



# KUMBA IRON ORE LIMITED

2020 Interim Results

28 July 2020



# Disclaimer

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Certain statements made in this presentation constitute forward-looking statements. Forward-looking statements are typically identified by the use of forward-looking terminology such as 'believes', 'expects', 'may', 'will', 'could', 'should', 'intends', 'estimates', 'plans', 'assumes' or 'anticipates' or the negative thereof or other variations thereon or comparable terminology, or by discussions of, e.g. future plans, present or future events, or strategy that involve risks and uncertainties. Such forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the company's control and all of which are based on the company's current beliefs and expectations about future events. Such statements are based on current expectations and, by their nature, are subject to a number of risks and uncertainties that could cause actual results and performance to differ materially from any expected future results or performance, expressed or implied, by the forward-looking statement. No assurance can be given that such future results will be achieved; actual events or results may differ materially as a result of risks and uncertainties facing the company and its subsidiaries. The forward-looking statements contained in this presentation speak only as of the date of this presentation and the company undertakes no duty to, and will not necessarily update any of them in light of new information or future events, except to the extent required by applicable law or regulation.

The conversion of Mineral Resource to Ore Reserves is dependent on the approval of pre-feasibility and feasibility studies by the relevant Kumba and Anglo American Investment Committees. Any exclusive Mineral Resources quoted in this presentation, currently under investigation for conversion to Ore Reserves is based on Kumba's current interpretation of its potential prior to the completion and approval of the required studies. Only Measured and Indicated Mineral Resources can be converted to Ore Reserves. The Mineral Resources being considered for potential conversion to Ore Reserves includes a material amount of Inferred Resource. Due to the uncertainty that may be attached to some Inferred Mineral Resource, it cannot be assumed that all or part of the Inferred Mineral Resource will necessarily be upgraded to an Indicated or Measured Resource after continued infill drilling. Please refer to the Ore Reserve (& Saleable Product) and Mineral Resource Report 2019 for further information. (<https://www.angloamericankumba.com/investors/annual-reporting/reports-archive/2019>)

# Our priorities are purpose-led, values-driven and forward-looking



## Prevention

### Covid-19 response measures

- Integrated screening and testing
- Work-from-home for vulnerable individuals
- Continued to pay staff throughout period
- Supply-chain and consumables secured
- Industry, union and supplier collaboration
- Isolation and quarantine facilities



## Response

### Business priorities

- Ramp-up to full run-rates
- Maintain flexibility, protect value chain
- Support Transnet to increase capacity
- Agile marketing maximising value
- Proactive cash preservation
  - R355m additional cost savings
  - R1.0bn deferral of non-critical capex



## Recovery

### Strategic positioning

- Strategic ambitions remain unchanged
- Margin enhancement strategy
- 20 year life of asset

**Ensuring the health and wellbeing of our people, contractors and communities**

# Caring for our communities and contributing to livelihoods



## Prevention

### Behavioural change and testing

- Extensive education and awareness drive
- Supplying health and hygiene packs
- Access to water for informal settlements
- Providing food parcels to vulnerable families
- PCR testing, contact tracing and technology



## Response

### Treatment and care

- Isolation and quarantine facilities
- Critical healthcare and emergency services
- Mental health support
- Partnering with key stakeholders



## Recovery

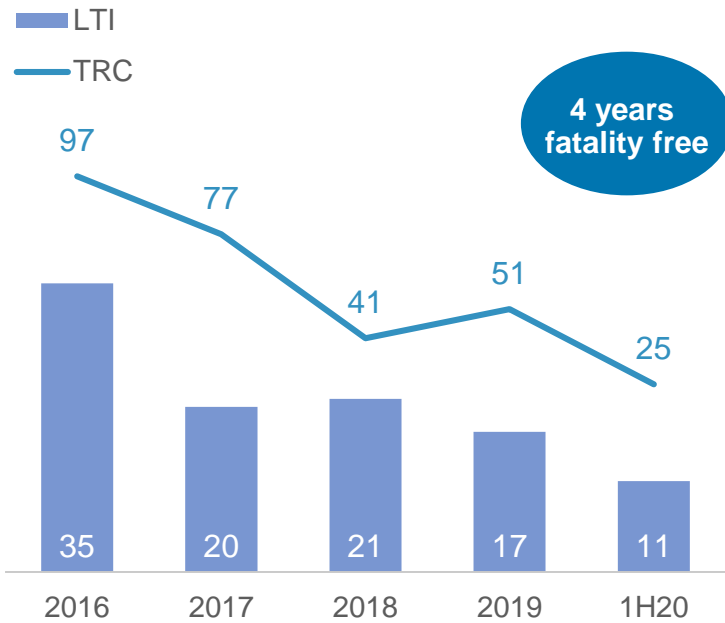
### Livelihood support

- Continuing essential services and projects
- Zimele online entrepreneur programme
- Financial support for SMME's
- Procuring relief packages locally



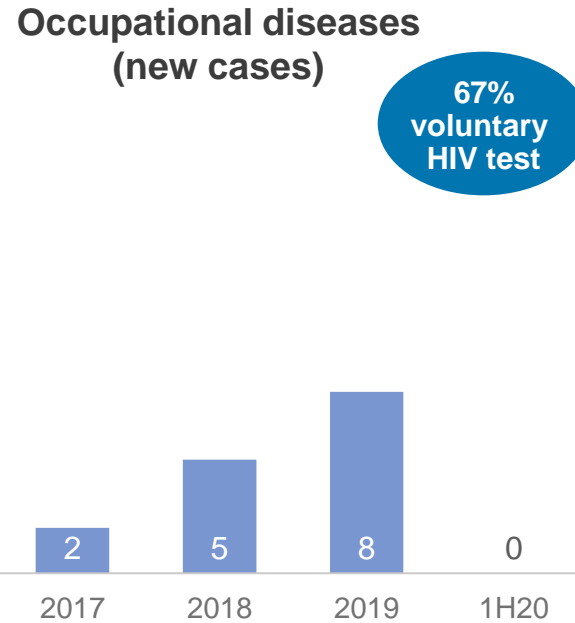
# Safety and sustainability commitments remain in focus

## Safety



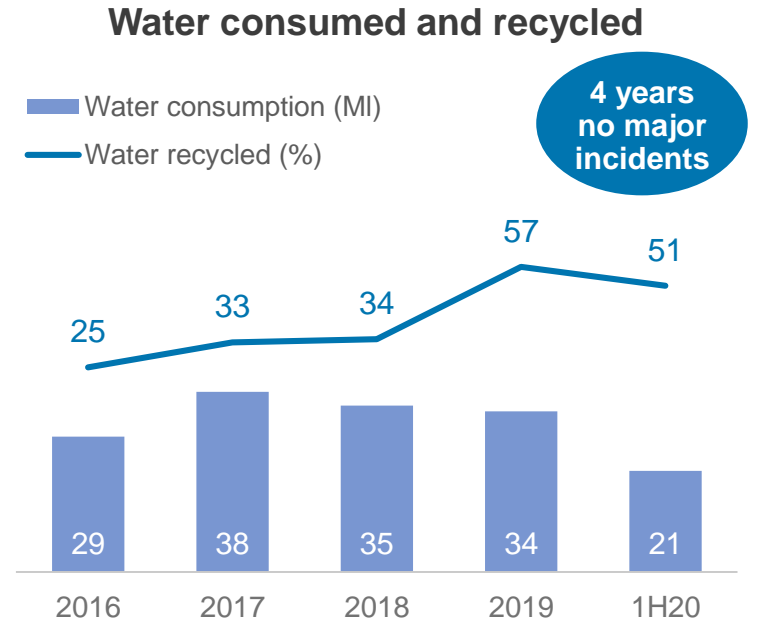
- Elimination of Fatalities Strategy
- Driving behavioural and culture change

## Health



- Continue reducing exposure to hazards
- Chronic and lifestyle disease management

## Environment



- Proactive major incident management
- Revised water strategy with recycling focus

# Resilient and capital efficient, well positioned in a challenging environment

## Resilient business

### Total sales

↓ **18.6Mt**  
1H19: 21.4Mt

### Total Production

↓ **17.9Mt**  
1H19: 20.1Mt

### EBITDA

↓ **R17.4bn**  
1H19: R20.1bn

## Capital efficient

### Attributable free cash flow

↓ **R7.1bn**  
1H19: R12.7bn

### ROCE

— **84%**  
1H19: 105%

### DPS

↓ **R19.60**  
1H19: R30.79



# Creating shared value and improving people's lives

## Contributing to South Africa

**↑ R3.1bn**  
Income tax (1H19: R3.0bn)

**↑ R1.0bn**  
Mineral royalty (1H19: R867m)

## Delivering shareholder returns

**↓ R6.3bn**  
Owners of Kumba (1H19: R9.9bn)

**↓ R2.0bn**  
Empowerment partners (1H19: R3.1bn)

## Providing employment

**↑ R2.4bn**  
Salaries and benefits (1H19: R2.4bn)



## Building communities

**↑ R125.9m**  
Direct social investment (1H19: R71.1m)

**↑ R55.7m**  
Covid-19 contribution

## Supporting local businesses

**↑ R5.2bn<sup>1</sup>**  
BEE business suppliers (1H19: R4.7bn)

**↑ R1.4bn<sup>1</sup>**  
Host community suppliers (1H19: R940m)



1: BEE business supplier spend based on MC III requirements, implemented from 1 January 2019 in line with the plans submitted to the DMRE.

# MARKETING AND OPERATIONAL OVERVIEW

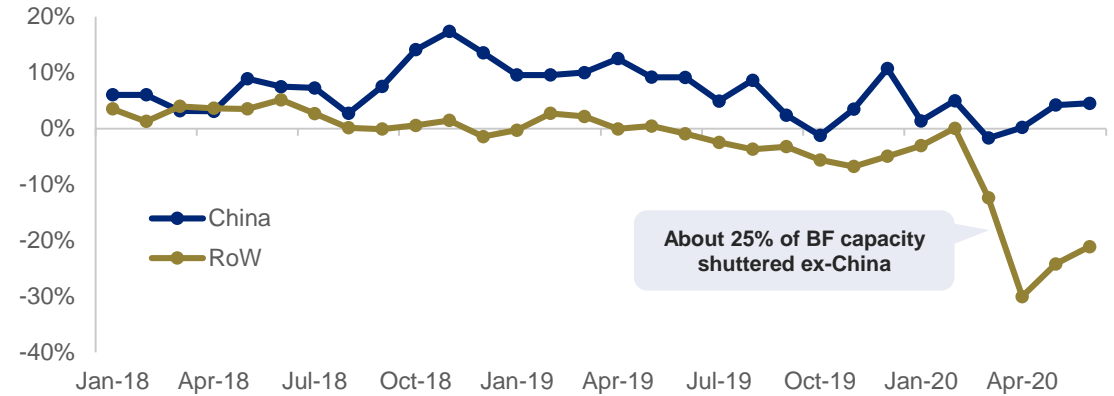


# Stable steel output in China despite Covid-19; supply disruptions in Brazil

Platts IODEX 62 index



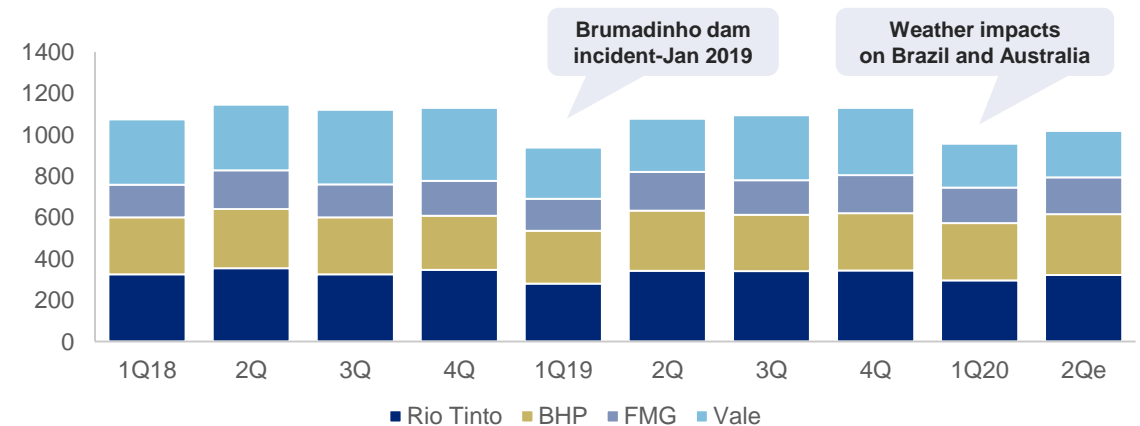
Monthly crude steel production<sup>1</sup> (%)



