

## ALTERNATIVE PERFORMANCE MEASURES

### Introduction

When assessing and discussing the Group's reported financial performance, financial position and cash flows, management makes reference to Alternative Performance Measures (APMs) of historical or future financial performance, financial position or cash flows that are not defined or specified under International Financial Reporting Standards (IFRS).

The APMs used by the Group fall into two categories:

- **Financial APMs:** These financial measures are usually derived from the financial statements, prepared in accordance with IFRS. Certain financial measures cannot be directly derived from the financial statements as they contain additional information, such as financial information from earlier periods or profit estimates or projections. The accounting policies applied when calculating APMs are, where relevant and unless otherwise stated, the same as those disclosed in the Group's Consolidated financial statements for the year ended 31 December 2016.
- **Non-financial APMs:** These measures incorporate certain non-financial information which management believes is useful when assessing the performance of the Group.

APMs are not uniformly defined by all companies, including those in the Group's industry. Accordingly, the APMs used by the Group may not be comparable with similarly titled measures and disclosures made by other companies.

APMs should be considered in addition to, and not as a substitute for or as superior to, measures of financial performance, financial position or cash flows reported in accordance with IFRS.

### Purpose

The Group uses APMs to improve the comparability of information between reporting periods and business units, either by adjusting for uncontrollable or one-off factors which impact upon IFRS measures or, by aggregating measures, to aid the user of the Annual Report in understanding the activity taking place across the Group's portfolio.

Their use is driven by characteristics particularly visible in the mining sector:

1. **Earnings volatility:** The Group mines and markets commodities and precious metals and minerals. The sector is characterised by significant volatility in earnings driven by movements in macroeconomic factors, primarily price and foreign exchange. This volatility is outside the control of management and can mask underlying changes in performance. As such, when comparing year-on-year performance, management excludes certain non-recurring items (such as those classed as 'special items') to aid comparability and then quantifies and isolates uncontrollable factors in order to improve understanding of the controllable portion of variances.
2. **Nature of investment:** Investments in the sector typically occur over several years and are large, requiring significant funding before generating cash. These investments are often made with partners and the nature of the Group's ownership interest affects how the financial results of these operations are reflected in the Group's results e.g. whether full consolidation (subsidiaries), consolidation of the Group's attributable assets and liabilities (joint operations) or equity accounted (associates and joint ventures). Attributable metrics are therefore presented to help demonstrate the financial performance and returns available to the Group, for investment and financing activities, excluding the effect of different accounting treatments for different ownership interests.
3. **Portfolio complexity:** The Group operates in a number of different, but complementary commodities, precious metals and minerals. The cost, value of and return from each saleable unit (e.g. tonne, pound, carat, ounce) can differ materially between each business. This makes understanding both the overall portfolio performance, and the relative performance of its constituent parts on a like-for-like basis, more challenging. The Group therefore uses composite APMs to provide a consistent metric to assess performance at the portfolio level.

Consequently, APMs are used by the Board and management for planning and reporting. A subset is also used by management in setting director and management remuneration. The measures are also used in discussions with the investment analyst community and credit rating agencies.

