

# 2016 ANNUAL RESULTS

## 14 FEBRUARY 2017

Kumba Iron Ore Limited



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# AGENDA

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## 1. Introduction / Results overview

Themba Mkhwanazi

## 2. Market overview

Themba Mkhwanazi

## 3. Operations

Themba Mkhwanazi

## 4. Financial performance

Frikkie Kotzee

## 5. Strategy and outlook

Themba Mkhwanazi



# SUMMARY

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- ✘ Safety a challenge**
  - Need to work to eliminate fatalities
- ✓ More robust operating platform in place**
  - Sishen and Kolomela production above target
  - Cost base materially reset
- ✓ Financial health improved**
  - Higher margins and free cash flow generation
  - Strong balance sheet
- ✓ Sishen 21.4% residual mining right awarded**
- ✓ Settlement agreement reached with SARS**
- ✘ Significant further progress required**
  - Further operational progress essential to contain costs



# PATH TO SUSTAINABLE EXCELLENCE IN PERFORMANCE

## Understanding challenges

Safe production

Mining

Waste

Strip ratio

Mature operations

Cost inflation

Labour environment



## Embedding operating principles

Safety framework

Operating performance

Continued Operating Model implementation

Technology adoption

Productivity improvement and benchmarking

Cost control

Expense control

Capital allocation discipline

People development



## Delivering outcomes

Zero harm

Consistent, predictable, high quality operations and premium product

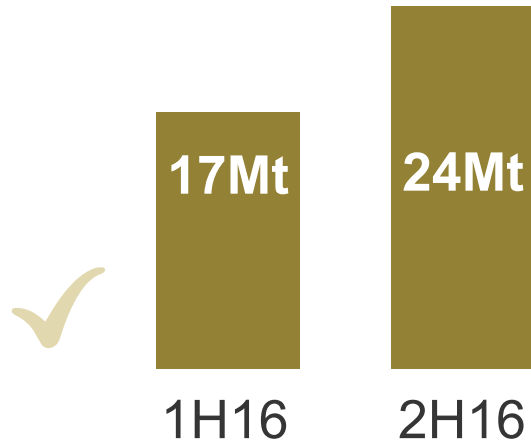
Competitive cost position

Stable workforce and high performance culture

Full realisation of resource endowment

# SOLID RESULTS IN A YEAR OF TRANSITION

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**Improvement  
in production**