Platts 65-62 differential



Seaborne exports from big 4 miners (Wet Mtpa)

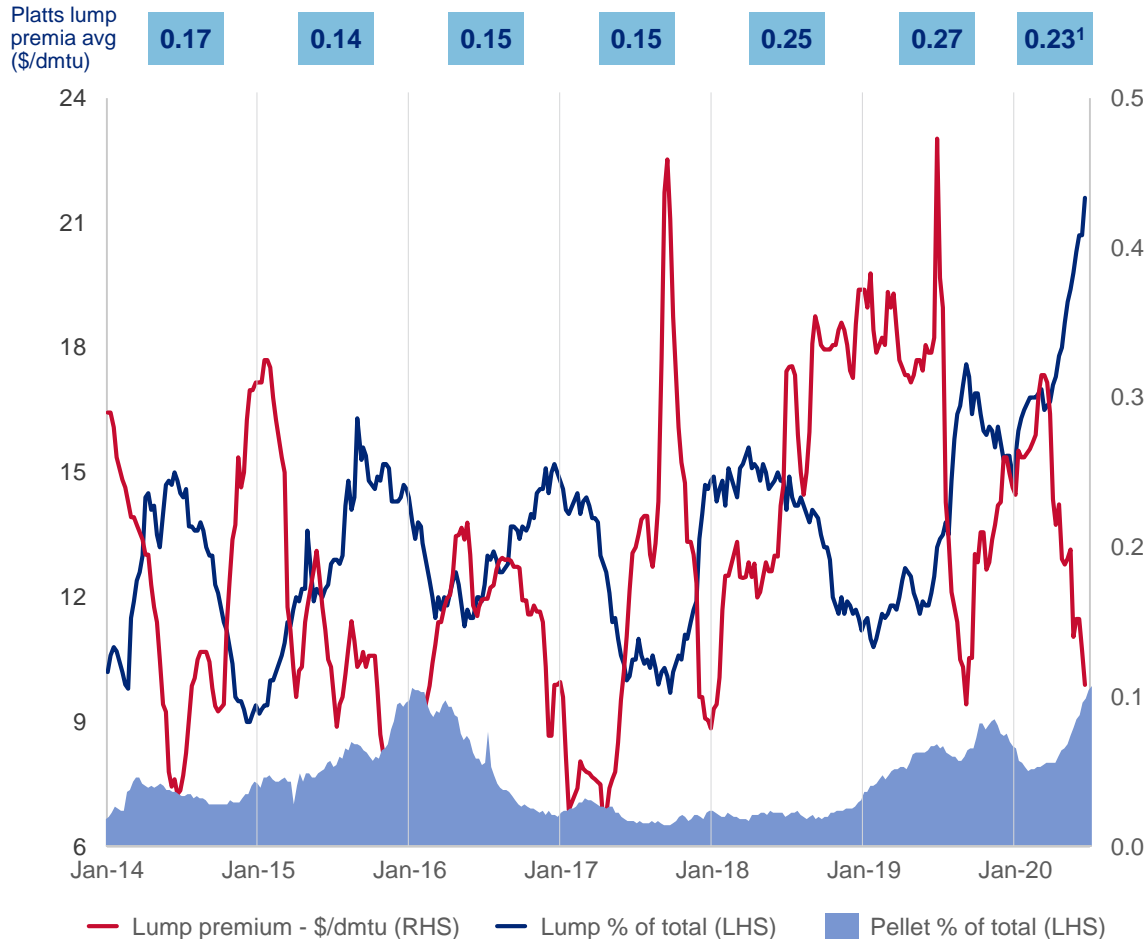


Source: Platts, Company Reports

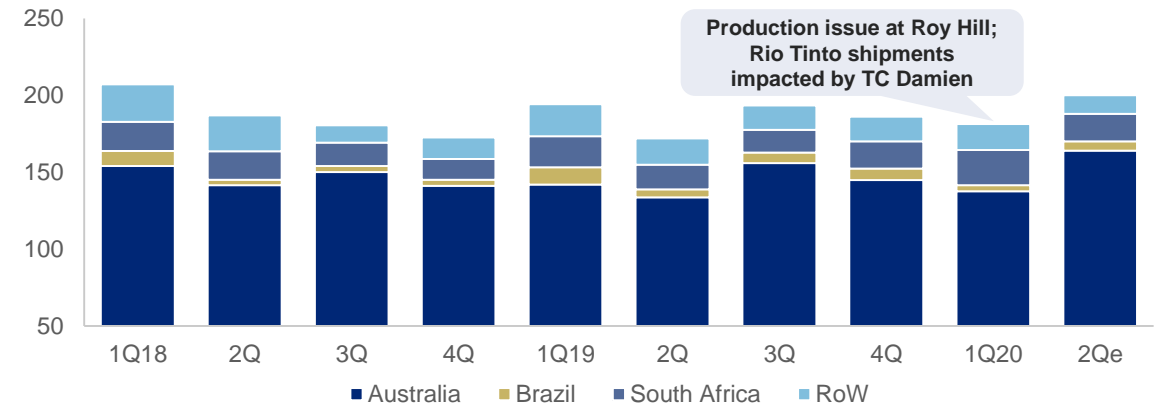
1. World Steel Association (WSA)

# Excess lump in short-term, demand structural in long-term

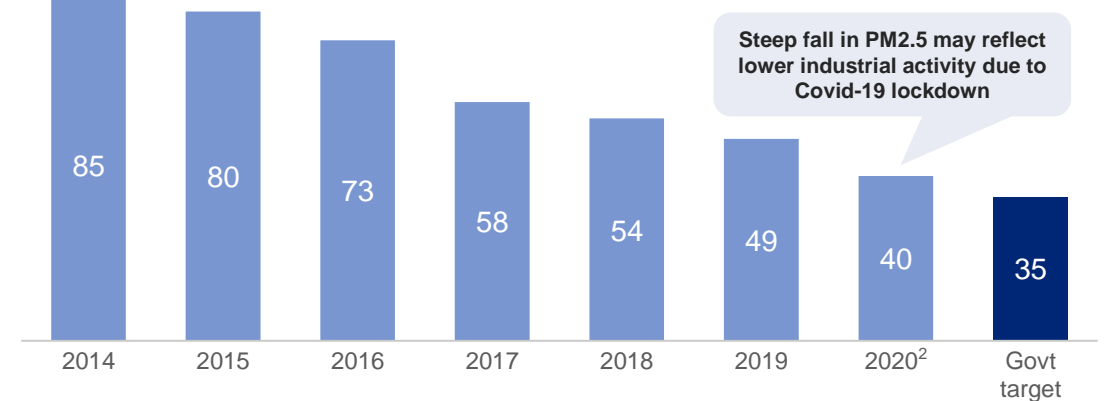
Relationship between lump premium and direct charge stocks (lumps, pellets) at Chinese ports



Global lump supply into China (Wet Mt)



Beijing air quality (PM 2.5)

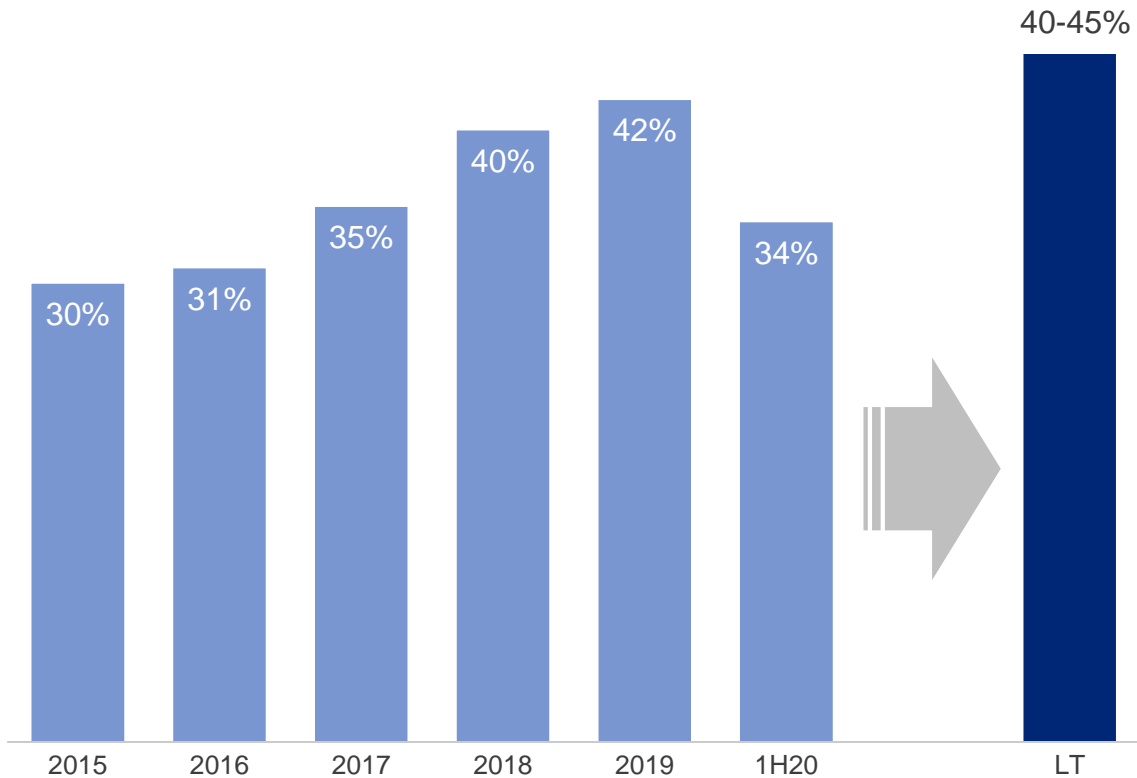


Source: Platts, GTT, Mysteel

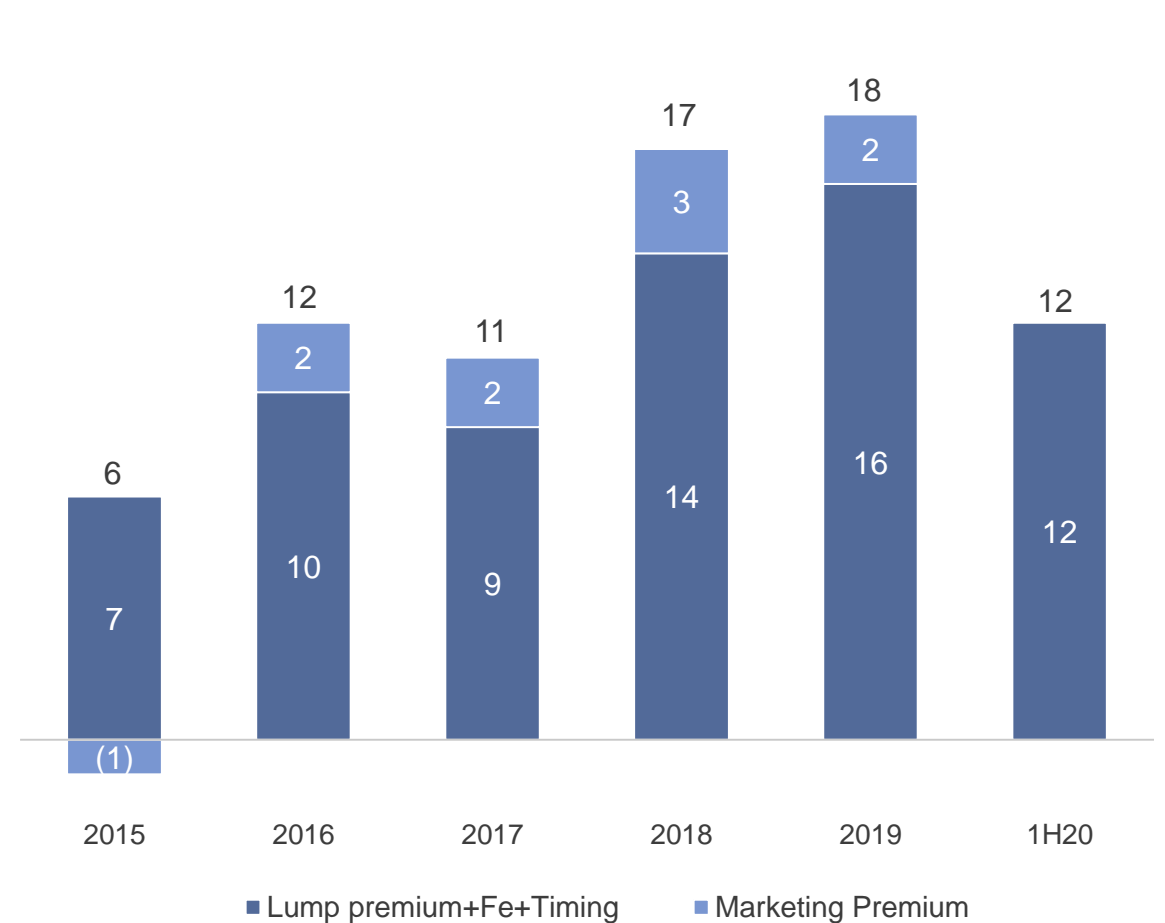
1. 1H20 Average 2. Beijing Urban Master Plan, 2030

