

**Company Registration Number: 00405724**

**Anglo American Marketing Limited**

**Annual Report and Financial Statements**

**for the year ended 31 December 2016**



# **Anglo American Marketing Limited**

## **Annual Report and financial statements for the year ended 31 December 2016**

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# **Anglo American Marketing Limited**

## **Officers and professional advisers**

### **Directors**

A Schmitt  
H Truol  
J M Mills  
D Wilson  
P Demzik  
R H Elliott  
P G Whitcutt  
P Ward

### **Secretary**

Anglo American Corporate Secretary Limited

### **Registered Office**

20 Carlton House Terrace  
London SW1Y 5AN  
United Kingdom

### **Bankers**

Barclays Bank plc  
1 Churchill Place  
Canary Wharf  
London E14 5HB  
United Kingdom

The Hongkong and Shanghai Banking Corporation Limited  
21 Collyer Quay  
#09-01 HSBC Building  
Singapore 049320

### **Solicitors**

Linklaters  
One Silk Street  
London EC2Y 8HQ  
United Kingdom

### **Auditor**

Deloitte LLP  
2 New Street Square  
London EC4A 3BZ  
United Kingdom

# Anglo American Marketing Limited

## Strategic report

The directors present their strategic report on Anglo American Marketing Limited (the Company) for the year ended 31 December 2016.

### Business review

#### *Copper*

The average LME copper price was 11% lower at \$4,872/tonne. Although the average price was lower than in 2015, prices started 2015 at higher levels and were subsequently impacted by bearish fund positioning, influenced by negative macro-economic sentiment. This precipitated sharp price falls towards the end of 2015, and into January 2016. Prices were relatively stable during the year, before rising strongly in the latter stages. Sentiment towards the metal showed signs of improvement as China's economy displayed evidence of stability, leading to increased investment flows into copper. Key copper-consuming sectors in China contributed to the improved offtake, including stronger construction and infrastructure activity, such as power grid investment.

#### *Nickel*

The average LME nickel cash settlement price decreased by 19% to \$9,612/tonne (2015: \$11,817/tonne). Concerns about global economic growth put significant downward pressure on metal prices, particularly through the second half of 2015 and the first quarter of 2016. Despite these concerns, nickel demand improved strongly during the year, while supply contracted for the second consecutive year, resulting in a deficit. Demand, which had grown by 1.2% in 2015, increased by 8.3% in 2016, supported by strong growth in global stainless steel production, which rose by 5.3% (2015: 0.2%). With Chinese nickel pig iron (NPI) production declining, price-led cutbacks at other nickel producers and lower availability of nickel-bearing stainless steel scrap, nickel supply tightened, while a shortage of ferronickel, which had traded at a discount to the LME price, starting to command a premium to the LME price.

#### *Iron Ore*

Iron ore prices fared better than in 2015, but with significant volatility through the year. The generic benchmark IODEX 62% Fe CFR China spot price increased by 4% to an average of \$58/tonne, trading in a yearly range of \$40-\$84/tonne. The improvement in downstream demand in China, combined with steel capacity closures as part of the country's supply-side reforms and environmental improvement drive, supported both steel and iron ore prices. This positive demand environment and improved mill margins have driven an increase in Chinese crude steel production, while the progressive withdrawal of marginal domestic iron ore supply has boosted demand for seaborne iron ore materials. Rallying metallurgical coal prices have also been supportive of demand for high grade ores, with quality price premiums increasing through most of the second half of 2016.

#### *Niobium*

Worldwide demand for ferro-niobium decreased in 2016. Demand from the key China and North America regions was particularly muted at the beginning of the year, attributable to overcapacity in steel production, and the effect of the weaker oil and gas sector. On 30<sup>th</sup> September 2016, Anglo American Group sold its niobium and phosphates business to China Molybdenum Co. Ltd. As part of the agreement, the Company sold its Niobium trade receivable and inventory balances as at 30 September 2016 for a consideration of \$22,211,000 and recognised a loss of \$36,178,000 from this sale.

#### *Metallurgical coal*

Metallurgical coal prices started to recover in the first six months, in a balanced sector. In the second half, China's imposition of safety, environmental and working time controls on its domestic mines, along with supply disruptions arising from geological difficulties encountered at several mines in Australia, caused significant tightness in this sector, resulting in a sharp increase in both spot and contract prices. The spot metallurgical coal price averaged \$199/tonne (TSI Premium hard cooking coal (HCC) FOB Australia East Coast Port \$/tonne) in the second half, 134% higher than in the first six months, with the premium for high grade material increasing owing to tightness in the premium HCC sector. Supply controls on domestic production in China were relaxed towards the end of the year, while exports from the US slowly increased in the second half as some mines came out of bankruptcy protection. Australian supply, however, remained broadly stable throughout the year, with producers taking a cautious view on capital investment.

# Anglo American Marketing Limited

## Strategic report (continued)

### *Thermal Coal*

Chinese domestic supply rationalisation led to rises in the domestic thermal coal price, thereby incentivising imports. Consequently, Chinese import demand increased in the second half of the year, lifting global thermal coal prices. In the Pacific, the global COAL Newcastle 6,000 kcal/kg FOB Australia index increased by 12% to \$66/tonne. This uplift in demand and subsequent increase in price helped pull up both the South African (API4) and Colombian (API10) indices by 12%. On the supply side, supply from Australia and Indonesia decreased slightly, while Russian exports into the Pacific were marginally higher on the back of increased Chinese import demand.

### Results

The profit after tax for the year is \$111,520,000 (2015: \$35,509,000).

### Financial Position

The net assets as at 31 December 2016 were \$276,710,000 (2015: \$206,785,000).