**\$64/t**  
Average price

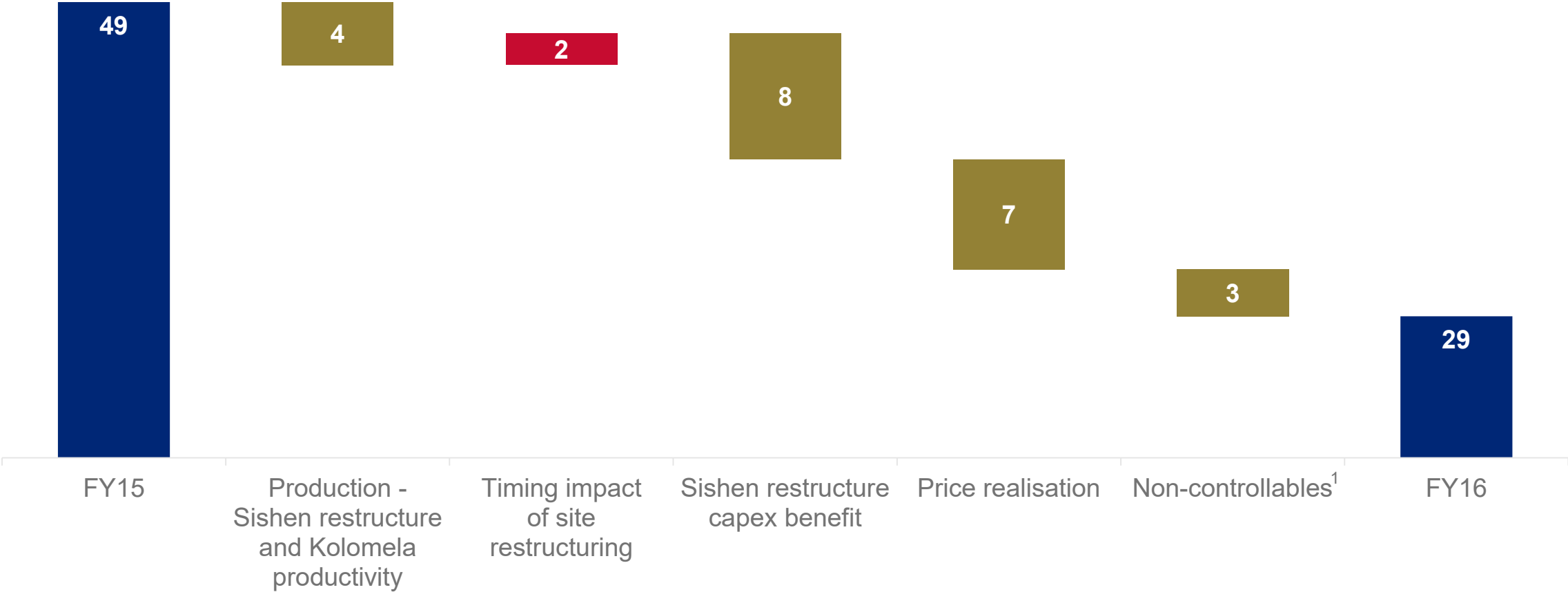
**Exceptional  
price realisation**

**\$29/t**  
Cash breakeven

**Significant  
cost reduction**

# COST AND CAPEX DISCIPLINE DELIVERING MEANINGFUL GAINS

Platts 62% Breakeven Price (\$/t)

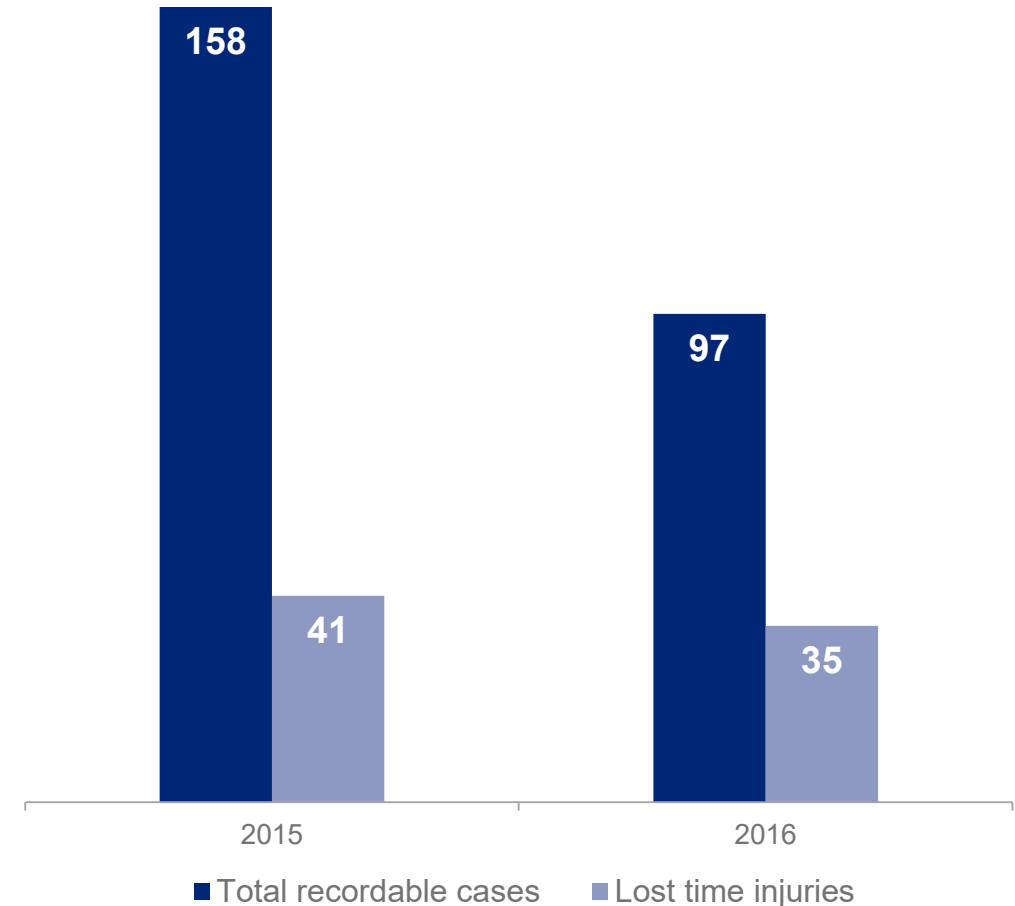


1. Currency, inflation, spot price

# SAFETY HAS BEEN A CHALLENGE AND IS OUR HIGHEST PRIORITY

- Regrettably we lost two colleagues in work related fatalities in 1H16
- Concerted efforts invested in eliminating fatalities and preventing injuries
  - Leadership reflections
  - Critical control monitoring and effectiveness
  - Learning from incidents
- Key priorities
  - Achieving a step change in safety performance through the implementation of the elimination of fatalities framework
  - Driving culture change and maintaining employee engagement