# Our customer diversification strategy remains unchanged

Traditional markets<sup>1</sup> share in Kumba's total sales (%)



Price premium over Platts 62 FOB (US\$/dmt)

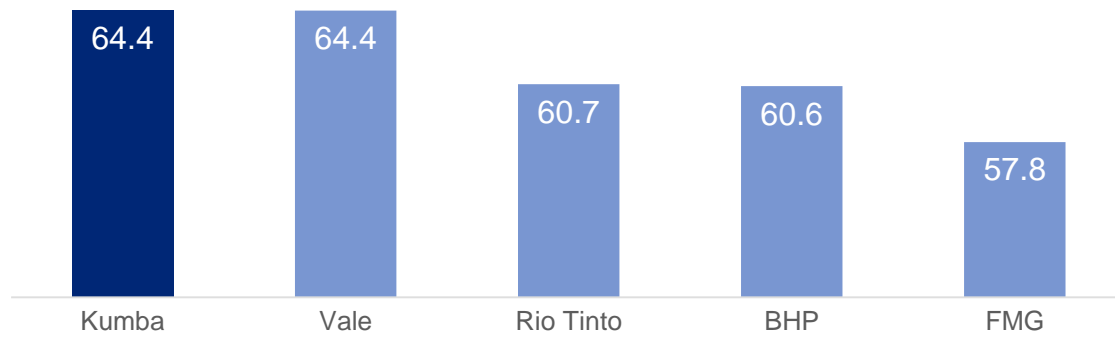


Source: Iron Ore Marketing

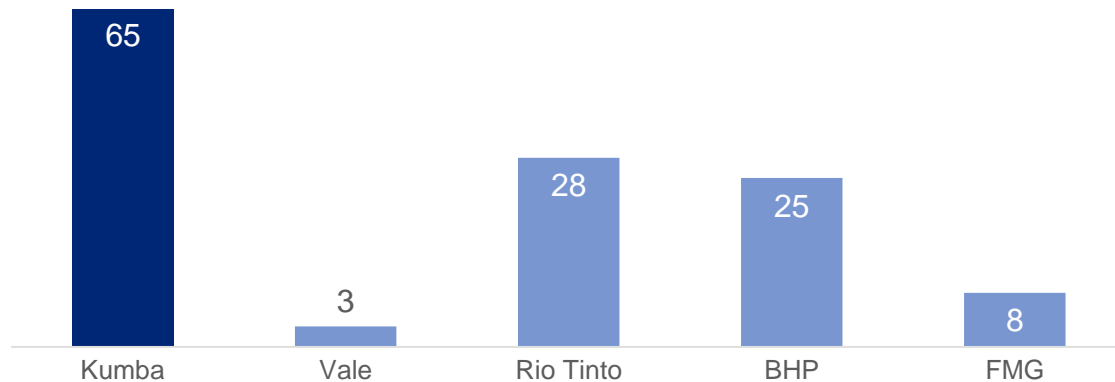
1. Sales in EU/MENA/Americas | Japan, South Korea and Taiwan

# Kumba's Fe quality adjusted in response to market demand

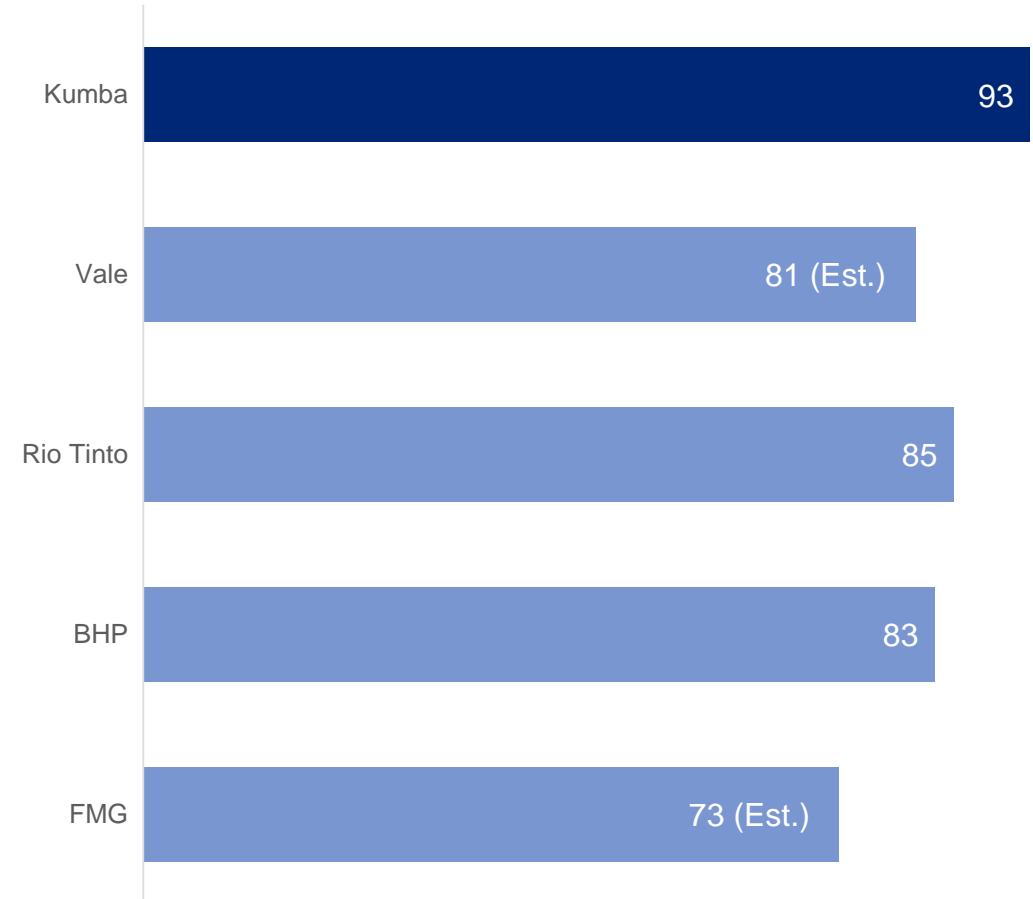
1H20 Average Fe content comparison (%)



1H20 Lump: Fine ratio comparison (%)



1H20 Realised price comparison FOB (US\$/dmt)



# Sishen run rates successfully ramped up, in line with logistical capacity

Total waste mined

↓ **68.4Mt**

1H19: 82.8Mt

Total production volumes

↓ **12.4Mt**

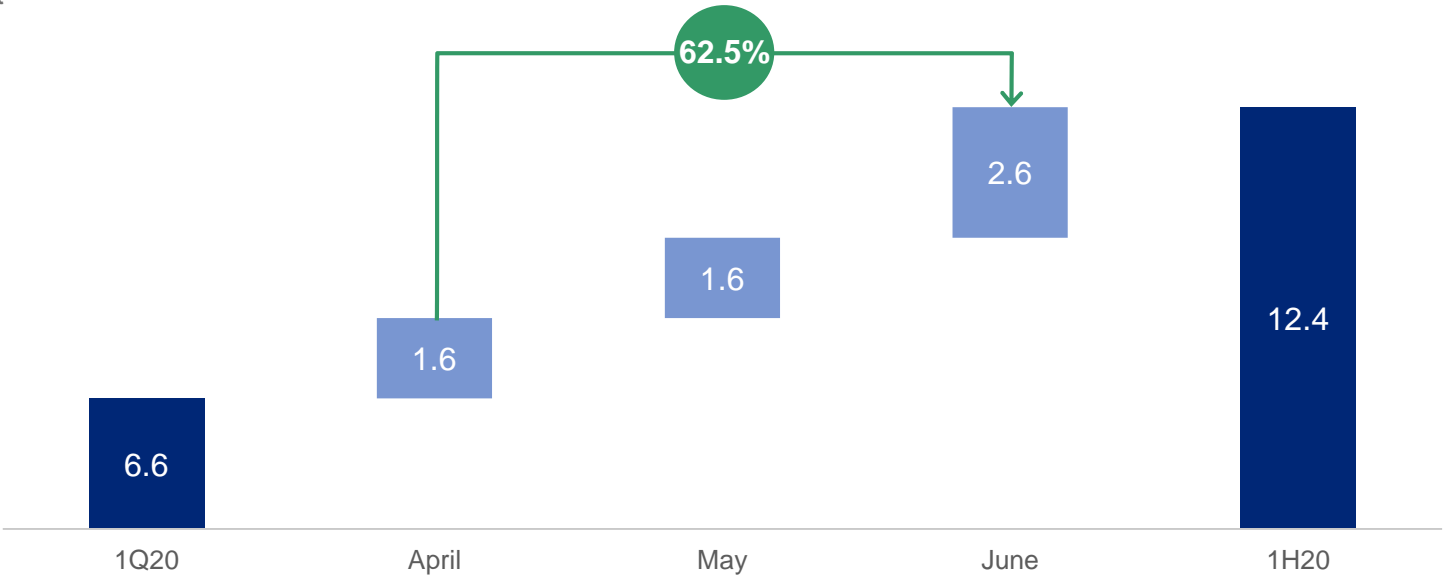
1H19: 13.8Mt

Lost-time injuries (LTIs)

↑ **7**

1H19: 5

Mt



Fe quality

− **64.4%**

1H19: 64.6%

Lump:Fine ratio

↓ **71.2%**

1H19: 72.1%

# Kolomela back to full run-rate, ensuring flexibility to protect our value chain

Total waste mined

↓ **26.2Mt**  
1H19: 30.9Mt

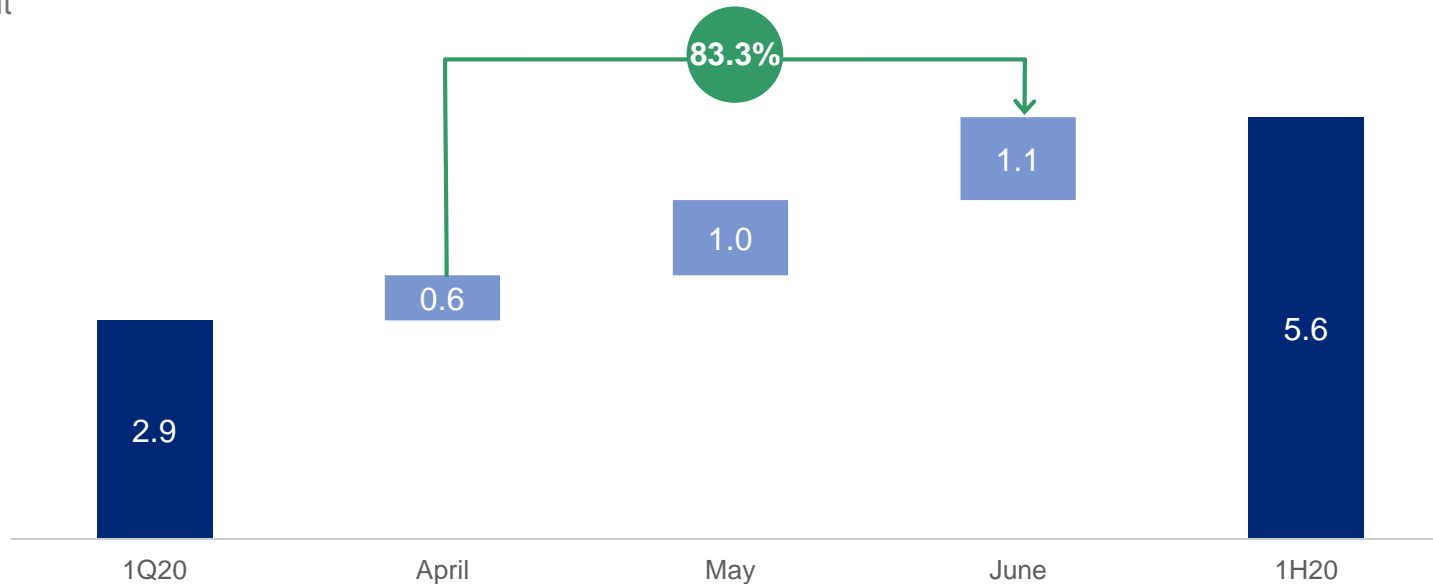
Total production volumes

↓ **5.6Mt**  
1H19: 6.3Mt

Lost-time injuries (LTIs)