### Key Performance Indicators

The key performance indicators for the Company are revenue, volume of commodity shipped and the operating margin. These were as follows:

	2016	2015
Revenue (\$'000)	5,036,900	4,312,182
Volume of thermal coal shipped (million tonnes)	25.1	23.3
Volume of metallurgical coal shipped (thousand tonnes)	-	89
Volume of copper shipped (thousand tonnes)	394.8	427.7
Volume of nickel shipped (thousand tonnes)	33.2	21.5
Volume of niobium shipped (thousand tonnes)	4.6	5.1
Volume of iron ore shipped (million tonnes)	14.7	7.7
Operating margin (%)	2%	1%

The Company's operating profit has increased by 205% (2015: decreased by 54%) compared to the prior year.

### Principal risks and uncertainties

The Company's activities expose it to market as well as financial risks including price risk and credit risk. The use of financial derivatives is governed by the Anglo American Group policies, which stipulate the principles applicable to the use of financial derivatives to manage these risks. Whilst the Company must operate within its available intercompany facility limits, its exposure to liquidity risk and cash flow risk is not currently deemed material for the assessment of assets, liabilities and the financial statements.

### Credit risk

The Company's principal financial assets are cash and cash equivalent balances and trade and other receivables.

The Company's credit risk is primarily attributable to its trade receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The credit risk on liquid funds is limited because the counterparties are either banks, with high credit-ratings assigned by international credit-rating agencies, or Anglo American Capital plc, which is part of the Anglo American Group of companies and is managed by Anglo American Group Treasury. The Company has no significant concentration of credit risk, with exposure spread over a number of customers.

### Price risk

The Company is exposed to commodity price risk via its sale and purchase contracts, as well as its inventory holdings. The Company manages its exposure to commodity price risk by entering into floating price sale and purchase contracts, derivatives using future and swap contracts and through constant monitoring of the markets in which it operates.

# Anglo American Marketing Limited

## Strategic report (continued)

### Long-term contracts

The Company has entered into long-term commodity contracts of affreightment for shipping services with duration of ten years, for transport of bulk commodities and other related services. The commitments under these contracts total \$1,078,158,000 (2015: \$1,072,490,000) as at 31 December 2016, of which 39% of the commitment is due in more than five years. These contracts secure long-term supply of freight for the Group's iron ore and copper. Excess freight under the remaining contracts, if any, would be managed in the paper and physical market.

### Going concern and future development

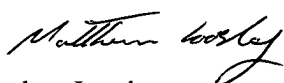
The Company's ability to continue as a going concern is assessed in conjunction with the Anglo American Group, as its viability is dependent on the ability of other Group companies to continue operating.

The directors have considered the Company's cash flow forecasts for the period to the end of July 2018. The directors are satisfied that the Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company will be able to operate as a going concern within the level of its current facilities for the foreseeable future. For this reason the Company continues to adopt the going concern basis in preparing its financial statements.

### Contingent liabilities

In 2012, the Company entered into a long term agreement to supply Direct Reduction Pellet Feed produced by the Minas-Rio mine to a customer (the "Iron Ore Supply Agreement"). As of the date of this report, (a) the Iron Ore Supply Agreement continues to be in force and (b) arbitration proceedings have been commenced by the Company against the customer under the Iron Ore Supply Agreement (the "Arbitration Proceedings") after the invocation of a price adjustment mechanism under the Iron Ore Supply Agreement was rejected by the customer. The customer has lodged counterclaims against the Company during the course of the Arbitration Proceedings relating to certain operational matters arising under the Iron Ore Supply Agreement of which an estimated \$35.8 million, of the total value of the counterclaims are considered by management to be contingent liabilities.

Approved by the Board of Directors  
and signed on its behalf by:



Matthew Loosley  
For and on behalf of Anglo American Corporate Secretary Limited  
Secretary  
27 June 2017

# **Anglo American Marketing Limited**

## **Directors' report**

The directors present their annual report on affairs of Anglo American Marketing Limited (the Company) together with the financial statements and auditor's report, for the year ended 31 December 2016.

### **Principal activities**

The Company is a wholly-owned indirect subsidiary of Anglo American plc, a company incorporated in England and Wales.

The Company's principal activity during the year were the sale of thermal coal, nickel, copper and iron ore as principal to international customers as well as the provision of agency services for metallurgical coal and thermal coal, and the provision of agency freight services, marketing and other supporting services for certain Anglo American Group companies.

On 30 September 2016, Anglo American Group sold its niobium and phosphate business to China Molybdenum Co. Ltd. As part of the agreement, the Company recognised a loss of \$36,178,000 from the sale of the Company's niobium trade receivable and inventory balances as at 30 September 2016. The directors are not aware of any likely major changes in the Company's activities in the next year.

A branch of the Company was registered in Singapore on 14 December 2011 to expand the Company's activities into the Asia Pacific region (Singapore Branch). The Branch's financial results are included in these financial statements.

Details regarding future events and financial risks of the Company are included in the strategic report.

### **Dividends**

An interim dividend of \$48,000,000 (2015: \$100,000,000) was declared and paid during the year.

### **Events since the end of the year**

On 27 June 2017, an interim dividend of \$111 million was approved by the Board of Directors of the Company.

### **Going concern**

The directors' considerations in relation to going concern are detailed on page 4 within the Strategic Report.

### **Directors**

The following served as directors throughout the year:

A Schmitt

H Truol

J M Mills

D Wilson

P Demzik

R H Elliott (Appointed on 1 March 2017)

P G Whitcutt (Appointed on 1 March 2017)

P Ward (Appointed on 1 March 2017)

### **Political and charitable donations**

The Company made no political and charitable donations during the period (2015: \$nil).

### **Directors' interests**

The directors did not have any interests in the share capital of the Company or of the immediate parent company during the period. The directors did not have any material interests during the period in a contract which is significant in relation to the Company's business.