Safety Indicators







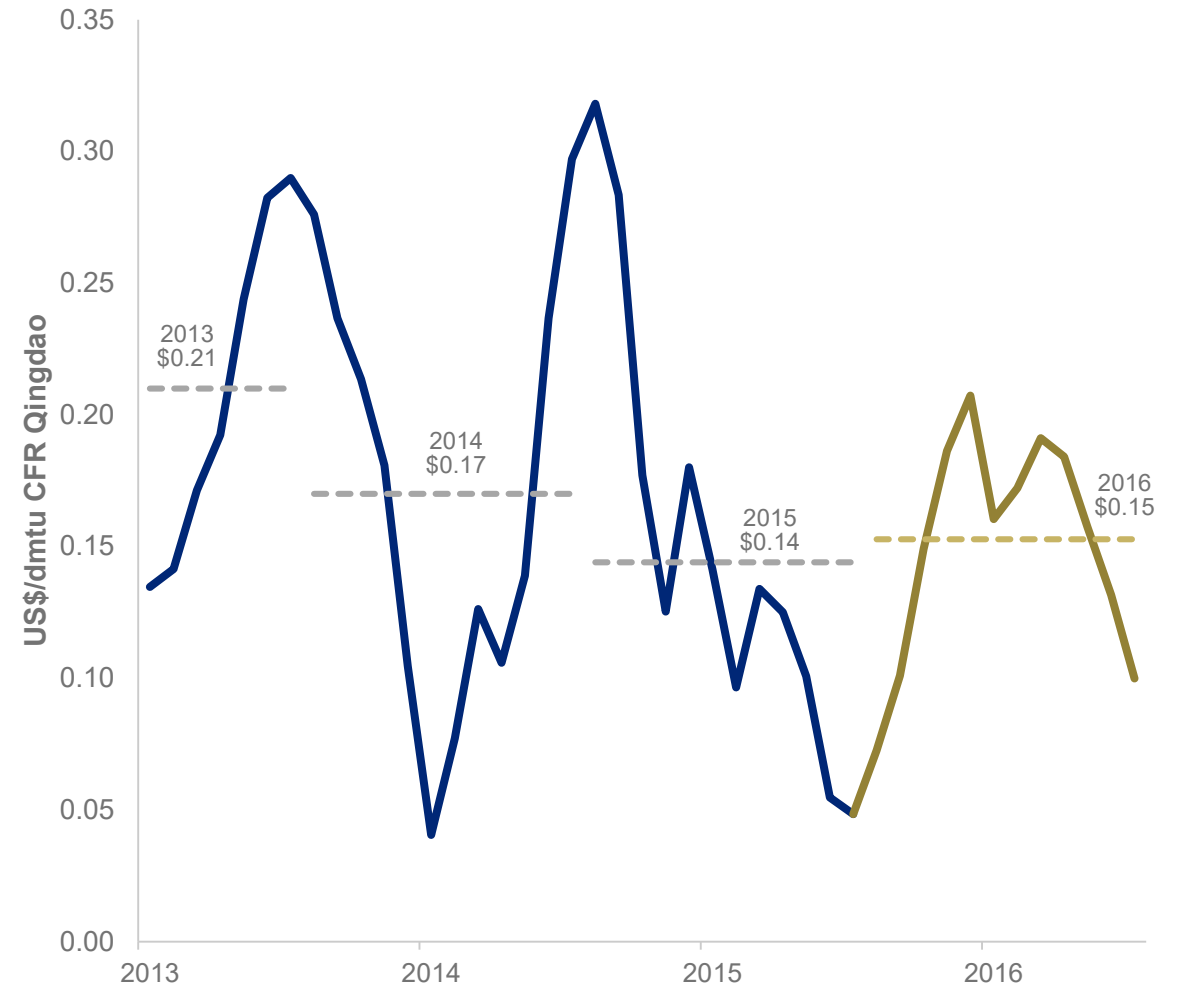
## **MARKET OVERVIEW**

# PRICES RECOVERING FROM PREVIOUS LOWS

Platts IODEX Monthly Average (US\$/dmt)