− **2**  
1H19: 2

Mt



Competitive Fe quality

− **64.2%**  
1H19: 64.3%

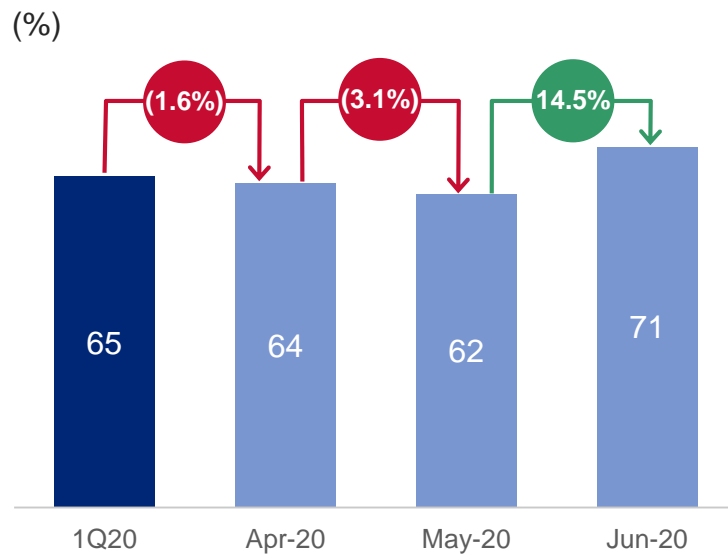
Lump:Fine ratio

− **59.3%**  
1H19: 59.4%

# Operational stability and efficiency starting to gain momentum

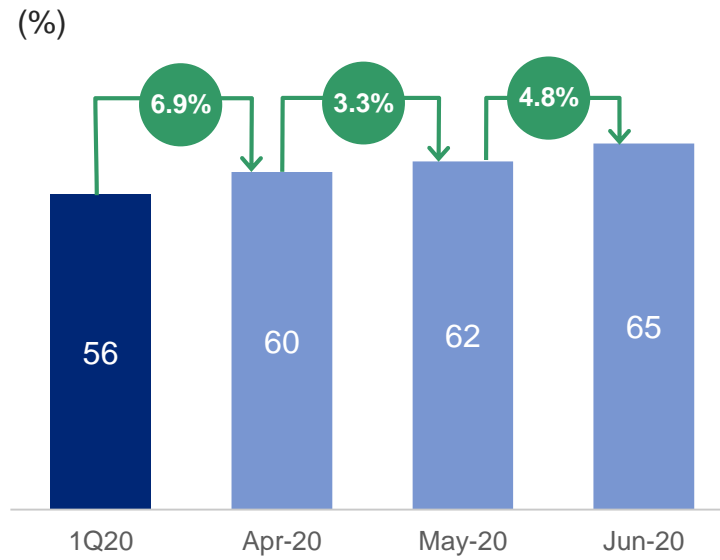
## Sishen Owner Fleet (%)

↓ **65.0%**  
1H19: 67.5%



## Kolomela Owner Fleet (%)

↓ **58.9%**  
1H19: 66.9%



## P101 initiatives

- ✓ Payload and truck speed optimisation
- ✓ Improve shovel set-up
- ✓ Reduction in loading time
- ✓ Improved key equipment availability
- ✓ Improved drilling, charging and blasting

# Maintaining flexibility across our value chain, from mine to port

Railed to port  
**18.2Mt**  
1H19: 22.3Mt



Finished product inventory  
**6.2Mt**  
1H19: 4.5Mt

Export sales  
**18.3Mt**  
1H19: 19.9Mt

Domestic sales  
**0.4Mt**  
1H19: 1.5Mt

Total sales  
**18.6Mt**  
1H19: 21.4Mt

# Strong collaboration with Transnet to mitigate Covid-19 risks

## Covid-19 prevention and response

- Supply of PPEs and PCR testing kits
- Joint industry and Transnet management
- Technical skills and labour support
- Assisting with maintenance and spares



## Rail

- Schedule management to optimise rail
- Steady ramp-up post lockdown
- Performance in line with commitment
- Future railing linked to port performance



## Saldanha Port

- Ensure optimal stock levels at port
- Increased direct and double loading
- Reduced stacker reclaimer movements
- Operator and engineer training support



# FINANCIAL OVERVIEW



# Enhancing shareholder returns

## Margin enhancement

↓	Average realised FOB price 1H19	US\$93/t US\$108/t
↓	EBITDA margin 1H19	55% 58%

## Financial discipline

↑	Cost savings 1H19	R700m R460m
↑	Break-even price 1H19	US\$42/t US\$32/t

## Sustainable returns

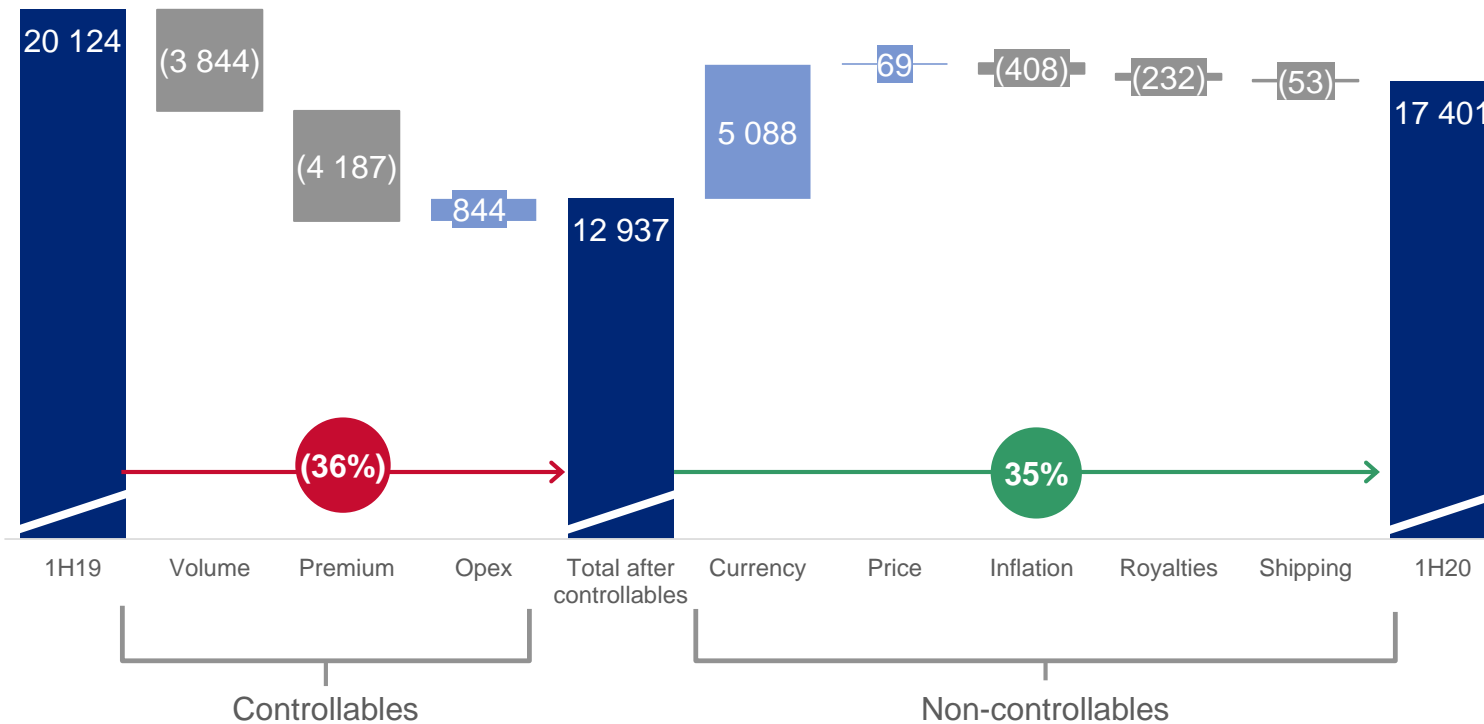
↓	HEPS 1H19	R26.19 R31.51
↓	DPS 1H19	R19.60 R30.79



# EBITDA reflects weaker price premia and lower sales

Covid-19 impact partly offset by currency gains and lower opex

Rm



## Primary drivers

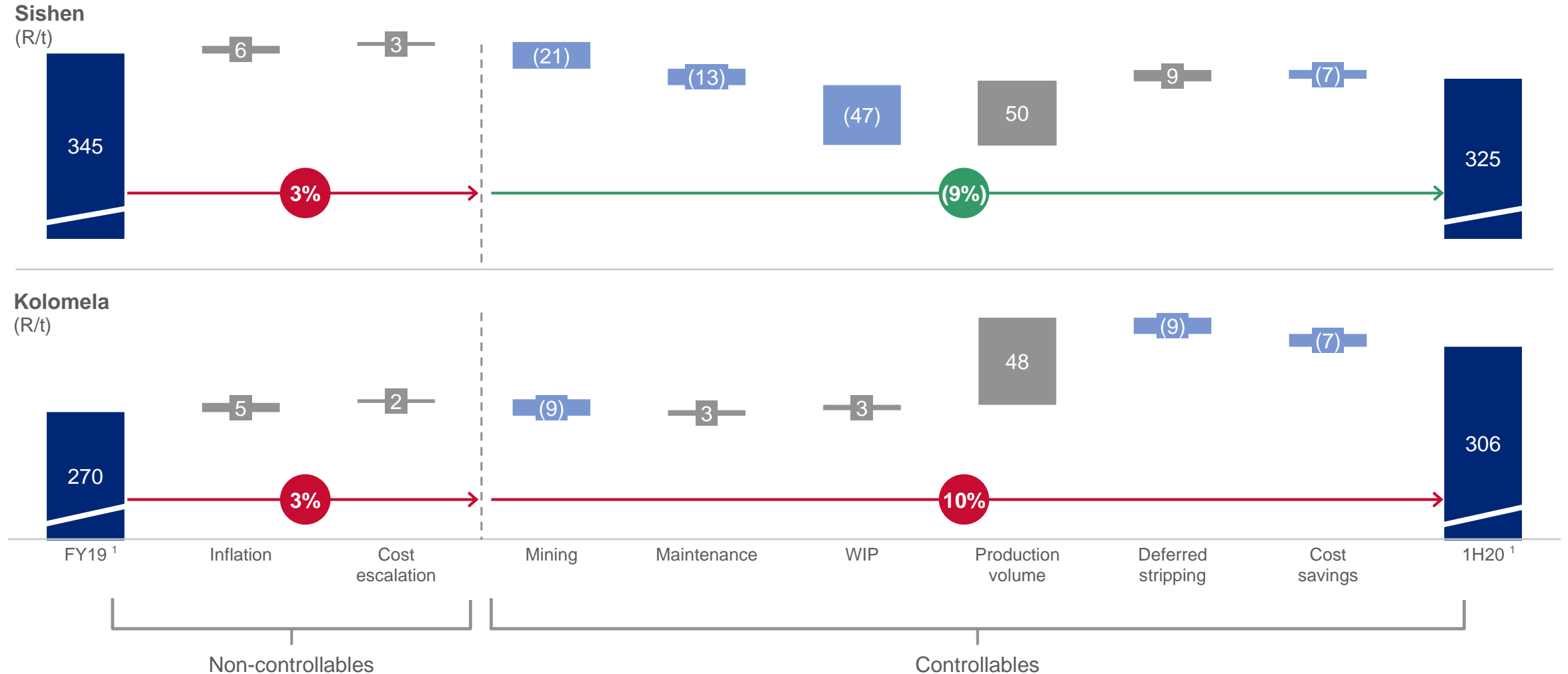
### Controllables

- Total sales volumes down 13% to 18.6Mt (1H19: 21.4Mt)
- Market premium down to US\$12/t (1H19: US\$27/t)
- Opex benefit from lower mining volumes and cost savings