# Anglo American Marketing Limited

## Directors' report (continued)

### Statement as to disclosure of information to auditor

Each of the directors at the date of approval of this report confirms that:

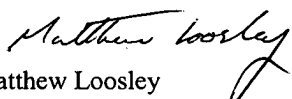
- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

### Auditor

The Company has elected to dispense with the obligation to appoint an auditor annually and, accordingly, Deloitte LLP will be the auditor of the Company for the forthcoming financial year under the provisions of the Companies Act 2006.

Approved by the Board of Directors  
and signed on its behalf by:



Matthew Loosley  
For and on behalf of Anglo American Corporate Secretary Limited  
Secretary  
27 June 2017



# **Anglo American Marketing Limited**

## **Statement of directors' responsibilities**

The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

The Companies Act 2006 requires the directors to prepare financial statements for each financial year. Under that Act the directors have elected to prepare the financial statements in accordance with Financial Reporting Standards (FRS) 101 "Reduced Disclosure Framework". Under the Companies Act 2006, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Independent auditor's report to the members of Anglo American Marketing Limited**

We have audited the financial statements of Anglo American Marketing Limited for the year ended 31 December 2016 which comprise the Income statement, the Statement of financial position, the Statement of changes in equity and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

## **Independent auditor's report to the members of Anglo American Marketing Limited (continued)**

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Paul Barnett (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom

27 June 2017

# Anglo American Marketing Limited

## Income Statement For the year ended 31 December 2016

	Note	2016 \$'000	2015 \$'000
Revenue	3	5,036,900	4,312,182
Cost of sales		(4,812,529)	(4,191,880)
<b>Gross profit</b>		<u>224,371</u>	<u>120,302</u>
Administrative expenses		(72,548)	(92,924)
Other operating (expense)/income	5	(36,178)	10,559
<b>Operating profit</b>	5	<u>115,645</u>	<u>37,937</u>
Finance income	6	<u>4,066</u>	<u>6,995</u>
<b>Profit on ordinary activities before tax</b>		<u>119,711</u>	<u>44,932</u>
Income tax expense	7	(8,191)	(9,423)
<b>Profit for the year</b>		<u><u>111,520</u></u>	<u><u>35,509</u></u>

Revenue and operating profits are all derived from continuing operations in the UK and Singapore (except for niobium, see note 5).

There are no recognised gains or losses in either year, other than the profit for the financial year and therefore no statement of other comprehensive income has been prepared.

# Anglo American Marketing Limited

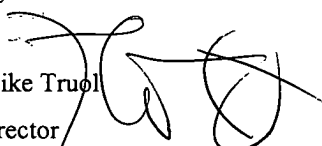
## Statement of financial position As at 31 December 2016

	Note	2016 \$'000	2015 \$'000
<b>Non-current assets</b>			
Plant and equipment	9	714	1,564
Intangible assets	10	11,525	14,167
Investment in subsidiary	11	1,267	1,252
Trade and other receivables	12	5,392	870
<b>Total non-current assets</b>		<b>18,898</b>	<b>17,853</b>
<b>Current assets</b>			
Inventories	13	22,311	59,648
Trade and other receivables	12	572,227	425,441
Cash and cash equivalents	14	523,064	259,053
Derivative financial assets	15	25,824	18,394
<b>Total current assets</b>		<b>1,143,426</b>	<b>762,536</b>
<b>Total assets</b>		<b>1,162,324</b>	<b>780,389</b>
<b>Current liabilities</b>			
Trade and other payables	16	(817,055)	(553,813)
Derivative financial liabilities	15	(53,669)	(4,827)
Provision for liabilities	17	(88)	(228)
Current tax liabilities		(14,227)	(14,339)
<b>Total current liabilities</b>		<b>(885,039)</b>	<b>(573,207)</b>
<b>Non-current liability</b>			
Deferred tax liability	18	(575)	(397)
<b>Total non-current liability</b>		<b>(575)</b>	<b>(397)</b>
<b>Total liabilities</b>		<b>(885,614)</b>	<b>(573,604)</b>
<b>Net assets</b>		<b>276,710</b>	<b>206,785</b>
<b>Equity</b>			
Called up share capital	19	30,121	30,121
Share premium account	19	119,999	119,999
Share-based payment reserve		14,707	8,302
Retained earnings		111,883	48,363
<b>Total equity</b>		<b>276,710</b>	<b>206,785</b>

These financial statements of Anglo American Marketing Limited, registered number 00405724, were approved by the Board of Directors and authorised for issue on 27 June 2017.

Signed on behalf of the Board of Directors by:

Heike Truol  
Director



# Anglo American Marketing Limited

## Statement of changes in equity For the year ended 31 December 2016

	Note	Called-up share capital \$'000	Share premium account \$'000	Share- based payment reserve \$'000	Hedging reserve \$'000	Retained earnings \$'000	Total \$'000
<b>At 1 January 2015</b>		30,121	119,999	4,050	401	112,854	267,425
Transaction with owners, recognised directly in equity							
Dividends	8	-	-	-	-	(100,000)	(100,000)
Equity settled share- based payments	5	-	-	4,252	-	-	4,252
		-	-	4,252	-	(100,000)	(95,748)
Profit for the year, representing total comprehensive profit for the year		-	-	-	-	35,509	35,509
Net change in fair value of hedges, reclassified to income statement		-	-	-	(401)	-	(401)
<b>At 31 December 2015</b>		30,121	119,999	8,302	-	48,363	206,785
Transaction with owners, recognised directly in equity							
Dividends	8	-	-	-	-	(48,000)	(48,000)
Equity settled share- based payments	5	-	-	6,405	-	-	6,405
		-	-	6,405	-	(48,000)	(41,595)
Profit for the year, representing total comprehensive profit for the year		-	-	-	-	111,520	111,520
<b>At 31 December 2016</b>		30,121	119,999	14,707	-	111,883	276,710

# Anglo American Marketing Limited

## Notes to the financial statements For the year ended 31 December 2016

### 1. General information

Anglo American Marketing Limited is a company incorporated under the Companies Act 2006 and registered in England and Wales. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Directors' Report on page 5.

