-term</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>Number of</td>
<td>incentive</td>
<td>Number of</td>
<td>incentive</td>
</tr>
<tr>
<td></td>
<td>shares</td>
<td>scheme</td>
<td>shares</td>
<td>shares</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Executive directors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NB Mbazima¹</td>
<td>–</td>
<td>578,421</td>
<td>578,421</td>
<td>–</td>
</tr>
<tr>
<td>TM Mkhwanazi¹</td>
<td>–</td>
<td>23,774</td>
<td>23,774</td>
<td>–</td>
</tr>
<tr>
<td>F Kotzee¹</td>
<td>–</td>
<td>184,248</td>
<td>184,248</td>
<td>–</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td></td>
<td>786,443</td>
<td>786,443</td>
<td>–</td>
</tr>
<tr>
<td><strong>Non-executive directors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DD Mokgatle²</td>
<td>428</td>
<td>–</td>
<td>428</td>
<td>428</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td>428</td>
<td>–</td>
<td>428</td>
<td>428</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>428</td>
<td>786,443</td>
<td>786,871</td>
<td>428</td>
</tr>
</tbody>
</table>

¹ Granted under the Bonus Share Plan as well as the Long-term Incentive Plan and disclosed in the tables above.

² Total indirect interest held by spouse.
## SALIENT FEATURES

**SALIENT FEATURES FOR THE YEAR ENDED 31 DECEMBER 2016**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Group safety</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fatalities</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Total recordable case frequency rate (TRCFR)</td>
<td>0.78</td>
<td>0.90</td>
<td>0.87</td>
<td>0.82</td>
<td>0.70</td>
</tr>
<tr>
<td>Fatal-injury frequency rate (FIFR)</td>
<td>0.016</td>
<td>0</td>
<td>0.005</td>
<td>0</td>
<td>0.01</td>
</tr>
<tr>
<td>Lost-time injury frequency rate (LTFIR)</td>
<td>0.28</td>
<td>0.23</td>
<td>0.23</td>
<td>0.18</td>
<td>0.10</td>
</tr>
<tr>
<td><strong>Production (Mt)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sishen mine</td>
<td>28.4</td>
<td>31.4</td>
<td>35.5</td>
<td>30.9</td>
<td>33.7</td>
</tr>
<tr>
<td>Kolomela mine</td>
<td>12.7</td>
<td>12.1</td>
<td>11.6</td>
<td>10.8</td>
<td>8.5</td>
</tr>
<tr>
<td>Thabazimbi mine</td>
<td>0.4</td>
<td>1.4</td>
<td>1.1</td>
<td>0.6</td>
<td>0.8</td>
</tr>
<tr>
<td>(Thabazimbi production ceased in March 2016)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sishen mine free-on-rail (FOR) unit cost</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unit cost (R/tonne)/(US$/tonne)</td>
<td>412.0/28.1</td>
<td>403.5/31.6</td>
<td>331.6/30.6</td>
<td>325.3/33.8</td>
<td>257.4/31.4</td>
</tr>
<tr>
<td>Cash cost (R/tonne)/(US$/tonne)</td>
<td>296.2/20.2</td>
<td>310.8/24.4</td>
<td>271.8/25.1</td>
<td>266.9/27.8</td>
<td>197.8/24.2</td>
</tr>
<tr>
<td><strong>Kolomela mine FOR unit cost</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unit cost (R/tonne)/(US$/tonne)</td>