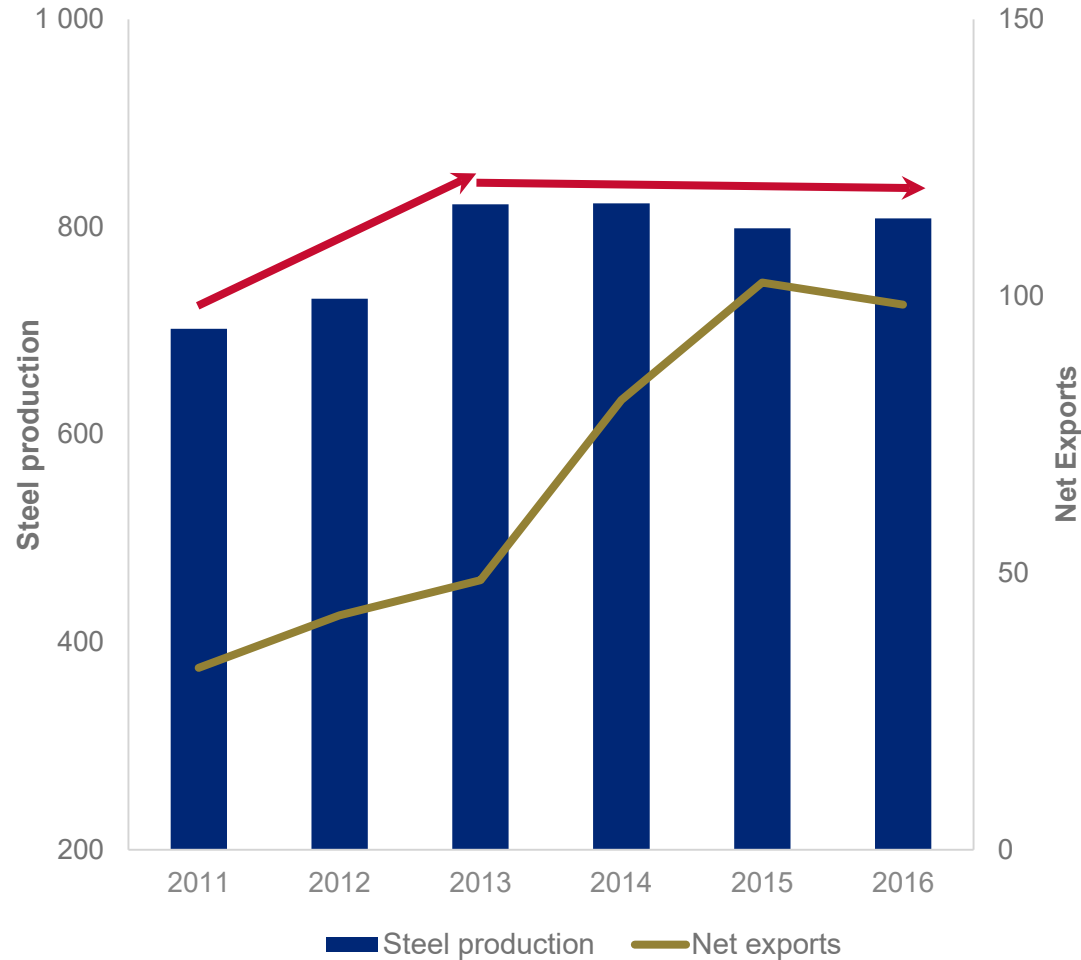


Platts Lump Premium Monthly Average (US\$/dmu)