These financial statements are presented in USD because that is the currency of the primary economic environment in which the Company operates.

These financial statements are separate financial statements. The Company is exempt from the preparation of consolidated financial statements, because it is included in the group accounts of Anglo American plc. The group accounts of Anglo American plc are available to the public and can be obtained as set out in note 24.

### 2. Accounting policies

The principal accounting policies are summarised below. They have been applied consistently throughout the current and preceding year unless due to a change in accounting policies.

#### Basis of preparation

The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC. Accordingly, these financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions.

Where relevant, equivalent disclosures have been given in the group accounts of Anglo American plc. The group accounts of Anglo American plc are available to the public and can be obtained as set out in note 24.

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below.

#### Adoption of new and revised Standards

In the current year, the Company has applied amendments to IFRSs and a new Interpretation issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2016. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IAS 1 <i>Disclosure Initiative</i>	The Company has adopted the amendments to IAS 1 <i>Disclosure Initiative</i> for the first time in the current year. The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance. The adoption of these amendments has not resulted in any impact on the financial performance or financial position of the Company.
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# Anglo American Marketing Limited

## Notes to the financial statements For the year ended 31 December 2016

### 2. Accounting policies (continued)

#### Going concern

As set out in the strategic report on page 4, the directors consider the Company to be a going concern and have accordingly prepared the financial statements on that basis.

#### Functional and presentation currency

The financial statements of the Company are measured and presented in the currency of the primary economic environment in which the Company operates (its functional currency). The financial statements of the Company are presented in United States dollars, which is the functional currency of the Company. All financial information presented in United States dollars have been rounded to the nearest thousand, unless stated otherwise.

Transactions in currencies other than the Company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

#### Revenue recognition

Revenue represents the net invoice value of goods and services provided in the normal course of business to third parties and related companies after deducting any sales and value added taxes. Principal sales are recognised when the significant risks and rewards of ownership have passed to the customer.

When the Company acts in the capacity of an agent, the revenue recognised is the net amount of commission earned. Therefore, the amounts billed to customers are on the basis of mutually agreed sales contracts and are offset against the relevant costs.

Sales of certain commodities are 'provisionally priced' such that the price is not settled until a predetermined future date, normally ranging from 30 to 120 days, based on movements in quoted markets or contractual prices up to the date of final pricing. Revenue on these sales is initially recognised (when the above criteria are met) at the current market price. As is customary in the industry, 'provisionally priced' sales are based on estimates of the consideration receivable at each reporting date using the forward price for the period equivalent to that outlined in the contract. This adjustment is recorded in the income statement.

Service income is recognised when services are provided by reference to the stage of completion of the contract. The stage of completion is assessed by reference to work performed.

#### Finance income

Finance income comprises interest income on deposits with a Group company. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

#### Defined contribution pension schemes

Amounts paid in respect of defined contribution pension schemes are recognised in the income statement in accordance with International Accounting Standard 19– "*Employee benefits*". There are no defined benefit schemes.



# Anglo American Marketing Limited

## Notes to the financial statements For the year ended 31 December 2016

### 2. Accounting policies (continued)

#### Share-based payments

The Company makes equity settled share-based payments to certain employees, which are measured at fair value at the date of grant and expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. For those share schemes with market related vesting conditions, the fair value is determined using the Monte Carlo method at the grant date. The fair value of share options issued with non-market vesting conditions has been calculated using the Black Scholes model. For all other share awards, the fair value is determined by reference to the market value of the share at the date of grant. For all share schemes with non-market related vesting conditions, the likelihood of vesting has been taken into account when determining the relevant charge. Vesting assumptions are reviewed during each reporting period to ensure they reflect current expectations.

#### Leases

Rental costs under operating leases are recognised on a straight line basis over the term of the relevant lease.

#### Tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the reporting date. Deferred tax is measured on a non-discounted basis.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly in equity, in which case the tax is also recognised outside profit or loss (either in other comprehensive income or directly in equity).

#### Inventories

Inventories comprise finished products and bunker fuel and are measured at the lower of cost and net realisable value. The cost of inventories is based on actual cost, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale.

# Anglo American Marketing Limited

## Notes to the financial statements For the year ended 31 December 2016

### 2. Accounting policies (continued)

#### **Plant and equipment**

Plant and equipment are stated at cost less accumulated depreciation and any provision for impairment. A review for the potential impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. Such impairment reviews are performed in accordance with FRS 11 – “Impairments of fixed assets and goodwill”. Impairments thus arising are reported in the income statement.

Depreciation is calculated on a straight-line basis over three years for computer and office equipment and over five years for furniture and fittings.

#### **Intangible assets**

Intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets relate to computer software and software in progress. Computer software is amortised on a straight-line basis over its estimated useful life of three to five years from the date that it is available for use. Amortisation methods, residual values and estimated useful lives are reviewed at least annually.

#### **Financial instruments**

Financial assets and financial liabilities are recognised on the Company’s statement of financial position when the Company becomes party to the contractual provisions of the instrument.

#### ***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or where appropriate, a shorter period. Income and expense is recognised on an effective interest basis for debt instruments other than those financial instruments “at fair value through profit and loss”.

#### ***Financial assets***

##### ***Cash and cash equivalents***

Cash and cash equivalents comprise cash on hand, cash at bank, cash on demand deposits with a Group company and cash balance in margin facility that are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

##### ***Trade and other receivables***

Trade and other receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest method, except for short-term receivables when the effect of discounting is immaterial.

##### ***Impairment of financial assets***

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

# Anglo American Marketing Limited

## Notes to the financial statements For the year ended 31 December 2016

### 2. Accounting policies (continued)

#### Financial instruments (continued)

##### *Financial assets (continued)*

##### *Derecognition of financial assets*

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

##### *Financial liabilities and equity instruments*

##### *Classification as debt or equity*

Financial liabilities and equity instruments are classified and accounted for as financial liabilities or equity instruments according to the substance of the contractual arrangements entered into and the definition of a financial liability and an equity instrument.