### Financial APMs

Group APM	Closest equivalent IFRS measure	Adjustments to reconcile to primary statements	Rationale for adjustments
<b>Income statement</b>			
Group revenue	Revenue	<ul style="list-style-type: none"> <li>• Revenue from associates and joint ventures</li> </ul>	<ul style="list-style-type: none"> <li>• Exclude the effect of different basis of consolidation to aid comparability</li> </ul>
Underlying EBIT	Profit/(loss) before net finance (costs)/ income and tax	<ul style="list-style-type: none"> <li>• Operating and non-operating special items and remeasurements</li> <li>• Underlying EBIT from associates and joint ventures</li> </ul>	<ul style="list-style-type: none"> <li>• Exclude the impact of non-recurring items or certain accounting adjustments that can mask underlying changes in performance</li> <li>• Exclude the effect of different basis of consolidation to aid comparability</li> </ul>
Underlying EBITDA	Profit/(loss) before net finance (costs)/ income and tax	<ul style="list-style-type: none"> <li>• Operating and non-operating special items and remeasurements</li> <li>• Depreciation and amortisation</li> <li>• Underlying EBITDA from associates and joint ventures</li> </ul>	<ul style="list-style-type: none"> <li>• Exclude the impact of non-recurring items or certain accounting adjustments that can mask underlying changes in performance</li> <li>• Exclude the effect of different basis of consolidation to aid comparability</li> </ul>
Underlying earnings	Profit/(loss) for the financial year attributable to equity shareholders of the Company	<ul style="list-style-type: none"> <li>• Special items and remeasurements</li> </ul>	<ul style="list-style-type: none"> <li>• Exclude the impact of non-recurring items or certain accounting adjustments that can mask underlying changes in performance</li> </ul>
Underlying effective tax rate	Income tax expense	<ul style="list-style-type: none"> <li>• Tax related to special items and remeasurements</li> <li>• The Group's share of associates' and joint ventures' profit before tax, before special items and remeasurements, and tax expense, before special items and remeasurements</li> </ul>	<ul style="list-style-type: none"> <li>• Exclude the impact of non-recurring items or certain accounting adjustments that can mask underlying changes in performance</li> <li>• Exclude the effect of different basis of consolidation to aid comparability</li> </ul>
Underlying earnings per share	Earnings per share	<ul style="list-style-type: none"> <li>• Special items and remeasurements</li> </ul>	<ul style="list-style-type: none"> <li>• Exclude the impact of non-recurring items or certain accounting adjustments that can mask underlying changes in performance</li> </ul>
<b>Balance sheet</b>			
Net debt	Borrowings less cash and related hedges	<ul style="list-style-type: none"> <li>• Debit valuation adjustment</li> </ul>	<ul style="list-style-type: none"> <li>• Exclude the impact of accounting adjustments from the net debt obligation of the Group</li> </ul>
Attributable ROCE	No direct equivalent	<ul style="list-style-type: none"> <li>• Not applicable</li> </ul>	<ul style="list-style-type: none"> <li>• Not applicable</li> </ul>
Driving Value ROCE	No direct equivalent	<ul style="list-style-type: none"> <li>• Not applicable</li> </ul>	<ul style="list-style-type: none"> <li>• Not applicable</li> </ul>

Group APM	Closest equivalent IFRS measure	Adjustments to reconcile to primary statements	Rationale for adjustments
<b>Cash flow</b>			
Capital expenditure (capex)	Expenditure on property, plant and equipment	<ul style="list-style-type: none"> <li>• Cash flows from derivatives related to capital expenditure</li> <li>• Proceeds from disposal of property, plant and equipment</li> <li>• Direct funding for capital expenditure from non-controlling interests</li> </ul>	<ul style="list-style-type: none"> <li>• To reflect the net attributable cost of capital expenditure taking into account economic hedges</li> </ul>
Attributable free cash flow	Cash flows from operations	<ul style="list-style-type: none"> <li>• Capital expenditure</li> <li>• Cash tax paid</li> <li>• Dividends from associates, joint ventures and financial asset investments</li> <li>• Net interest paid</li> <li>• Dividends to non-controlling interests</li> </ul>	<ul style="list-style-type: none"> <li>• To measure the amount of cash available to finance returns to shareholders or growth after servicing debt, providing a return to minority shareholders and meeting existing capex commitments</li> </ul>

**Group revenue**

Group revenue includes the Group's attributable share of associates' and joint ventures' revenue.

A reconciliation to 'Revenue', the closest equivalent IFRS measure to Group revenue is provided within note 3 to the Consolidated financial statements.

**Underlying EBIT**

Underlying EBIT is 'Operating profit/(loss)' presented before special items and remeasurements<sup>(1)</sup> and includes the Group's attributable share of associates' and joint ventures' underlying EBIT. Underlying EBIT of associates and joint ventures is the Group's attributable share of associates' and joint ventures' revenue less operating costs before special items and remeasurements<sup>(1)</sup> of associates and joint ventures.

A reconciliation to 'Profit/(loss) before net finance (costs)/income and tax', the closest equivalent IFRS measure to underlying EBIT is provided within note 3 to the Consolidated financial statements.

**Underlying EBITDA**

Underlying EBITDA is underlying EBIT before depreciation and amortisation and includes the Group's attributable share of associates' and joint ventures' underlying EBIT before depreciation and amortisation.