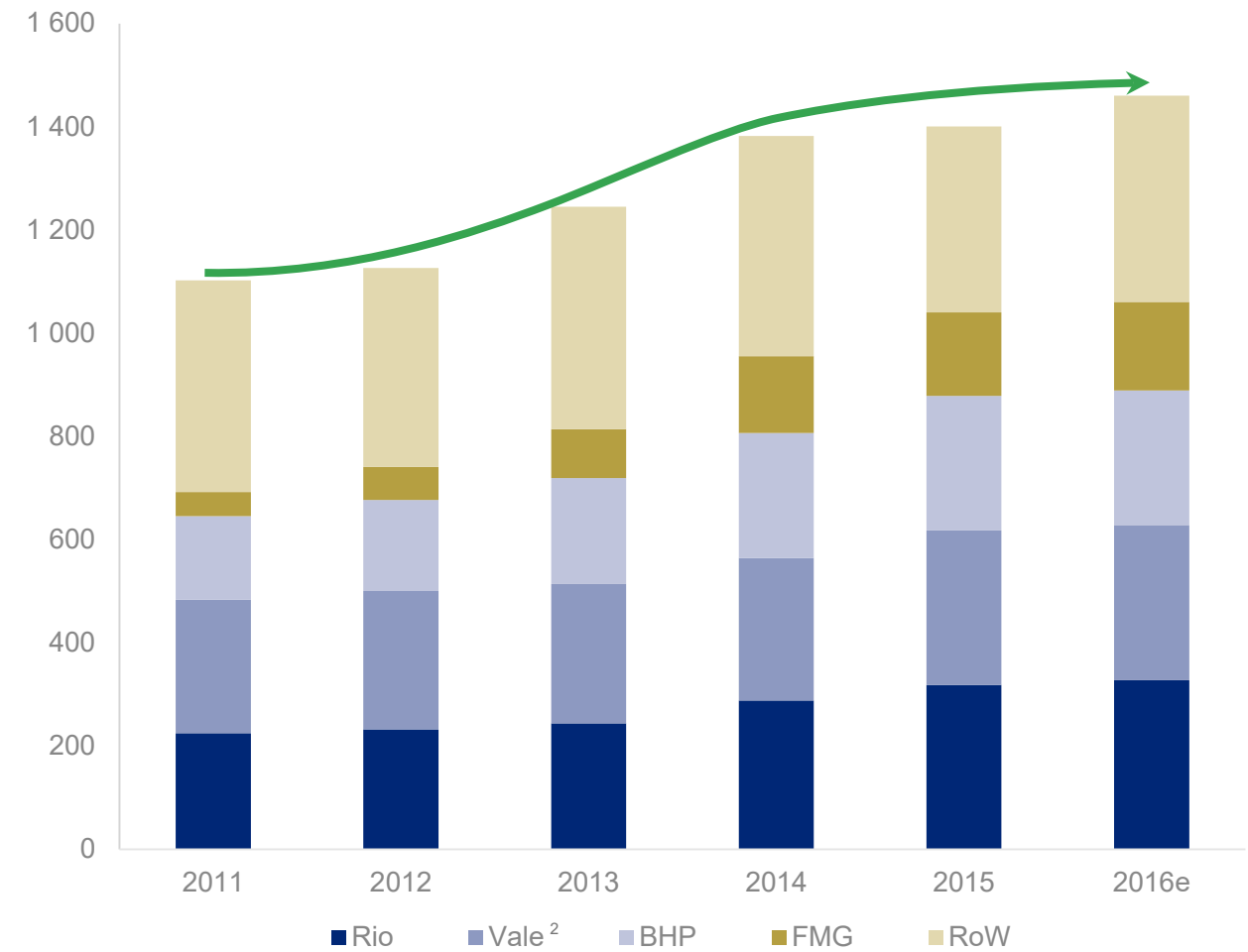


# LOWER SUPPLY GROWTH AND MODERATING STEEL PRODUCTION

China Crude Steel Production & Net Exports<sup>1</sup> (Mt)



Global Seaborne Iron Ore Supply (Wmt)