<td>283.4/19.3</td>
<td>245.7/19.3</td>
<td>269.1/24.8</td>
<td>240.9/25.1</td>
<td>255.7/31.2</td>
</tr>
<tr>
<td>Cash cost (R/tonne)/(US$/tonne)</td>
<td>201.1/13.7</td>
<td>177.7/13.9</td>
<td>207.6/19.2</td>
<td>181.8/18.9</td>
<td>180.2/22.0</td>
</tr>
<tr>
<td><strong>Stripping ratio</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sishen mine</td>
<td>3.3</td>
<td>5.7</td>
<td>4.4</td>
<td>4.1</td>
<td>3.5</td>
</tr>
<tr>
<td>Kolomela mine</td>
<td>3.7</td>
<td>3.1</td>
<td>3.7</td>
<td>3.5</td>
<td>3.3</td>
</tr>
<tr>
<td>Thabazimbi mine</td>
<td>–</td>
<td>–</td>
<td>25.5</td>
<td>29.4</td>
<td>28.9</td>
</tr>
<tr>
<td><strong>Logistics (Mt)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Total volumes railed to port of Saldanha Bay (including Saldanha Steel)</td>
<td>39.8</td>
<td>42.4</td>
<td>42.2</td>
<td>39.7</td>
<td>40.0</td>
</tr>
<tr>
<td>Total volumes loaded at port</td>
<td>38.7</td>
<td>43.5</td>
<td>40.1</td>
<td>39.3</td>
<td>38.5</td>
</tr>
<tr>
<td><strong>Sales volumes (Mt)</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export sales</td>
<td>39.1</td>
<td>43.5</td>
<td>40.5</td>
<td>39.1</td>
<td>39.7</td>
</tr>
<tr>
<td>Domestic sales</td>
<td>3.4</td>
<td>4.3</td>
<td>4.8</td>
<td>4.6</td>
<td>4.7</td>
</tr>
<tr>
<td><strong>Reserve life (years) (including inferred resources) (Mt)</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sishen mine</td>
<td>17</td>
<td>15</td>
<td>16</td>
<td>19</td>
<td>18</td>
</tr>
<tr>
<td>Kolomela mine</td>
<td>18</td>
<td>21</td>
<td>21</td>
<td>25</td>
<td>29</td>
</tr>
<tr>
<td>Thabazimbi mine</td>
<td>–</td>
<td>–</td>
<td>9</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td><strong>CED expenditure (Rm)</strong></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sishen mine</td>
<td>11.4</td>
<td>70.9</td>
<td>81.3</td>
<td>105.3</td>
<td>72.3</td>
</tr>
<tr>
<td>Kolomela mine</td>
<td>16.1</td>
<td>31.4</td>
<td>48.1</td>
<td>51.7</td>
<td>77.9</td>
</tr>
<tr>
<td>Thabazimbi mine</td>
<td>6.7</td>
<td>10.1</td>
<td>9.5</td>
<td>8.9</td>
<td>14.9</td>
</tr>
<tr>
<td><strong>Transformation</strong></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>HDSAs in management (%)</td>
<td>62</td>
<td>59</td>
<td>58</td>
<td>55</td>
<td>52</td>
</tr>
<tr>
<td>Women in core mining (%)</td>
<td>16</td>
<td>14</td>
<td>13</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td><strong>Environmental performance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of level 3, 4 or 5 environmental incidents</td>
<td>–</td>
<td>1 (Level 3)</td>
<td>1 (Level 3)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Water used for primary activities (million m³)</td>
<td>8.0</td>
<td>10.1</td>
<td>8.7</td>
<td>8.6</td>
<td>8.8</td>
</tr>
<tr>
<td>Total energy consumed (million GJ)</td>
<td>8.45</td>
<td>11.1</td>
<td>10.8</td>
<td>9.3</td>
<td>7.6</td>
</tr>
</tbody>
</table>