##### *Trade and other payables*

Trade and other payables are initially measured at their fair value, net of transaction costs, and are subsequently measured at amortised cost, using the effective interest method, with interest expense recognised on an effective yield basis.

##### *Equity*

Equity instruments are recorded at the proceeds received, net of direct issue costs. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

##### *Derecognition of financial liabilities*

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expired.

##### *Derivative financial instruments*

The Company enters into derivative instruments for price risk management and trading purposes. Derivative contracts are financial instruments such as swaps, futures contracts and options.

Non "own-use" forward and derivative contracts are measured by reference to market prices at the year end. The resulting unrealised losses, excluding contracts within any margining facilities are recorded as liabilities in payables and unrealised profits are recorded as assets in receivables. Changes in the assets and liabilities from these activities arising in the current period (resulting primarily from newly originated transactions and the impact of price movements on existing transactions) are recognised in the income statement as administration income / expense. The market prices used to value these transactions take into account various factors including published forward prices.

#### **Critical accounting judgements and key sources of estimation uncertainty**

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

# Anglo American Marketing Limited

## Notes to the financial statements For the year ended 31 December 2016

### 2. Accounting policies (continued)

#### Critical judgements in applying the Company's accounting policies

##### *Contingent liabilities*

On an ongoing basis the Company is a party to various legal disputes, the outcomes of which cannot be assessed with a high degree of certainty.

Management applies its judgement in determining whether or not to record a provision or contingent liability. A provision is recognised where, based on the Company's own legal assessment and, in some cases, independent advice, it is considered probable that an outflow of resources will be required to settle a present obligation that can be measured reliably. A contingent liability is a potential future outflow of cash, or other resources, where the likelihood of payment is less than probable but more than remote. Disclosure of contingent liabilities is made in note 23, including quantification of the potential future outflow of resources, unless the amount cannot be reliably estimated.

##### *Classification of commodity contracts*

The Company applies judgement in classifying its commodity contracts into either the trading or equity book. Classification in the trading book results in the contract being treated as a derivative and marked to market. Contracts classified into the equity book are entered into in accordance with the Company's expected sale or usage requirements and are consequently accounted for as executory contracts. The trading book contracts are distinguished from their equity book counterparts by the presence of net settlement clauses or the intention to enact effective net settlement. Equity source contracts used to settle contracts in trading book are accounted for as executory contracts. The contracts included in the equity book will remain economically unhedged, thus avoiding the risk of effective net settlement.

#### Key sources of estimation uncertainty

##### *Allowance for inventories*

In determining the net realisable value of the inventories, an estimation of the recoverable amount of inventories on hand is performed by management based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration the fluctuations of price or cost, or any inventories on hand that may not be realised, as a result of events occurring after the end of the financial year to the extent that such events confirm conditions existing at the year end. The carrying amount of inventories as at the year-end is disclosed in note 13 to the financial statements.

##### *Revenue Recognition*

Sales of certain commodities are 'provisionally priced' such that the price is not settled until a predetermined future date, normally ranging from 30 to 120 days, based on movements in quoted markets or contractual prices up to the date of final pricing. As is customary in the industry, 'provisionally priced' sales are based on estimates of the consideration receivable at each reporting date using the forward price for the period equivalent to that outlined in the contract. This is based on the market forward price which may vary depending on the volatility in the market. This adjustment is recorded in the income statement.

##### *Fair value of financial instruments*

Certain of the Company's financial instruments, principally derivatives, are required to be measured on the balance sheet at fair value. Where a quoted market price for an identical instrument is not available, a valuation model is used to estimate the fair value based on the net present value of the expected cash flows under the contract. Valuation assumptions are usually based on observable market data (for example commodity price curves) where available.

# Anglo American Marketing Limited

## Notes to the financial statements For the year ended 31 December 2016

### 3. Revenue

	2016 \$'000	2015 \$'000
<b>Analysis of the Company's revenue</b>		
Sale of goods	4,985,675	4,268,811
Commission income, freight and other marketing services to Group companies	45,921	43,371
Other freight services	5,304	-
	<u>5,036,900</u>	<u>4,312,182</u>
 <b>Revenue by destination</b>		
Asia	3,916,293	3,141,034
Europe	390,900	631,048
Middle East	277,636	310,533
Africa	158,867	137,461
Americas	251,964	51,448
Australia	41,240	40,658
	<u>5,036,900</u>	<u>4,312,182</u>
 <b>Revenue by class</b>		
Copper	1,842,057	2,054,309
Thermal coal	1,570,271	1,260,517
Iron ore	1,009,759	442,849
Nickel	320,793	236,805
Niobium	149,098	193,056
Other commodities	93,697	72,468
Freight and other marketing services	51,225	43,371
Metallurgical coal	-	8,807
	<u>5,036,900</u>	<u>4,312,182</u>

### 4. Staff costs

The average number of staff (including directors) during the year was 176 (2015: 166).

	2016 \$'000	2015 \$'000
<b>Staff costs for the above persons were as follows:</b>		
Wages and salaries	36,768	31,565
Social security costs	1,662	2,302
Pension costs	2,350	2,371
Share-based payment costs	6,405	4,252
 Total payroll costs included in operating costs	<u>47,185</u>	<u>40,490</u>

# Anglo American Marketing Limited

## Notes to the financial statements For the year ended 31 December 2016

### 4. Staff costs (continued)

	2016 \$'000	2015 \$'000
<b>Directors' emoluments were as follows:</b>		
Aggregate emoluments	2,867	2,015
Contributions to defined contribution pension scheme	171	172

As at 31 December 2016, there were three (2015: five) directors paid in respect of their services to the Company. The other directors were remunerated by their respective employing Company within the Anglo American Group of companies.