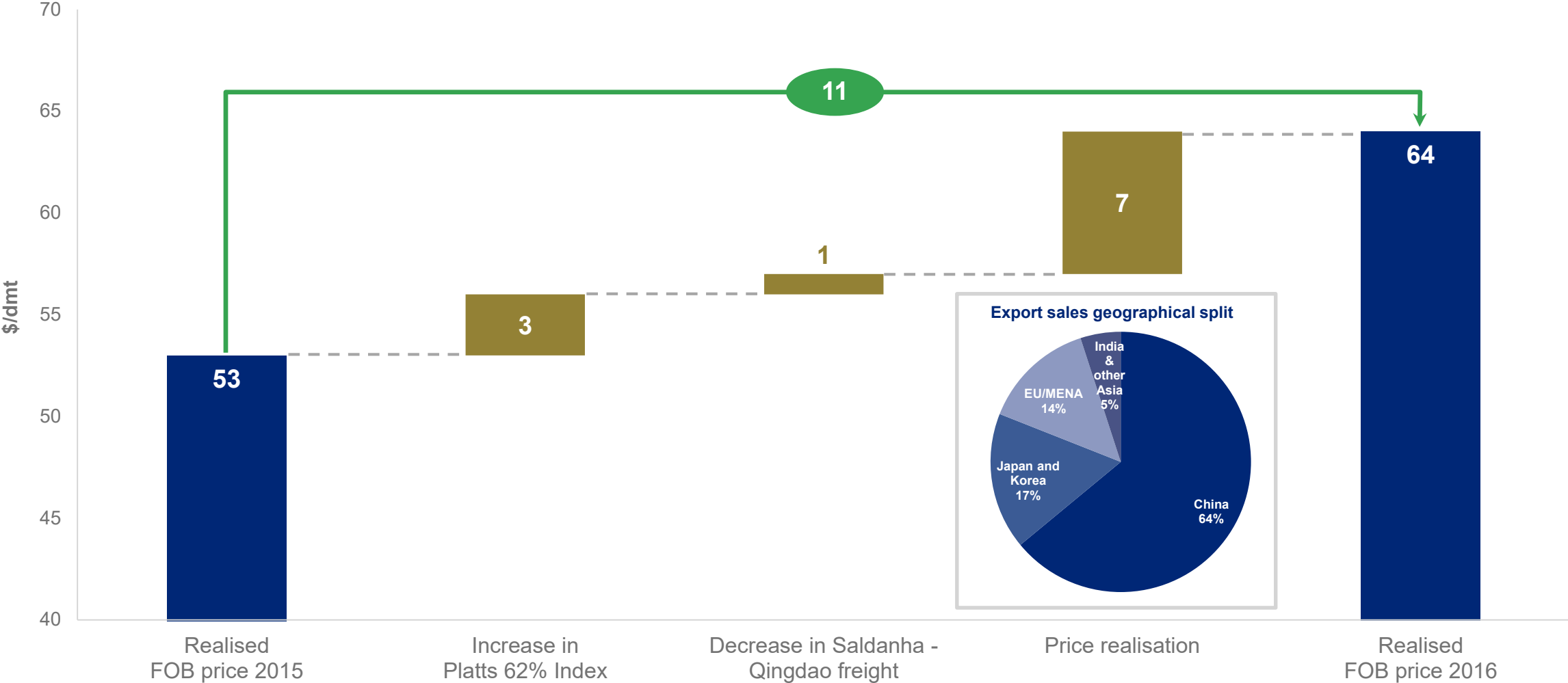


1. Crude steel equivalent

2. Vale 3QYTD annualised

Source: Company reports and Kumba marketing

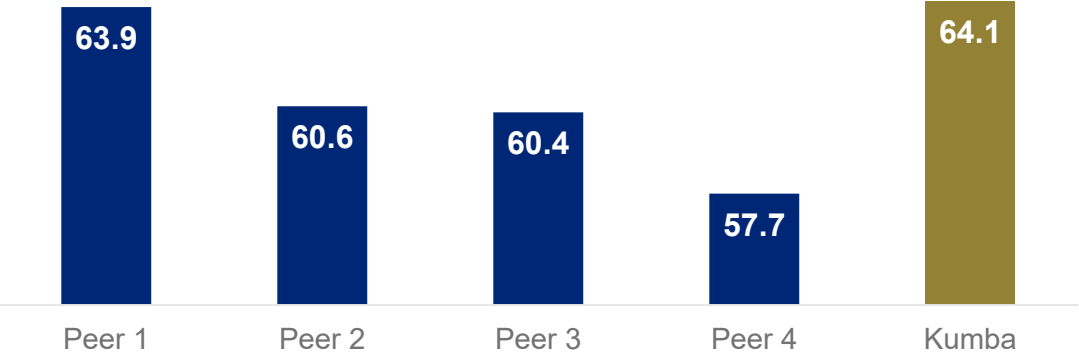
# \$11/dmt IMPROVEMENT IN REALISED FOB PRICES