**EMPLOYEES** (excluding head office, logistics and learnerships)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sishen mine</td>
<td>4,040</td>
<td>5,757</td>
<td>5,736</td>
<td>5,104</td>
<td>5,303</td>
</tr>
<tr>
<td>Kolomela mine</td>
<td>1,178</td>
<td>1,205</td>
<td>1,065</td>
<td>1,030</td>
<td>1,030</td>
</tr>
<tr>
<td>Thabazimbi mine</td>
<td>63</td>
<td>408</td>
<td>829</td>
<td>791</td>
<td>852</td>
</tr>
</tbody>
</table>
## GLOSSARY OF TERMS AND ACRONYMS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFS</td>
<td>Annual financial statements</td>
</tr>
<tr>
<td>AGM</td>
<td>Annual general meeting</td>
</tr>
<tr>
<td>AMCU</td>
<td>Association of Mineworkers and Construction Union</td>
</tr>
<tr>
<td>AMC</td>
<td>AMC Consultants</td>
</tr>
<tr>
<td>APC</td>
<td>Advanced process control</td>
</tr>
<tr>
<td><strong>Attributable free cash flow</strong></td>
<td>The cash flow generated from operations less total capital expenditure, cash tax paid, net interest, dividends paid to minority interests and dividends received from associates and joint ventures. The metric also excludes the receipt of disposal proceeds and the payment of Kumba dividend</td>
</tr>
<tr>
<td>BEC</td>
<td>Basic employment cost</td>
</tr>
<tr>
<td>BEE</td>
<td>Black economic empowerment</td>
</tr>
<tr>
<td>B-BBEE</td>
<td>Broad-based black economic empowerment</td>
</tr>
<tr>
<td>BM</td>
<td>Business modifier</td>
</tr>
<tr>
<td>BU</td>
<td>Business unit</td>
</tr>
<tr>
<td>CCMA</td>
<td>Commission for Conciliation, Mediation and Arbitration</td>
</tr>
<tr>
<td><strong>CED spend</strong></td>
<td>The sum of donations for charitable purposes and community investment (which include cash and in-kind donations and staff time) as well as investment in commercial initiatives with public benefit (such as enterprise development)</td>
</tr>
<tr>
<td>CFR</td>
<td>Cost and freight</td>
</tr>
<tr>
<td>DAF</td>
<td>Delegation of Authority Framework</td>
</tr>
<tr>
<td>DBA</td>
<td>Deferred bonus arrangement</td>
</tr>
<tr>
<td>DM</td>
<td>District municipalities</td>
</tr>
<tr>
<td>DMR</td>
<td>Department of Mineral Resources</td>
</tr>
<tr>
<td>DMS</td>
<td>Dense media separation</td>
</tr>
<tr>
<td>DSO</td>
<td>Direct shipping ore</td>
</tr>
<tr>
<td>EBIT</td>
<td>Earnings before interest and tax</td>
</tr>
<tr>
<td>EPP</td>
<td>Export Parity Price</td>
</tr>
<tr>
<td>EPS</td>
<td>Earnings per share</td>
</tr>
<tr>
<td>Exco</td>
<td>Executive Committee</td>
</tr>
<tr>
<td><strong>Fatal injury frequency rate (FIFR)</strong></td>
<td>FIFR is the number of employee or contractor fatal injuries due to all causes per 200,000 hours worked</td>
</tr>
<tr>
<td>FOB</td>
<td>Free-on-board</td>
</tr>
<tr>
<td>FOR</td>
<td>Free-on-rail</td>
</tr>
<tr>
<td>GAI</td>
<td>Governance assessment instrument</td>
</tr>
<tr>
<td>GMC</td>
<td>Anglo American plc Group Management Committee</td>
</tr>
<tr>
<td>HDSA</td>
<td>Historically disadvantaged South Africans</td>
</tr>
<tr>
<td>HIV</td>
<td>Human immunodeficiency virus</td>
</tr>
<tr>
<td>IDC</td>
<td>Industrial Development Corporation</td>
</tr>
<tr>
<td>IABC</td>
<td>International Association of Business Communication</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards</td>
</tr>
<tr>
<td>IoDSA</td>
<td>Institute of Directors Southern Africa</td>
</tr>
<tr>
<td>IOEC</td>
<td>Iron ore export channel</td>
</tr>
<tr>
<td>IPM</td>
<td>Individual performance modifier</td>
</tr>
<tr>
<td>IR</td>
<td>Integrated report</td>
</tr>
<tr>
<td>JSE</td>
<td>Johannesburg Stock Exchange</td>
</tr>
</tbody>
</table>
## Glossary of Terms and Acronyms Continued