A reconciliation to 'Profit/(loss) before net finance (costs)/income and tax', the closest equivalent IFRS measure to underlying EBITDA, is provided within note 3 to the Consolidated financial statements.

**Underlying earnings**

Underlying earnings is 'Profit/(loss) for the financial year attributable to equity shareholders of the Company' before special items and remeasurements<sup>(1)</sup> and is therefore presented after net finance costs, income tax expense and non-controlling interests.

A reconciliation to 'Profit/(loss) for the financial year attributable to equity shareholders of the Company', the closest equivalent IFRS measure to underlying earnings, is provided within note 9 to the Consolidated financial statements.

**Underlying effective tax rate**

The underlying effective tax rate equates to the income tax expense, before special items and remeasurements<sup>(1)</sup> and including the Group's share of associates' and joint ventures' tax before special items and remeasurements<sup>(1)</sup> divided by profit before tax before special items and remeasurements<sup>(1)</sup> and including the Group's share of associates' and joint ventures' profit before tax before special items and remeasurements<sup>(1)</sup>.

A reconciliation to 'Income tax expense', the closest equivalent IFRS measure to underlying effective tax rate, is provided within note 8 to the Consolidated financial statements.

**Underlying earnings per share**

Basic and diluted underlying earnings per share are calculated as underlying earnings divided by the basic or diluted shares in issue. The calculation of underlying earnings per share is disclosed within note 9 to the Consolidated financial statements.

**Net debt**

Net debt is calculated as total borrowings less cash and cash equivalents (including derivatives which provide an economic hedge of net debt, see note 19, before taking into account the effect of debit valuation adjustments explained in note 18). A reconciliation to the Consolidated balance sheet is provided within note 23 to the Consolidated financial statements.

<sup>(1)</sup> Special items and remeasurements are defined in note 6 to the Consolidated financial statements.

**Capital expenditure (capex)**

Capital expenditure is defined as cash expenditure on property, plant and equipment, including related derivatives, and is presented net of proceeds from disposal of property, plant and equipment and includes direct funding for capital expenditure from non-controlling interests in order to match more closely the way in which it is managed. A reconciliation to 'Expenditure on property, plant and equipment', the closest equivalent IFRS measure to capital expenditure, is provided within note 22 to the Consolidated financial statements.

Operating cash flows generated by operations that have not yet reached commercial production are also included in capital expenditure. However, capital expenditure is also periodically shown on an underlying basis i.e. before inclusion of capitalised operating cash flows. Where this occurs, the measure is footnoted as such.

**Attributable return on capital employed (ROCE)**

ROCE is a ratio that measures the efficiency and profitability of a company's capital investments. Attributable ROCE displays how effectively assets are generating profit on invested capital for the equity shareholders of the Company. It is calculated as attributable underlying EBIT divided by average attributable capital employed.

Attributable underlying EBIT excludes the underlying EBIT of non-controlling interests.

Capital employed is defined as net assets excluding net debt and financial asset investments. Attributable capital employed excludes capital employed of non-controlling interests. Average attributable capital employed is calculated by adding the opening and closing attributable capital employed for the relevant period and dividing by two.

Attributable ROCE is also used as an incentive measure in executives' remuneration and is predicated upon the achievement of ROCE targets in the final year of a three year performance period. It is one of the performance measures used in LTIP 15 and LTIP 16 and is proposed to be used in LTIP 17. Capital employed by segment is disclosed in note 3 to the Consolidated financial statements.

**Driving Value ROCE**

Driving Value ROCE is used for the measurement of LTIP 14 only. It is calculated using Attributable ROCE adjusted for non-recurring items that do not impact cash performance:

- Impairments announced after 10 December 2013 are added back to total capital employed (unless the impairment resulted from the asset being taken out of service).
- Earnings and return impacts from impairments (due to reduced depreciation or amortisation expense) are excluded from earnings.
- The De Beers fair value uplift which resulted from the revaluing upward of the Group's 45% share in De Beers, owned at the time of acquisition of a further 40% in 2012, is removed from 2012 capital employed onwards.

**Attributable free cash flow**

Attributable free cash flow is calculated as 'Cash flows from operations' plus dividends received from associates, joint ventures and financial asset investments, less capital expenditure, less tax cash payments excluding tax payments relating to disposals, less net interest paid including interest on derivatives hedging net debt, less dividends paid to non-controlling interests.