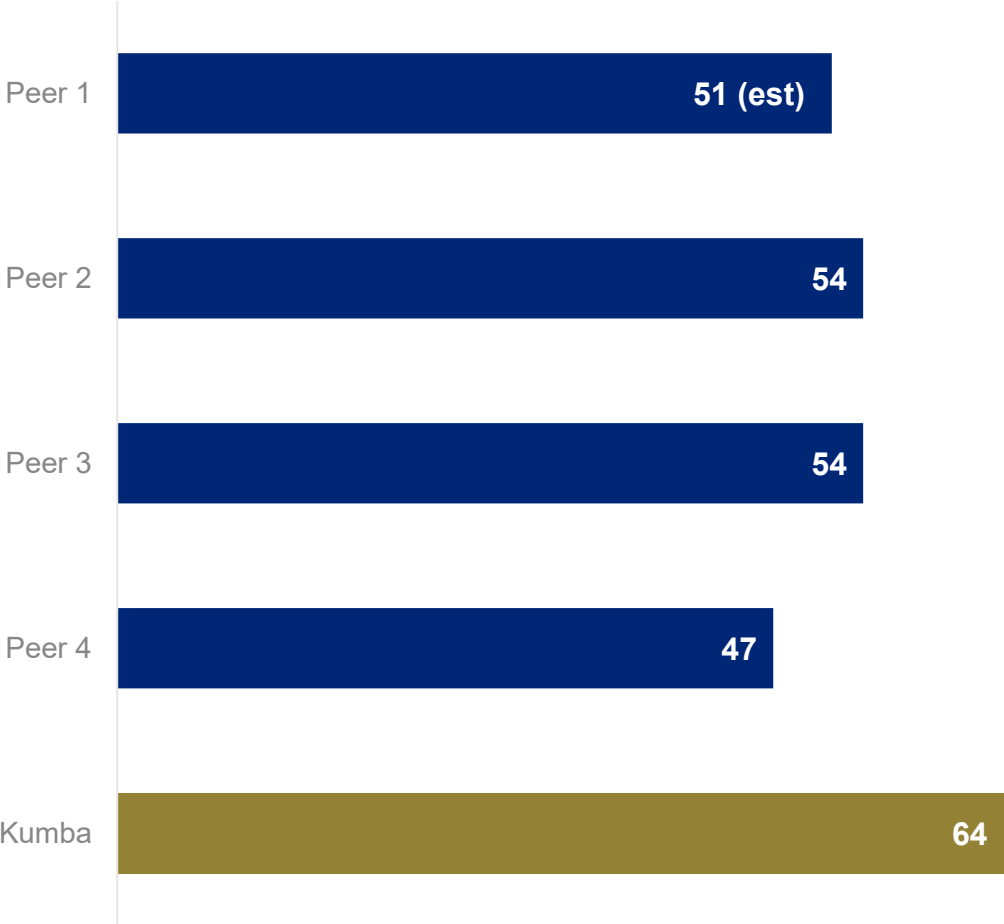
Source: Kumba Marketing

# VALUE GENERATION DUE TO SUPERIOR PRODUCT PORTFOLIO

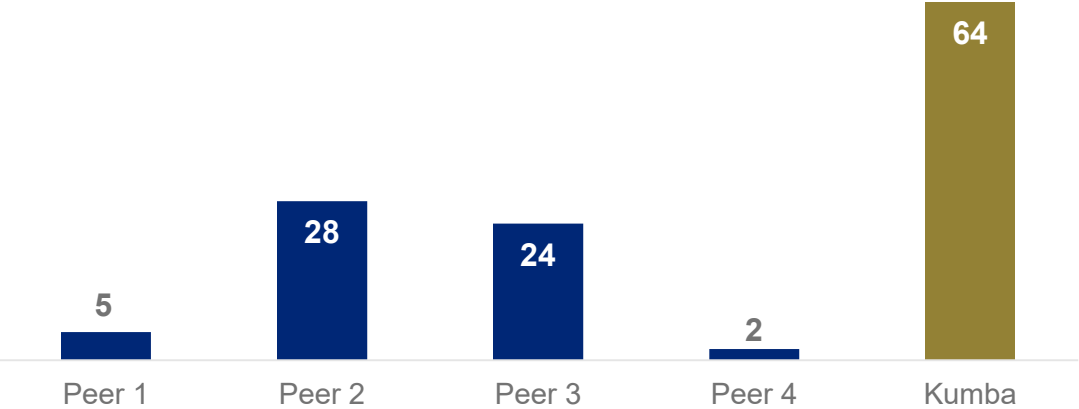
2016 Average Fe Content (%), Peer Comparison