| **Level 3 – 5 environmental incidents** | Those environmental incidents that we consider to have prolonged impacts on the local environments |
| **LM** | Local municipalities |
| **LTIFR** | Lost time injury frequency rate – the number of lost-time incidents per 100 employees (LTI *200,000/total hours) |
| **LTIP** | Long-term incentive plan |
| **MENA** | Middle East and North Africa region |
| **MIGDETT** | Mining Industry Growth and Employment Task Team |
| **MPRDA** | Mineral and Petroleum Resources Development Act |
| **New cases of occupational diseases (NCOD)** | Number of new cases of occupational disease diagnosed among employees during the reporting period |
| **NGO** | Non-governmental organisation |
| **NIHL** | Noise-induced hearing loss |
| **NUM** | National Union of Mineworkers |
| **ORMR** | Ore Reserves and Mineral Resources Report |
| **PIC** | Public Investment Corporation |
| **Platts IODEX** | Platts iron ore index |
| **Remco** | Human Resources and Remuneration Committee |
| **Return on capital employed** (ROCE) | The return on adjusted capital employed and calculated as annualised EBIT divided by adjusted average capital employed |
| **RMB** | Rand Merchant Bank |
| **SARS** | South African Revenue Service |
| **SEAT** | Socio-Economic Assessment Toolbox |
| **Setco** | Social, Ethics and Transformation Committee |
| **SIOC** | Sishen Iron Ore Propriety Limited |
| **SIOC CDT** | SIOC Community Development Trust |
| **SME** | Small and medium enterprise |
| **SR** | Sustainability report |
| **SRK** | SRK Consulting |
| **Social way implementation** | Our social way implementation defines Anglo American’s governing framework for social performance. Each operation’s compliance is assessed annually. Every operation is required to implement an improvement plan for those relevant requirements that are not met in full |
| **SSD** | Safety and sustainable development |
| **TB** | Tuberculosis |
| **TECT** | TECT Geological Consulting |
| **Total recordable case frequency rate (TRCFR)** | TRCFR is the number of fatal injuries, lost time injuries and medical treatment cases for both employees and contractors per 200,000 hours worked |
| **Total new water consumed** | Total new water entering the operation which is used for the operation’s primary activities, measured in million m³ |
| **TSR** | Total shareholder return |
| **UASA** | United Association of South Africa |
| **UGM** | Ulysses Gogi Modise (wellness clinics) |
| **UHDMs** | Ultra-high density media separation |
| **Voluntary labour turnover** | Number of permanent employee resignations as a percentage of total permanent employees |
| **VFL** | Visible felt leadership |
APPENDICES: ADMINISTRATION

ADMINISTRATION

COMPANY REGISTRATION NUMBER
2005/015852/06
JSE share code: KIO
ISIN code: ZAE000085346

COMPANY SECRETARY AND REGISTERED OFFICE
Avanthi Parboosing
Centurion Gate – Building 2B
124 Akkerboom Road
Centurion, Pretoria, 0157
South Africa
Tel: +27 (0) 12 683 7000
Fax: +27 (0) 12 683 7009
avanthi.parboosing@angloamerican.com

AUDITORS
Deloitte & Touche
Chartered Accountants (SA)
Registered Auditors
Deloitte Place, The Woodlands Office Park
20 Woodlands Drive, Woodmead, 2146
South Africa
Private Bag X46, Gallo Manor, 2052

ASSURANCE PROVIDERS
KPMG Services Proprietary Limited
Registered Auditors
85 Empire Road, Parktown, 2193
South Africa
Private Bag 9, Parkview, 2122
Tel: +27 (0) 11 647 7111
Fax: +27 (0) 11 647 8000

SPONSOR
RAND MERCHANT BANK
(A division of FirstRand Bank Limited)
Registration number: 1929/001225/06
1 Merchant Place, corner Rivonia Road and Fredman Drive
Sandton, 2146, South Africa
PO Box 786273, Sandton, 2146

CORPORATE LAW ADVISERS
Norton Rose
15 Alice Lane, Sandton, 2196, South Africa

UNITED STATES ADR DEPOSITORY
BNY Mellon
Depositary Receipts Division
101 Barclay Street, 22nd Floor
New York, New York, 10286
Tel: +1 (0) 212 815 2732
Fax: +1 (0) 212 571 3050/1/2
www.adrbny.com

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

INVESTOR RELATIONS
Nerina Bodasing
Investor relations manager
Tel: +27 (0) 12 683 7000
nerina.bodasing@angloamerican.com

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Kumba Iron Ore
Centurion Gate – Building 2B
124 Akkerboom Road
Centurion
0157

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