### Non-controllables

- Average R/US\$ exchange rate 17% weaker at R16.67 (1H19: R14.20)
- Average Platts FOB price flat at US\$81/t

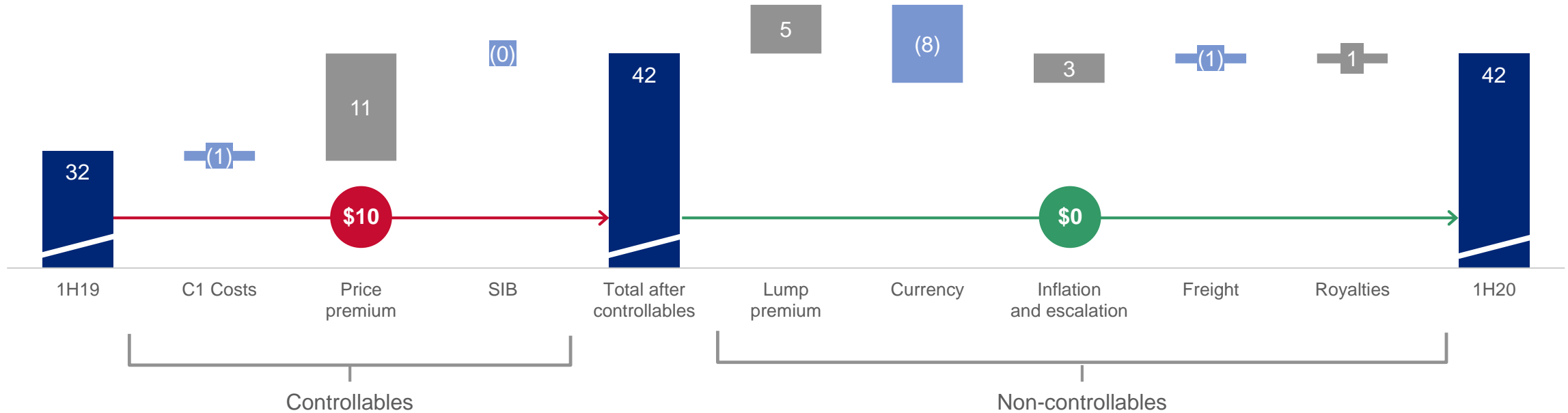
# Unit costs driven by lower mining and production volumes



1. Excluding impact of deferred stripping on unit cost: Sishen = 1H20: R69/t (FY19: R68/t); Kolomela = 1H20: R69/t (FY19: R48/t)

# Break-even price impacted by weaker price premia

Platts 62%  
break-even price (US\$/t)

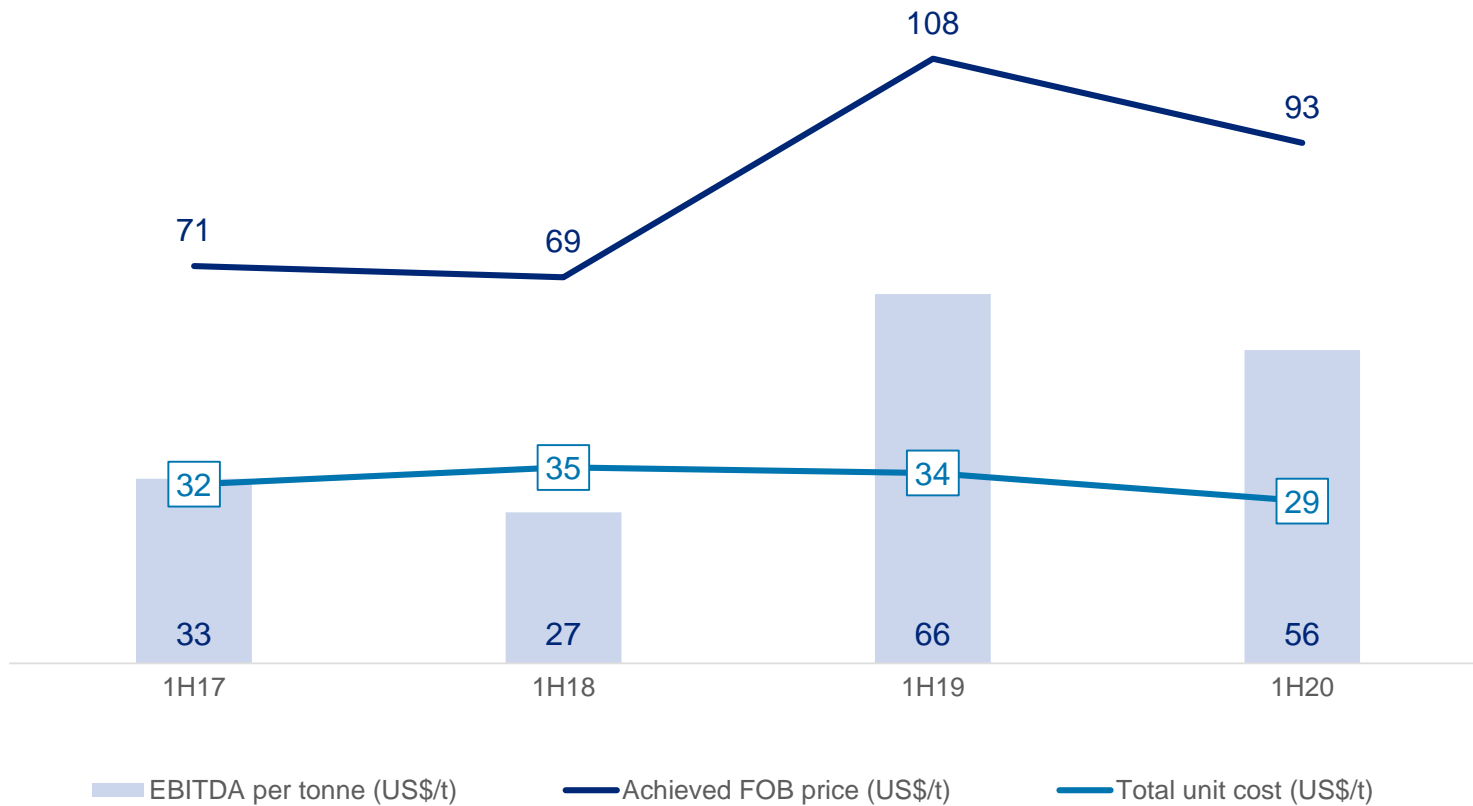


- Increased controllable costs driven by:
  - Lower achieved price premium off high 1H19 base
- Partially offset by:
  - Reduced opex from reduced volumes & cost savings
  - Constant SIB capex due to capex deferral

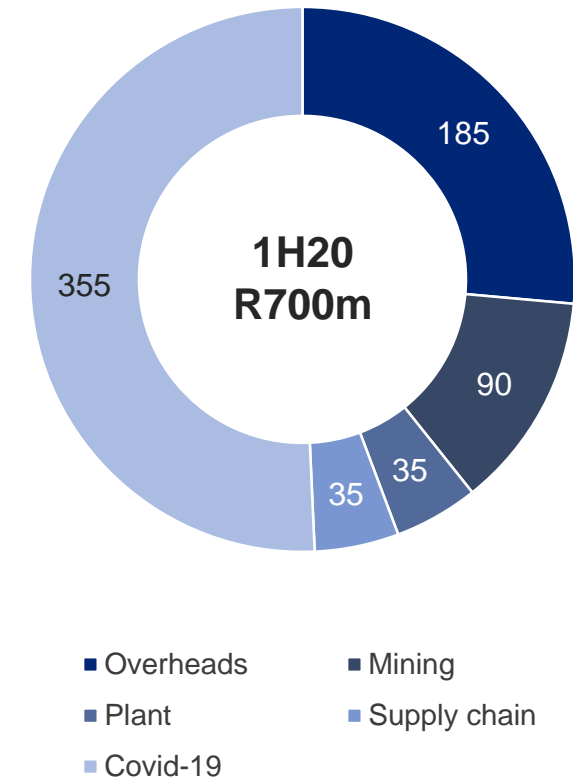
- Constant non-controllable costs due to:
  - Currency gains of 17% from R16.67/US\$ (1H19: R14.20/US\$)
- Offset by
  - Lower lump premium of US\$10/t (1H19: US\$15/t)
  - Input cost inflation, escalation and royalties

# Cost saving initiatives continue to protect our margin

## Holding our costs steady through the cycle



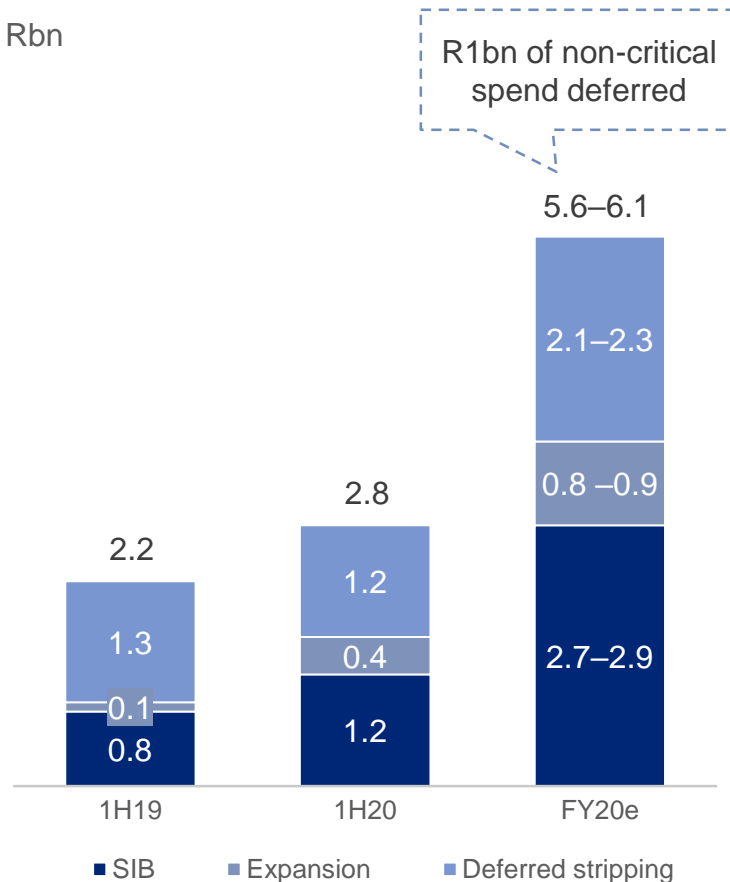
## Total cost savings of R2.6bn since 2018



# Capital expenditure to sustain our business

## Capex breakdown

Rbn



## 1H20

### SIB:

- Fleet capital spares, infrastructure upgrade and/or maintenance

### Deferred stripping:

- Reduced strip ratio due to lower waste volumes

### Expansion:

- Dingleton project
- UHDMS and Kapsteveld feasibility
- P101 efficiency initiatives

## Medium term outlook

### SIB:

- Expected to peak 2022, normalising from 2024 to ~R3bn p.a.