The highest paid director of the Company received emoluments of \$1,593,000 (2015: \$625,000) and contributions to a defined contribution pension scheme of \$57,000 (2015: \$64,000). During the year ended 31 December 2016 and 31 December 2015, no director exercised share options.

As at 31 December 2016 three (2015: five) directors were members of a defined contribution pension scheme to which the Company contributed.

### 5. Operating profit

Operating profit is after charging/(crediting):

	2016 \$'000	2015 \$'000
Equity settled share-based payments	6,405	4,252
Operating lease rentals	2,539	3,626
Depreciation and amortisation	4,430	3,789
Audit fees	168	322
(Gain)/loss on foreign currency retranslation	(44)	396
Loss on disposal of Niobium receivable and inventory	36,178	-
Net fair value change of derivative financial instruments	435	-
Pricing adjustment gain	-	(10,559)

On 30<sup>th</sup> September 2016, Anglo American Group sold its niobium and phosphates business to China Molybdenum Co. Ltd. As part of the agreement, the Company recognised in other operating expenses, a loss of \$36,178,000 from the sale of the Company's niobium trade receivables and inventory balances as at 30 September 2016.

In 2015, there was a price adjustment approved retrospectively with a supplier, as part of the disposal of the relevant entity from the Anglo American Group which resulted in a gain of \$10,559,000 recognised as a price adjustment gain in other operating income.

### 6. Finance income

	2016 \$'000	2015 \$'000
Net fair value change of derivatives financial instruments	-	6,523
Interest income from Group company	786	409
Other interest received	106	63
Dividend income from subsidiary	3,174	-
	4,066	6,995

# Anglo American Marketing Limited

## Notes to the financial statements For the year ended 31 December 2016

### 7. Income tax expense

	2016 \$'000	2015 \$'000
<b>(a) Analysis of charge in the year</b>		
UK group relief	1,252	5,905
UK adjustments in respect of prior period	(713)	1,575
Overseas tax adjustments in respect of prior period	605	-
Overseas tax	6,869	1,735
Total current tax	8,013	9,215
Deferred tax -UK	-	141
Overseas deferred tax	178	67
Total tax charge for the year	8,191	9,423

### (b) Factors affecting tax charge for the year

The current tax assessed for the year is lower (2015: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

Profit on ordinary activities before tax	119,711	44,932
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.25%)	23,942	9,099
Effects of:		
Expenses not deductible for tax purposes	670	455
Income not taxable	(635)	-
Adjustment in respect of prior period	(108)	1,716
Overseas tax	7,048	1,802
Overseas amounts exempt from UK tax	(22,832)	(3,649)
Other	106	-
Total tax charge for the year	8,191	9,423

On 26 October 2015, the Finance Act was substantively enacted and provided for a reduction in the main rate of corporation tax from 20% to 19% effective from 1 April 2017 and a further 1% reduction to 18% from 1 April 2020. On 6 September 2016, the Finance Act 2016 was substantively enacted and provided for a reduction in the main rate of UK corporation tax to 17% from 1 April 2020.

### 8. Dividends

	2016 \$'000	2015 \$'000
Interim dividends declared and paid of \$2.52 cents per share (2015: \$5.25 cents per share)	48,000	100,000

# Anglo American Marketing Limited

## Notes to the financial statements For the year ended 31 December 2016

### 9. Plant and equipment

	<b>Furniture, fittings and computer equipment \$'000</b>
<b>Cost</b>	
At 1 January 2016 and 31 December 2016	6,004
<b>Accumulated Depreciation</b>	
At 1 January 2016	(4,440)
Charge for the year	(850)
At 31 December 2016	(5,290)
<b>Net book value</b>	
At 31 December 2015	1,564
At 31 December 2016	714

### 10. Intangible assets

	<b>Software \$'000</b>	<b>Software work in progress \$'000</b>	<b>Total intangible assets \$'000</b>
<b>Cost</b>			
At 1 January 2016	17,345	-	17,345
Additions	-	938	938
At 31 December 2016	17,345	938	18,283
<b>Accumulated Amortisation</b>			
At 1 January 2016	(3,178)	-	(3,178)
Amortisation for the year	(3,580)	-	(3,580)
At 31 December 2016	(6,758)	-	(6,758)
<b>Net book value</b>			
At 31 December 2015	14,167	-	14,167
At 31 December 2016	10,587	938	11,525



# Anglo American Marketing Limited

## Notes to the financial statements For the year ended 31 December 2016

### 11. Investment in subsidiary

	\$'000
<b>Cost</b>	
At 1 January 2016	1,252
Additions	15
	<hr/>
At 31 December 2016	<u>1,267</u>

The investment in subsidiary are all stated at cost less provision for impairment.

On 30 June 2015, the Company and Sojitz Corporation established MR Iron Ore Marketing Services Singapore Pte. Ltd., to provide certain iron ore marketing services to the Company, with the Company and Sojitz Corporation owning 50.1% and 49.9% respectively. As part of this agreement, the Company paid up \$1,252,000 and received 1,252,500 allotted ordinary shares in MR Iron Ore Marketing Services Singapore Pte. Ltd.

On 7 September 2015, the Company and Anglo American Investments (UK) Limited entered into an undertaking to subscribe for 99,000 and 1,000 equity shares in Anglo American (India) Private Limited, respectively. Anglo American (India) Private Limited was incorporated on 4 December 2015. On 15 March 2016, the Company paid up equivalent of INR990,000 (\$15,000) for the shares that were subscribed. In January 2017, this company was liquidated and the Company's investment of \$15,000 has been written off.