A reconciliation of 'Cash flows from operations', the closest equivalent IFRS measure, is provided on page 38 of the Group Financial Review.

**Non-financial APMs**

Some of our measures are not reconciled to IFRS either because they include non-financial information, because there is no meaningful IFRS comparison or the purpose of the measure is not typically covered by IFRS.

Group APM	Category	Purpose
Copper equivalent production	Portfolio complexity	Communicate production/revenue generation movements in a single comparable measure removing the impact of price
Unit cost	Earnings volatility	Express cost of producing one unit of saleable product
Copper equivalent unit cost	Portfolio complexity	Communicate the cost of production per unit in a single comparable measure for the portfolio
Productivity	Portfolio complexity	Highlight efficiency in generating revenue per employee
Volume and cash cost improvements	Earnings volatility	Quantify year-on-year EBITDA improvement removing the impact of major uncontrollable factors

**Copper equivalent production**

Copper equivalent production, expressed as copper equivalent tonnes, shows changes in underlying production volume. It is calculated by expressing each commodity's volume as revenue, subsequently converting the revenue into copper equivalent units by dividing by the copper price (per tonne). Long-term forecast prices (and foreign exchange rates where appropriate) are used, in order that period-on-period comparisons exclude any impact for movements in price.

When calculating copper equivalent production, all volumes relating to domestic sales are excluded, as are volumes from Samancor and sales from non-mining activities. Volume from projects in pre-commercial production (e.g. Minas-Rio, Gahcho Kué) are included.

**Unit cost**

Unit cost is the direct cash cost including direct cash support costs incurred in producing one unit of saleable production.

For bulk products (coal, iron ore), unit costs shown are FOB i.e. cost on board at port. For base metals (copper, nickel), they are shown at C1 i.e. after inclusion of by-product credits and logistics costs. For platinum and diamonds, unit costs include all direct expensed cash costs incurred i.e. excluding, amongst other things, market development activity, corporate overhead etc. Platinum unit costs exclude by-product credits. Royalties are excluded from all unit cost calculations.

**Copper equivalent unit cost**

Copper equivalent unit cost is the cost incurred to produce one tonne of copper equivalent. Only the cost incurred in mined output from subsidiaries and joint operations is included, representing direct costs in the Consolidated income statement controllable by the Group. Costs and volumes from associates and joint ventures are excluded, as are those from operations that are not yet in commercial production, that deliver domestic production, and those associated with third-party volume purchases of diamonds and platinum concentrate.

When calculating copper equivalent unit cost, unit costs for each commodity are multiplied by relevant production, combined and then divided by the total copper equivalent production, to get a copper equivalent unit cost i.e. the cost of mining one tonne of copper equivalent. The metric is in US dollars and, where appropriate, long-term foreign exchange rates are used to convert from local currency to US dollars.

**Productivity**

The Group's productivity measure calculates the copper equivalent production generated per employee. It is a measure that represents how well headcount is driving revenue. It is calculated by dividing copper equivalent production by the average direct headcount from consolidated mining operations in a given year.

**Volume and cash cost improvements**

The Group uses an underlying EBITDA waterfall to understand its year-on-year underlying EBITDA performance. The waterfall isolates the impact of uncontrollable factors in order that the real year-on-year improvement in performance can be seen by the user.

Three variables are normalised, in the results of subsidiaries and joint operations, for:

- Price: The movement in price between comparative periods is removed, by multiplying current year sales volume by the movement in realised price for each product group
- Foreign exchange: The year-on-year movement in exchange is removed from the current year non-US dollar cost base i.e. costs are restated at prior year foreign exchange rates. The non-US dollar cash cost base excludes costs which are price linked (e.g. purchase of concentrate from third-party platinum providers, third-party diamond purchases)
- Inflation: CPI is removed from cash costs, restating these costs at the pricing level of the base year.

The remaining variances in the underlying EBITDA waterfall are in real US dollar terms for the base year i.e. for a waterfall comparing 2016 with 2015, the sales volume and cash cost variances exclude the impact of price, foreign exchange and CPI and are hence in real 2015 terms. This allows the user of the waterfall to understand the underlying real movement in sales volumes and cash costs on a consistent basis.