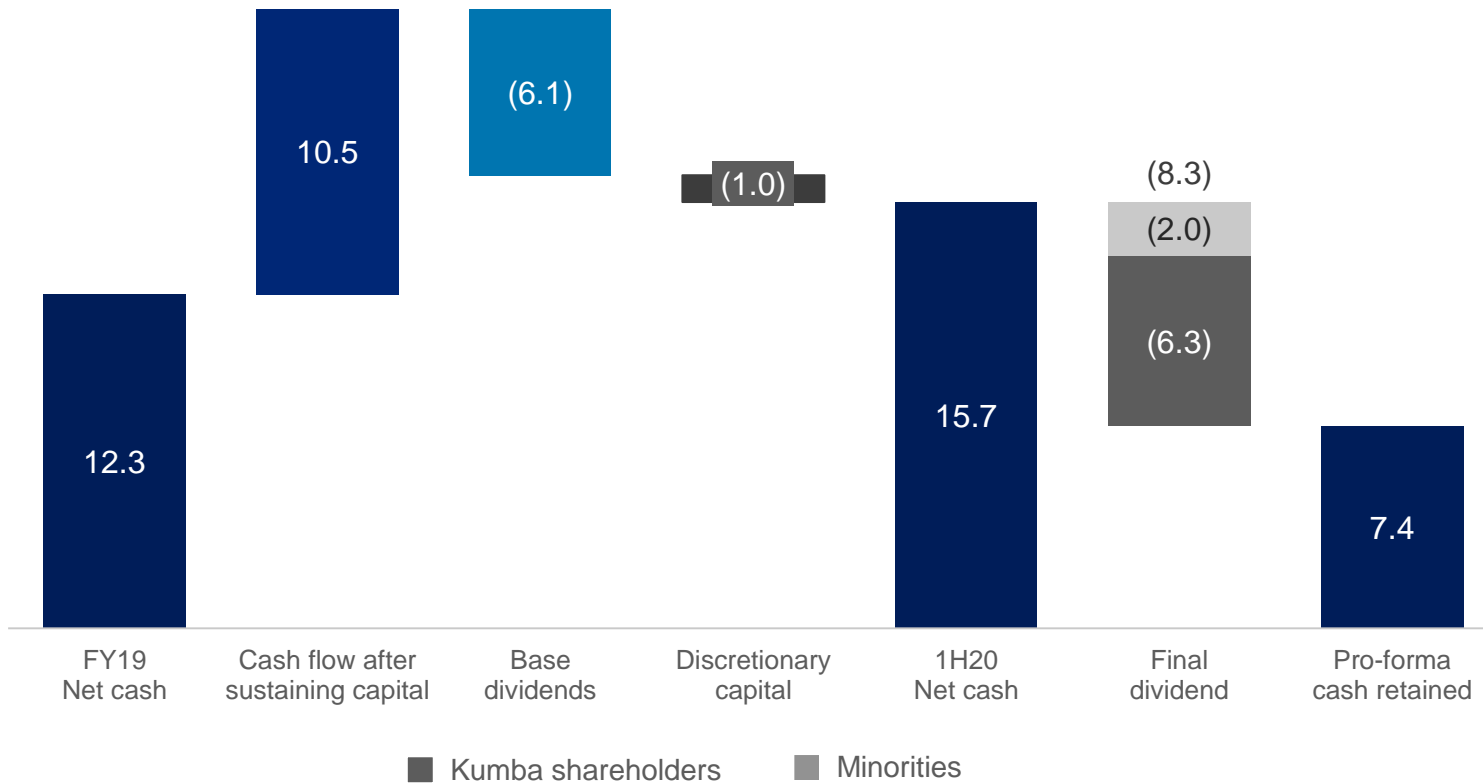
### Expansion:

- Kapsteveld South (2020 – 2023)
  - Total spend: ~R7bn (incl. pre-strip)
  - IRR: ~25%
  - EBITDA margin: >35%
- UHDMS project (2020 – 2023)
  - Total spend: ~R3–4bn
- P101 efficiency programme
  - Ramp-up over 2020 – 2021

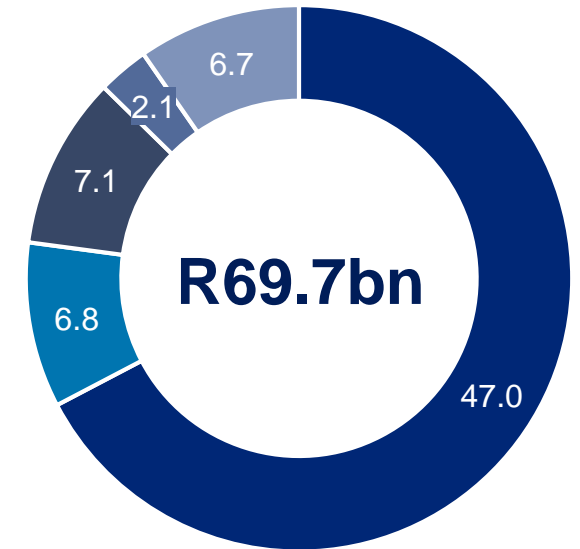
# Disciplined capital allocation

## Strong free cash flow generation

Rbn



## Capital allocation since 1H17



- Base dividend<sup>1</sup>
- Top-up dividend<sup>1</sup>
- Sustaining capex
- Expansion capex
- Deferred strip capex

1. Including dividends declared to minorities

**COMMITTED  
TO DELIVERING  
SUSTAINABLE  
VALUE**



# Margin enhancement protects our business and positions us for the future



**Enhanced  
product portfolio**

Total sales of premium products

**40%**

1H20: 22% | 1H19: 24%



**Improved  
operational efficiency**

P101 benchmark on waste fleet

**>100%**

1H20: 63% | 1H19: 67%



**Cost  
savings initiatives**

Cumulative target

**>R2.6bn**

1H20: R700m | 1H19: R460m

# Continuing to target a 20 year life of asset

## Sishen - Technology Feasibility study

UHDMS  
(+43) project

— 89% complete

Total capex ~R3-4bn

First production 2023

## Kolomela Feasibility study

Kapstevl South  
pit

↑ 100% and approved

Total capex ~R7bn

First production 2024

## Kolomela - Exploration Concept and early exploration

Ploegfontein and  
Heuningkrans

— Drilling delayed by  
Covid-19, but resumed

Northern Cape

↑ Drilling commenced  
at prospective targets

### Implementation time horizon

Near term  
(1 – 3 years)

Short term  
(3 – 5 years)

Medium to long term  
(>3 years)



# Guidance for 2020

Total production

**37 – 39Mt**

Total sales

**38 – 40Mt**

Capex

**R5.6 – 6.1bn**

## Sishen

- Production: ~26Mt
- Waste: 145 – 160Mt
- Unit costs: R385 – 395/t
- Strip ratio: 4.4, LoM ~3.4
- LoM: 13 years

## Kolomela

- Production: ~12Mt
- Waste: 45 – 55Mt
- Unit costs: R280 – 290/t
- Strip ratio: to exceed 4, LoM ~3.8
- LoM: 13 years

# Our value proposition

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## Assets

- Premium product portfolio
- Life extension opportunities
- Talented people

## Capabilities

- Safe and flexible production
- P101 efficiency and technology
- Stakeholder collaboration

## Sustainable returns

- Resilient balance sheet
- Capital discipline
- Attractive dividend policy



**THANK YOU**



# ANNEXURES



## Annexure 1: Logistics performance reflects Covid-19 related constraints

Mt	1H20	1H19	% change	2H19	% change
Railed to port (incl. Saldanha Steel)	<b>18.2</b>	22.3	(18)	19.7	(8)
Sishen mine (incl. Saldanha Steel)	<b>12.3</b>	14.9	(17)	12.9	(5)
Kolomela mine	<b>5.9</b>	7.3	(19)	6.8	(13)
Total sales	<b>18.6</b>	21.4	(13)	20.8	(11)
Export	<b>18.3</b>	19.9	(8)	20.1	(9)
Domestic	<b>0.4</b>	1.5	(73)	0.7	(43)
Total ore shipped	<b>18.4</b>	19.9	(8)	20.1	(8)
CFR (shipped by Kumba)	<b>13.7</b>	12.7	8	14.6	(6)
FOB (shipped by customers)	<b>4.7</b>	7.2	(35)	5.5	(15)
Finished product inventory	<b>6.2</b>	4.5	38	6.4	(3)

## Annexure 2: Operating margin driven by lower revenue, while expenses remain flat

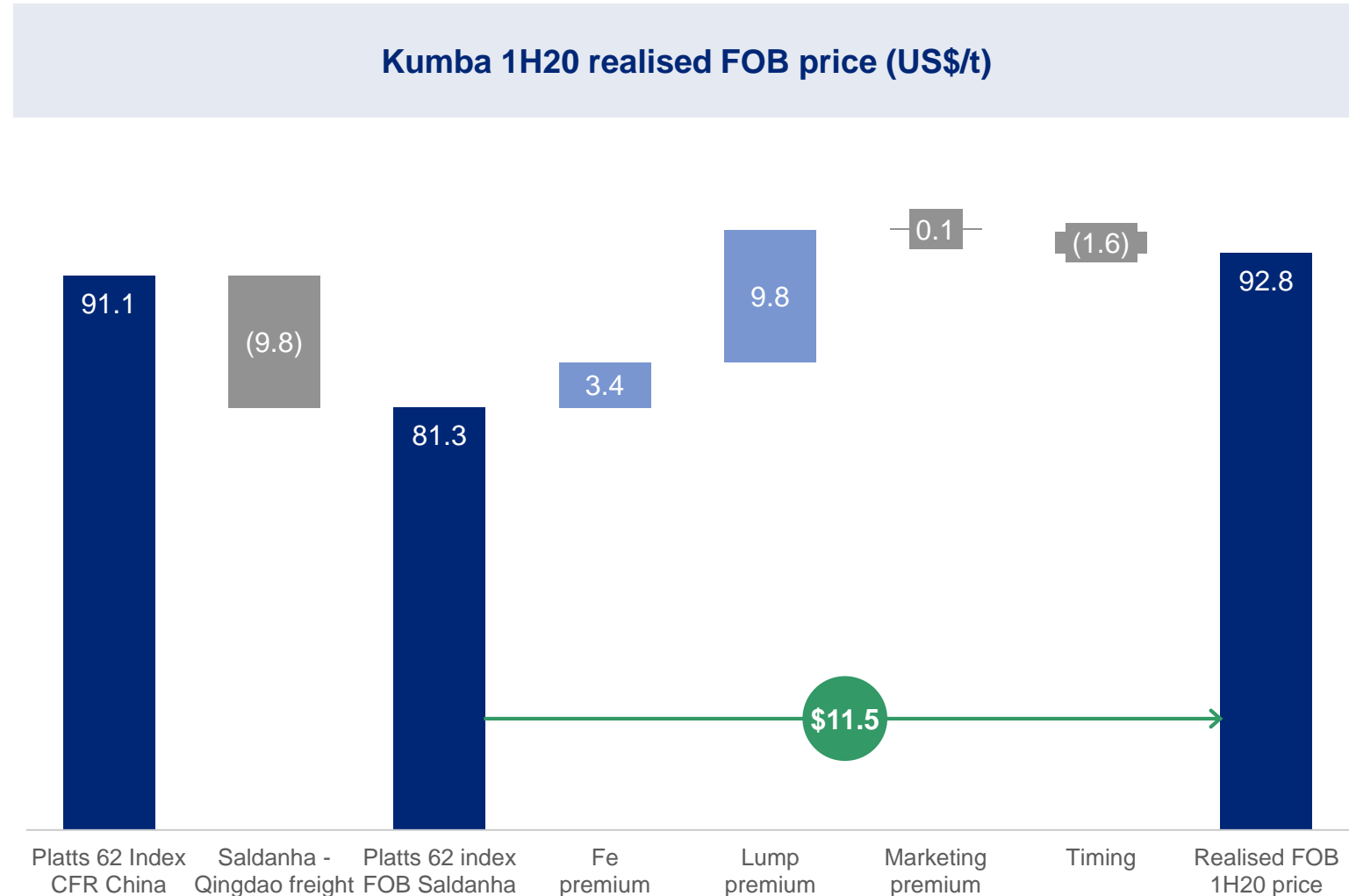
Rm	1H20	1H19	% change	2H19	% change
Revenue	<b>31 579</b>	34 498	(8)	29 787	6
Operating expenses	<b>(16 540)</b>	(16 530)	—	(18 943)	(13)
Operating profit	<b>15 039</b>	17 968	(16)	10 844	39
Operating margin (%)	<b>48</b>	52 <sup>1</sup>	(8)	36 <sup>1</sup>	12
Profit for the period	<b>11 024</b>	13 183	(16)	8 133	36
Equity holders of Kumba	<b>8 408</b>	10 058	(16)	6 201	36
Non-controlling interest	<b>2 616</b>	3 125	(16)	1 932	35
Effective tax rate (%)	<b>27</b>	27	—	27	—
Cash generated from operations	<b>14 976</b>	19 224	(23)	15 435	(3)