Details of the Company's subsidiaries at 31 December 2016 are as follows:

Name	Place of incorporation (or registration) and operation	Proportion of ownership interest and voting power held %	Types of shares	Principle activities
MR Iron Ore Marketing Services Singapore Pte. Ltd.	10 Collyer Quay, Level 38 Ocean Financial Centre, Singapore 049315	50.1%	Ordinary	Consultancy and marketing support services
Anglo American (India) Private Limited	A-1/292, Janak Puri, New Delhi, 110058, India	99%	Ordinary	Dormant entity

### 12. Trade and other receivables

	2016 \$'000	2016 \$'000	2016 \$'000
	Expected within one year	Expected after one year	Total
Trade receivables	480,367	-	480,367
Trading amounts owed by Group Companies	38,198	-	38,198
Receivable from subsidiary	2,232	-	2,232
Other receivables	1,588	5,257	6,845
Prepayments and accrued income	49,842	135	49,977
	<hr/>	<hr/>	<hr/>
	572,227	5,392	577,619

# Anglo American Marketing Limited

## Notes to the financial statements For the year ended 31 December 2016

### 12. Trade and other receivables (continued)

	2015 \$'000 Expected within one year	2015 \$'000 Expected after one year	2015 \$'000 Total
Trade receivables	358,173	-	358,173
Trading amounts owed by Group companies	59,711	-	59,711
Other receivables	626	671	1,297
Prepayments and accrued income	6,931	199	7,130
	<u>425,441</u>	<u>870</u>	<u>426,311</u>

Trade receivables do not incur interest and are measured at nominal value (with the exception of receivables related to provisionally priced sales as set out in the revenue recognition accounting policy, see note 2). Amounts owed by Group companies are unsecured and payable within 30 days (2015: 30 days) and are not interest bearing.

### 13. Inventories

	2016 \$'000	2015 \$'000
Finished products	17,629	55,696
Bunker	4,682	3,952
	<u>22,311</u>	<u>59,648</u>

The cost of inventories recognized as an expense and included in cost of sales amounted to \$4,798,365,000 (2015: \$4,182,988,000).

### 14. Cash and cash equivalents

	2016 \$'000	2015 \$'000
Deposit with a Group company	430,488	208,708
Cash at bank	56,518	47,684
Deposit with bank	36,058	2,661
	<u>523,064</u>	<u>259,053</u>

The deposit with a Group company is unsecured, repayable on demand and carries an interest rate of 0.535% (2015: 0.144%).

As at 31 December 2016, \$13,450,000 (2015: \$nil) of cash at bank in relation to the sale of receivables during the reporting period is classified as restricted cash.

# Anglo American Marketing Limited

## Notes to the financial statements For the year ended 31 December 2016

### 15. Derivative financial assets and liabilities

	2016 \$'000	2015 \$'000
Financial assets arising from the fair value of marked to market sales and purchase contracts and other financial instruments	25,824	18,394
Financial liabilities arising from fair value of marked to market sales and purchase contracts and other financial instruments	(53,669)	(4,827)

### 16. Trade and other payables

	2016 \$'000	2015 \$'000
Trade payables	48,267	53,912
Trading amounts owed to Group Companies	679,652	440,147
Deferred income	44	114
Accruals	75,285	59,231
Other payables	13,807	409
	817,055	553,813

Trade payables are not interest bearing and are measured at their nominal value (with the exception of payables relating to provisionally priced commodity purchases which are marked to market using the appropriate forward price until settled). Amounts owed to Group Companies are unsecured and payable within 30 days (2015: 30 days) and are not interest bearing.

### 17. Provision for liabilities

	Termination cost Provision	
	2016 \$'000	2015 \$'000
At 1 January	228	706
Utilisation during the year	(140)	(478)
At 31 December	88	228

# Anglo American Marketing Limited

## Notes to the financial statements For the year ended 31 December 2016

### 18. Deferred tax liabilities

The following is the deferred tax liability recognised by the Company, and the movements during the current and prior year:

	Accelerated tax depreciation \$'000	Other short term timing differences \$'000	Termination cost provision \$'000	Total \$'000
At 1 January 2015	305	25	(141)	189
Movement during the year	92	(25)	141	208
At 1 January 2016	397	-	-	397
Movement during the year	178	-	-	178
At 31 December 2016	575	-	-	575

### 19. Equity

	2016 \$'000	2015 \$'000
<b>Share capital Called up, allotted and fully paid:</b>		
19,056,917 (2015: 19,056,917) ordinary shares of £1 each	30,120	30,120
1,000 (2015: 1,000) ordinary shares of \$1 each	1	1
	<u>30,121</u>	<u>30,121</u>
<b>Share Premium Account</b>	<u>119,999</u>	<u>119,999</u>

#### Reserves

##### *Hedging reserve*

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

##### *Share-based payment reserve*

The share-based payment reserve comprises the cumulative value of employee services received for the issue of share awards scheme.

# Anglo American Marketing Limited

## Notes to the financial statements For the year ended 31 December 2016

### 20. Share-based payments reserve

During the year ended 31 December 2016, the Company had the following share-based payment arrangements with employees:

#### Bonus Share Plan (BSP)

The BSP is offered to executive directors and senior employees of the Anglo American Group to encourage and reward delivery of the Anglo American Group strategic priorities and strong individual performance. The scheme is governed by the remuneration committee of Anglo American plc and is settled in the shares of Anglo American plc.

There are two elements to the BSP:

- A performance-related cash element, payable after the end of the relevant financial year; and
- A performance-related share element, in the form of a conditional award of Bonus Shares made after the end of the relevant financial year with a value equal to 140% of the cash element and vesting normally subject to a further three-year holding period;

The remuneration committee of Anglo American plc reviews the BSP measures annually to ensure they remain appropriate. BSP targets are reviewed at the same time to ensure they are demanding yet realistic, given latest Anglo American Group strategy, prior performance and external expectations.

#### Long Term Incentive Plan (LTIP)

The remuneration committee of Anglo American plc makes an annual conditional award of shares to executive directors and senior management of the Anglo American Group to encourage and reward the delivery of superior shareholder returns. The conditional award will generally vest after a period of three years, subject to the achievement of specific performance targets where applicable.

Prior to grant the committee reviews the performance targets for each measure, where applicable, to ensure they remain sufficiently stretching. Dividend equivalents are paid on any shares that vest.

The provision of shares under certain of the Anglo American plc share incentive schemes is facilitated by an employee benefit trust. The employee benefit trust has waived the right to receive dividends on these shares.

The costs of operating the trust are borne by Anglo American Group but are not material.

The total share-based payment expense for the year is disclosed in note 5.

The fair value of ordinary shares awarded under the BSP and LTIP, being the more material share schemes, was calculated using a Black-Scholes model. The assumptions used in the calculation are set out below:

	<b>BSP 2016</b>	<b>LTIP 2016</b>	<b>BSP 2015</b>	<b>LTIP 2015</b>
Date of grant	04/03/16	04/03/16	03/03/15	03/03/15
Number of instruments	716,840	727,570	172,278	132,350
Share price at date of grant (£)	5.92	5.92	12.05	12.05
Contractual life (years)	3	3	3	3
Vesting Conditions	(1)	(1)	(1)	(1)
Expected volatility <sup>(2)</sup>	50%	50%	35%	35%
Risk free interest rate <sup>(3)</sup>	0.5%	0.5%	0.9%	0.9%
Expected departures	5% pa	5% pa	5% pa	5% pa
Dividend yield	nil	nil	2.1%	2.1%
Fair value at date of grant (weighted average) (£)	5.92	5.92	12.05	12.05

(1) Three years of continuous employment.

(2) Based on historic volatility over the last five years.

(3) The yield on zero-coupon UK government bonds with a term similar to the expected life of the award.

# Anglo American Marketing Limited

## Notes to the financial statements For the year ended 31 December 2016

### 20. Share-based payments reserve (continued)

#### Bonus Share Plan (BSP)

Ordinary shares of 54<sup>86</sup>/<sub>91</sub> US cents may be awarded under the terms of this scheme for no consideration. The number of shares outstanding is shown below:

	2016 Numbers of shares	2015 Numbers of shares
Outstanding at 1 January	355,477	259,751
Conditionally awarded in year	716,840	172,278
Vested in year	(175,384)	(38,772)
Forfeited in year	(104,469)	(37,780)
<b>Outstanding at 31 December</b>	<b>792,464</b>	<b>355,477</b>

#### Long Term Incentive Plan (LTIP)

Ordinary shares of 54<sup>86</sup>/<sub>91</sub> US cents may be awarded under the terms of this scheme for no consideration. The number of shares outstanding is shown below:

	2016 Numbers of shares	2015 Numbers of shares
Outstanding at 1 January	238,575	120,425
Conditionally awarded in year	727,570	132,350
Vested in year	(115,594)	-
Forfeited in year	(82,295)	(14,200)
<b>Outstanding at 31 December</b>	<b>768,256</b>	<b>238,575</b>

### 21. Commitments

#### Operating leases

	2016 \$'000	2015 \$'000
The future minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	32,126	16,634
Greater than one year, less than two years	14,244	5,791
	<b>46,370</b>	<b>22,425</b>

Operating leases relate principally to office rental and time charter arrangements.

#### Long-term contracts

The Company has entered into long-term contracts of affreightment for shipping services with duration of ten years, for transport of bulk commodities and other related services. The commitments under these contracts total \$1,078,158,000 (2015: \$1,072,490,000) as at 31 December 2016, of which 39% of the commitment is due in more than five years. These contracts secure long-term supply of freight for the Group's iron ore and copper. Excess freight under the remaining contracts, if any, would be managed in the paper and physical market.

# Anglo American Marketing Limited

## Notes to the financial statements For the year ended 31 December 2016

### 22. Related party transactions

At 31 December 2016, as identified in note 24, Anglo American plc, a company incorporated in England and Wales, was the Company's ultimate parent company. The Company has taken advantage of the exemption granted by paragraph 3(c) of Financial Reporting Standard 101 not to disclose related party transactions with wholly owned Anglo American group companies.

The Company, in the ordinary course of business, enters into other transactions with other related parties with non-wholly owned Anglo American group companies (other related party transactions). These transactions are under terms that are no less favourable than those arranged with third parties.

In addition to related party information disclosed elsewhere in the financial statements, the Company had the following other related party transactions:

	2016 \$'000	2015 \$'000
Purchase of commodity from other related parties	1,663,045	1,628,016
Recharges income from other related parties	(14,643)	(15,715)
Recharges expenses from other related parties	10,521	6,420
Payment to Inversiones Minorco Chile SA for the access rights to Collahuasi Offtake arrangement	-	15,823

### 23. Contingent liabilities

In 2012, the Company entered into a long term agreement to supply Direct Reduction Pellet Feed produced by the Minas-Rio mine to a customer (the "Iron Ore Supply Agreement"). As of the date of this report, (a) the Iron Ore Supply Agreement continues to be in force and (b) arbitration proceedings have been commenced by the Company against the customer under the Iron Ore Supply Agreement (the "Arbitration Proceedings") after the invocation of a price adjustment mechanism under the Iron Ore Supply Agreement was rejected by the customer. The customer has lodged counterclaims against the Company during the course of the Arbitration Proceedings relating to certain operational matters arising under the Iron Ore Supply Agreement of which an estimated \$35.8 million, of the total value of the counterclaims are considered by management to be contingent liabilities.

### 24. Ultimate parent company

Anglo American plc is the ultimate parent company and controlling party. Copies of the group accounts of Anglo American plc, which is the parent company of the largest and smallest groups of which the Company is a member and for which group accounts are prepared, are available from Anglo American plc at 20 Carlton House Terrace, London SW1Y 5AN.

The Company's immediate parent company is Anglo American Investments (UK) Limited, a company incorporated in England and Wales.

### 25. Events since the end of the year

On 27 June 2017, an interim dividend of \$111 million was approved by the Board of Directors of the Company.