1. Excluding impairment

## Annexure 3: Revenue sector analysis

	1H20	1H19	% change	2H19	% change
Export (Rm)	<b>28 399</b>	30 584	(7)	25 529	11
Tonnes sold (Mt)	<b>18.3</b>	19.9	(8)	20.1	(9)
US Dollar per tonne	<b>93</b>	108	(14)	86	8
Rand per tonne	<b>1 552</b>	1 537	1	1 270	22
Domestic (Rm)	<b>464</b>	1 767	(74)	789	(41)
Shipping operations (Rm)	<b>2 716</b>	2 147	27	3 468	(22)
<b>Total revenue</b>	<b>31 579</b>	34 498	(8)	29 787	6
Rand/US Dollar exchange rate	<b>16.67</b>	14.20	17	14.70	13

# Annexure 4: Price premia adversely affected by steel production cuts outside China

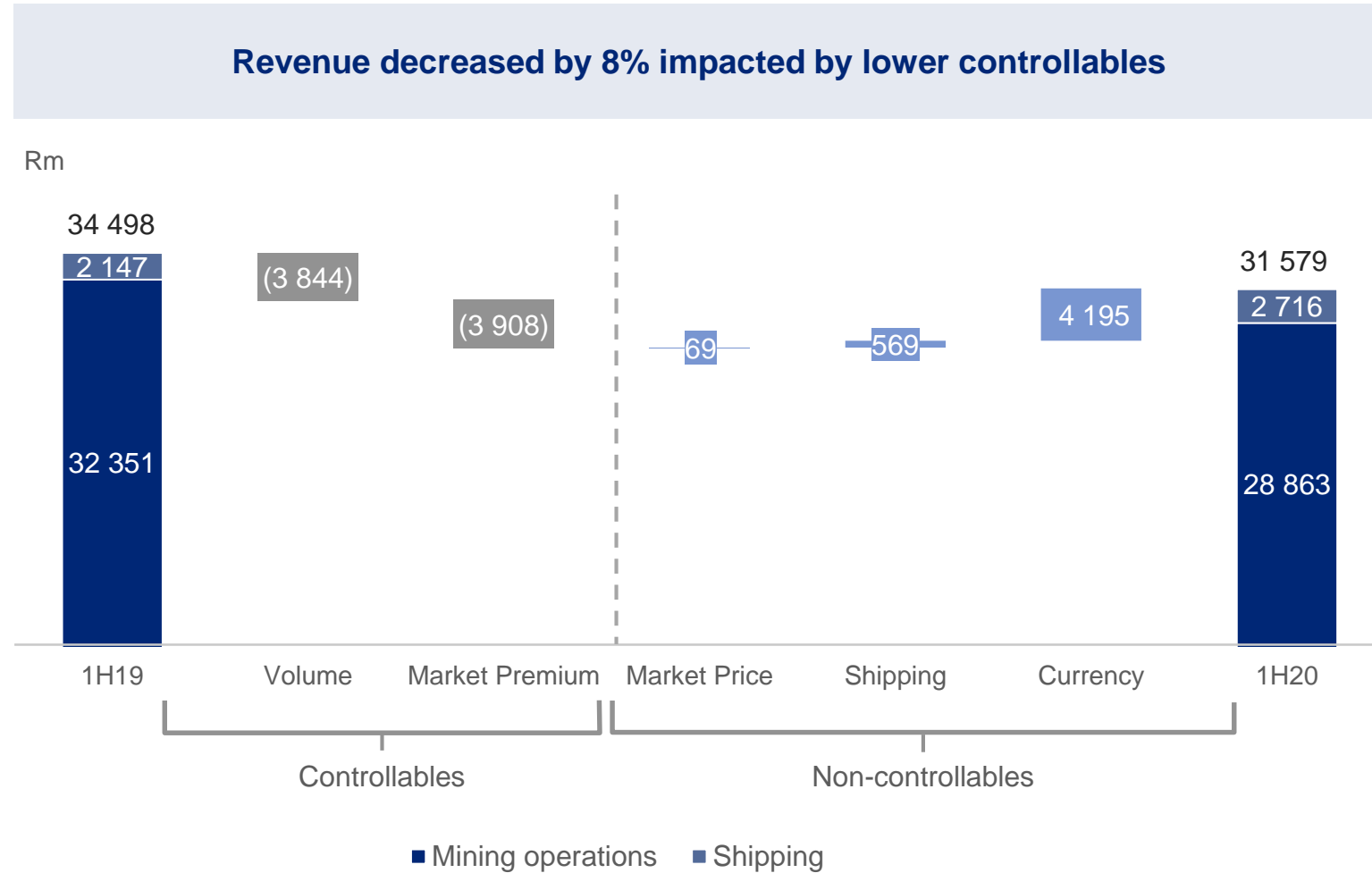


## Price drivers

- P62 Index CFR China price broadly flat: US\$91/t
- Fe premium: average ~US\$1.4 per 1% Fe
- Lump premium: average US\$0.23/dmtu vs. US\$0.34/dmtu in 2019
- Marketing premium: Cargoes diverted to China owing to Covid-19 related cuts in EU and JKT<sup>1</sup>
- Timing effects: Products generally priced in month of arrival

1. Japan, South Korea and Taiwan

# Annexure 5: Revenue reflects lower realised prices and sales volumes



## Revenue drivers

### Controllables

- Total sales volumes down 13% to 18.6Mt (1H19: 21.4Mt) due to lower domestic offtake, Covid-19 restrictions and weather
- Market premium down US\$15/t to US\$12/t (1H19: US\$27/t)

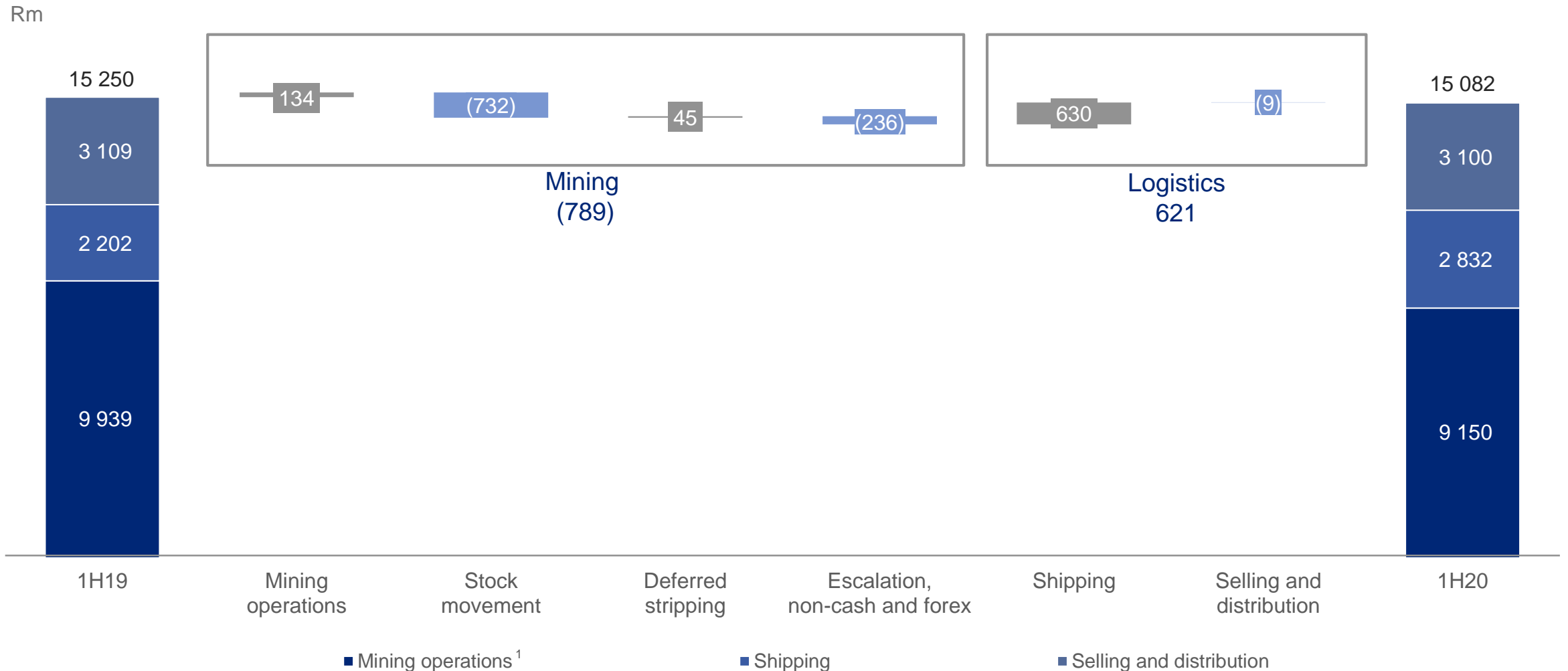
### Non-controllables

- Average Platts FOB price flat at US\$81/t
- Average R/US\$ exchange rate 17% weaker at R16.67 (1H19: R14.20)

## Annexure 6: Operating expenditure analysis

Rm	1H20	1H19	% change	2H19	% change
Cost of goods sold	12 002	12 161	(1)	14 418	(17)
Cost of goods produced	9 170	9 959	(8)	11 015	(17)
Production costs	8 967	9 024	(1)	11 885	(25)
Sishen mine	6 413	6 149	4	7 285	(12)
Kolomela mine	2 587	2 384	9	2 986	(13)
Corporate support and studies	607	592	3	1 530	(60)
Forex and other	(640)	(101)	534	84	(862)
Inventory movement WIP	(645)	523	(223)	(472)	37
A grade	(454)	623	(173)	(304)	49
B grade	(191)	(100)	91	(168)	14
Inventory movement finished product	848	412	106	(398)	(313)
Shipping operations	2 832	2 202	29	3 403	(17)
Mineral royalty	1 458	1 224	19	1 187	23
Impairment charge/(reversal)	—	56	(100)	(33)	(100)
Sublease rental	(20)	(20)	—	(20)	—
Selling and distribution	3 100	3 109	—	3 392	(9)
<b>Operating expenses</b>	<b>16 540</b>	<b>16 530</b>	<b>—</b>	<b>18 944</b>	<b>(13)</b>

# Annexure 7: Operating expenditure driven by stock movement and cost escalation

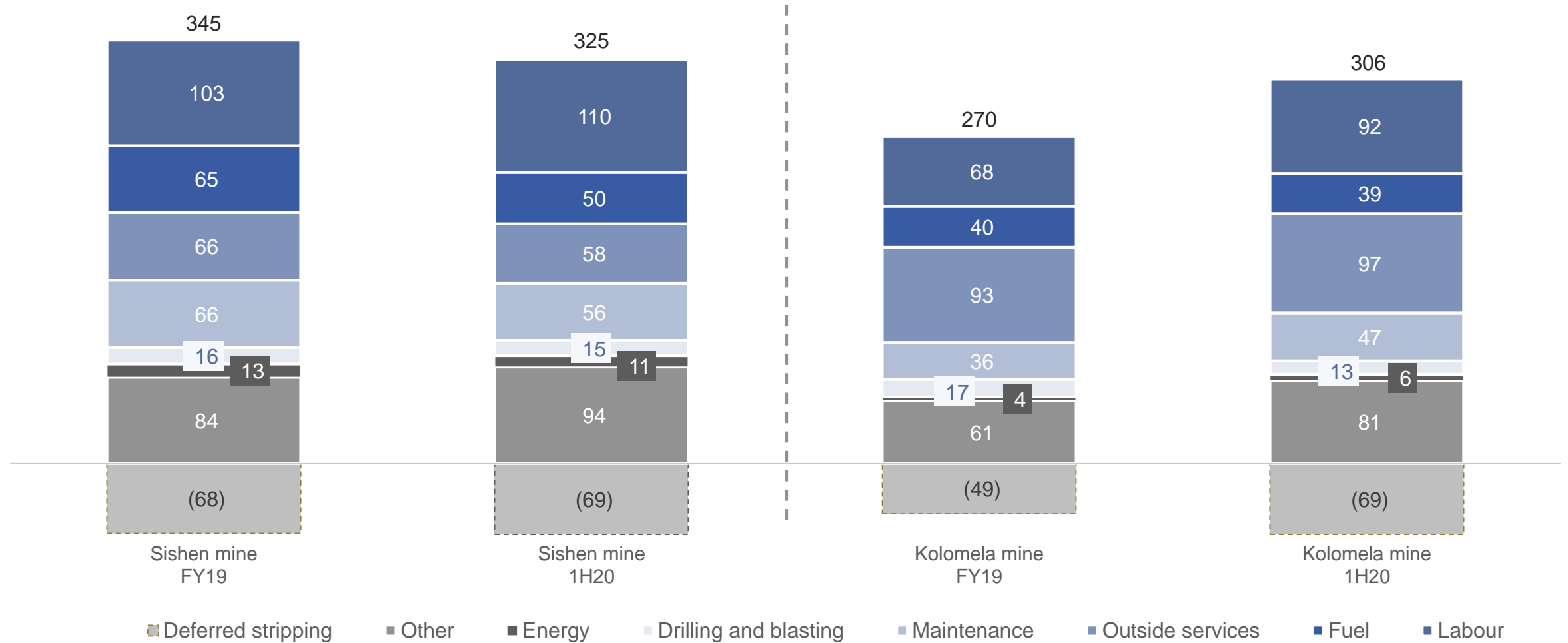


1. Excluding the mineral royalty and impairment

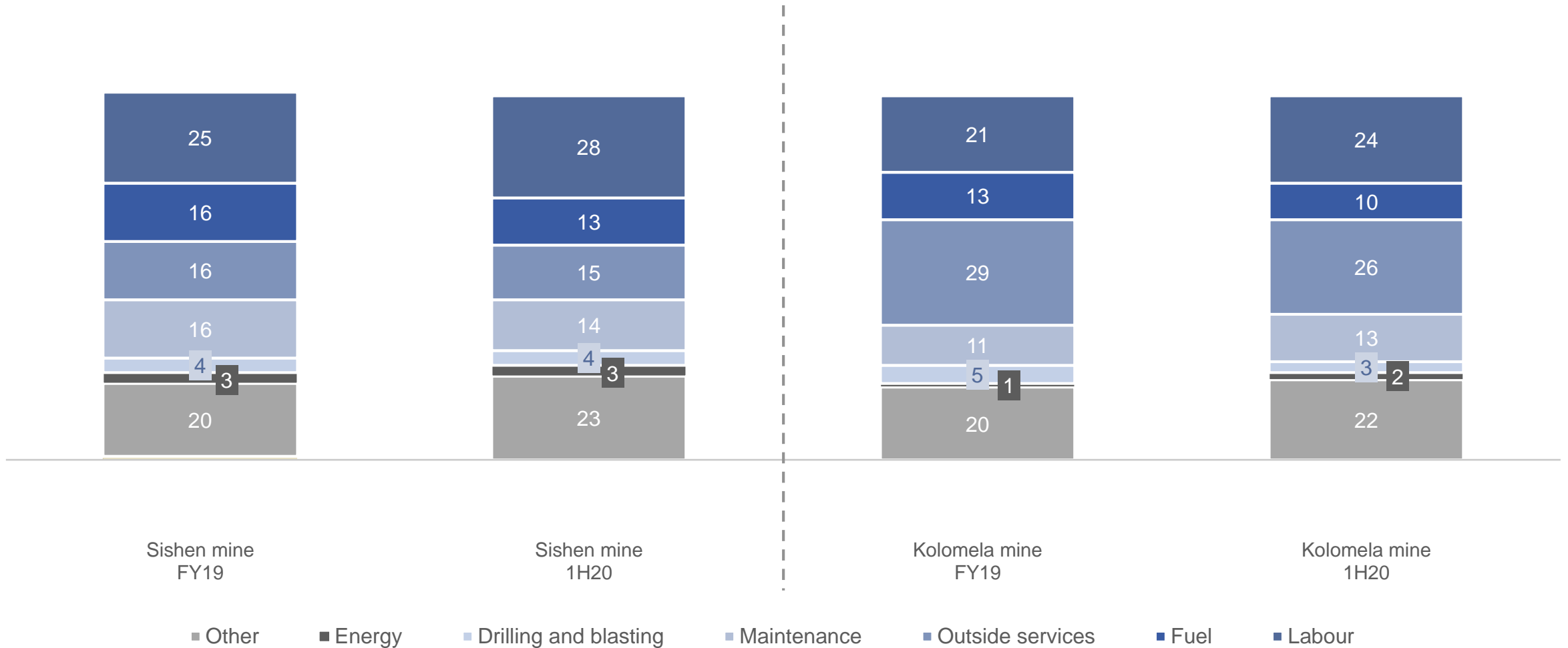
## Annexure 8: EBITDA analysis

Rm		1H20	1H19	% change
<b>Total sales volumes (Mt)</b>	<b>a</b>	<b>18.6</b>	21.4	(13)
<b>Benchmark price (\$/t)</b>		<b>91</b>	91	—
Product premiums (\$/t)		<b>12</b>	27	(56)
Freight (\$/t)		<b>(10)</b>	(10)	—
<b>Realised FOB price(\$/t)</b>		<b>93</b>	108	(14)
On-mine unit costs (\$/t)		<b>(19)</b>	(23)	15
Logistics (rail and port) (\$/t)		<b>(10)</b>	(11)	9
Royalties (\$/t)		<b>(5)</b>	(4)	(25)
Other costs (\$/t)		<b>(3)</b>	(3)	—
<b>FOB margin (\$/t)</b>	<b>b</b>	<b>56</b>	67	(16)
<b>Average Rand/US Dollar exchange rate (ZAR/US\$)</b>	<b>c</b>	<b>16.67</b>	14.20	17
<b>EBITDA</b>	<b>a x b x c</b>	<b>17 401</b>	<b>20 124</b>	<b>(14)</b>

# Annexure 9: Sishen and Kolomela mines' unit cash cost structure (R/t)



# Annexure 10: Sishen and Kolomela mines' unit cash cost structure (%)



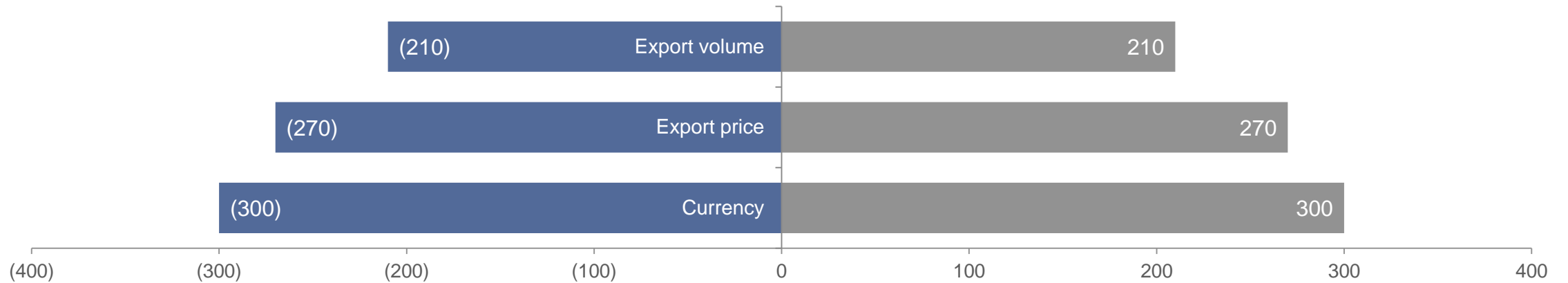
# Annexure 11: Capital expenditure analysis

Rm	1H20	FY19	FY20e
<b>Approved expansion</b>	<b>348</b>	<b>592</b>	500 – 600
<b>Deferred stripping</b>	<b>1 237</b>	<b>2 634</b>	2 100 – 2 300
Sishen	854	1 981	1 300 – 1 500
Kolomela	383	653	~800
<b>SIB</b>	<b>1 242</b>	<b>2 377</b>	2 700 – 2 900
Sishen	892	1 693	1 800 – 2 000
Kolomela	350	684	~900
<b>Unapproved expansion</b>	<b>—</b>	<b>—</b>	~300
<b>Total approved and unapproved capital expenditure</b>	<b>2 827</b>	<b>5 603</b>	5 600 – 6 100

# Annexure 12: Sensitivity analysis 1H20

## 1% change to key operational drivers, each tested independently

Sensitivity analysis (1% change) – EBITDA impact (Rm)



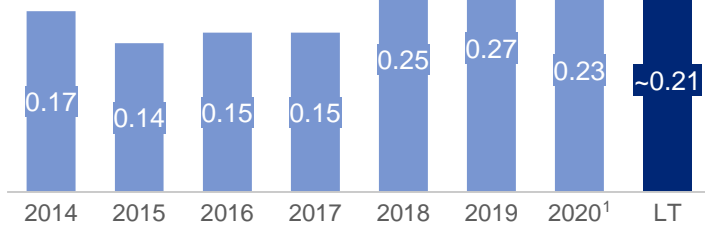
## Change per unit of key operational drivers, each tested independently

Sensitivity analysis	Unit change	EBITDA impact
Currency (Rand/US\$)	R0.10/US\$	R180m
Export Price (US\$/t)	US\$1.00/t	R290m
Volume (kt)	100kt	R115m
		<b>Breakeven price impact</b>
Currency (Rand/US\$)	R1.00/US\$	US\$3.00/t

# Annexure 13: Structural changes support quality premiums

## Lump premium (Platts, US\$/dmu)

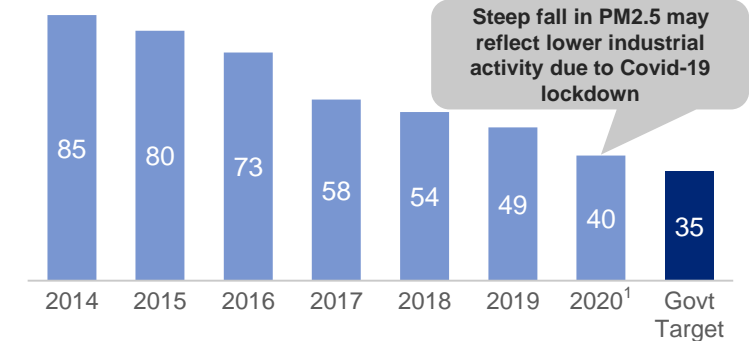
Annual Average



## Key drivers

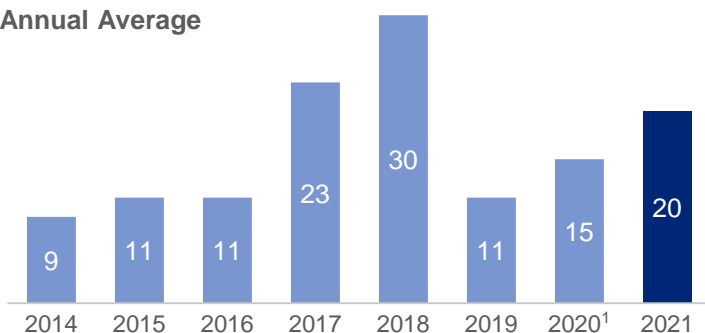
- Tighter emissions standards
- Sinter displacement in blast furnace burden
- Escalating sinter costs

## Beijing air quality (PM 2.5)



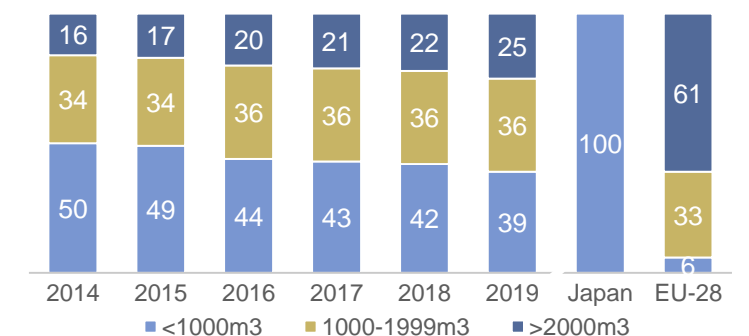
## 62% vs 65% premium (Platts, %)

Annual Average



- ~250Mt steel capacity reduction
- Bigger blast furnaces
- Steel industry consolidation

## China blast furnace size distribution<sup>2</sup> (%)



1. Source: Beijing Urban Master Plan, 2030; CISA, MIIT, Wood Mackenzie; WSA, CRU

2. CISA member mills only