2016 Achieved Price (US\$/dmt, FOB), Peer Comparison



2016 Lump:Fine Ratio, Peer Comparison



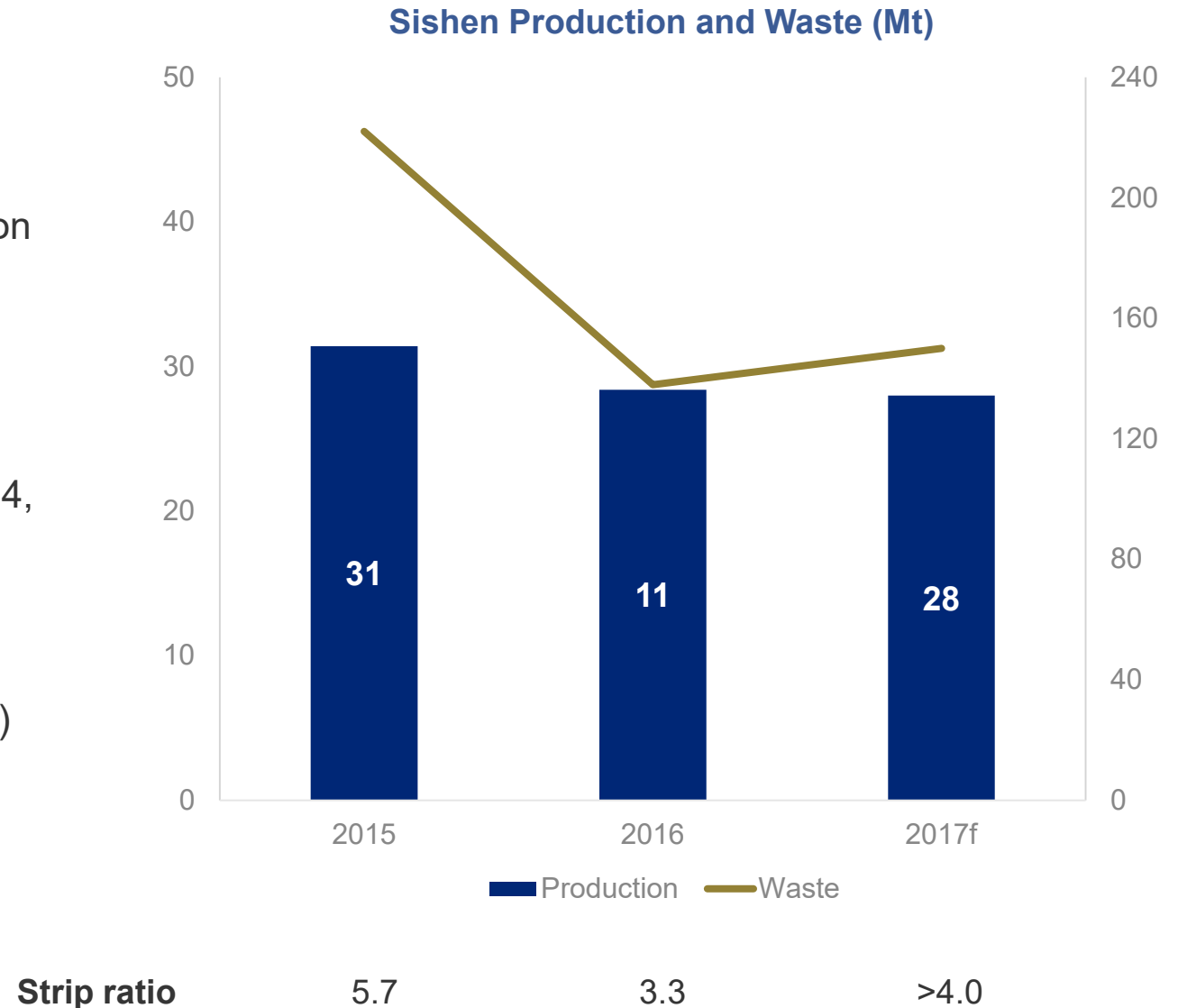
Source: Kumba MI, Company Reports, Woodmac



## **OPERATIONAL OVERVIEW**

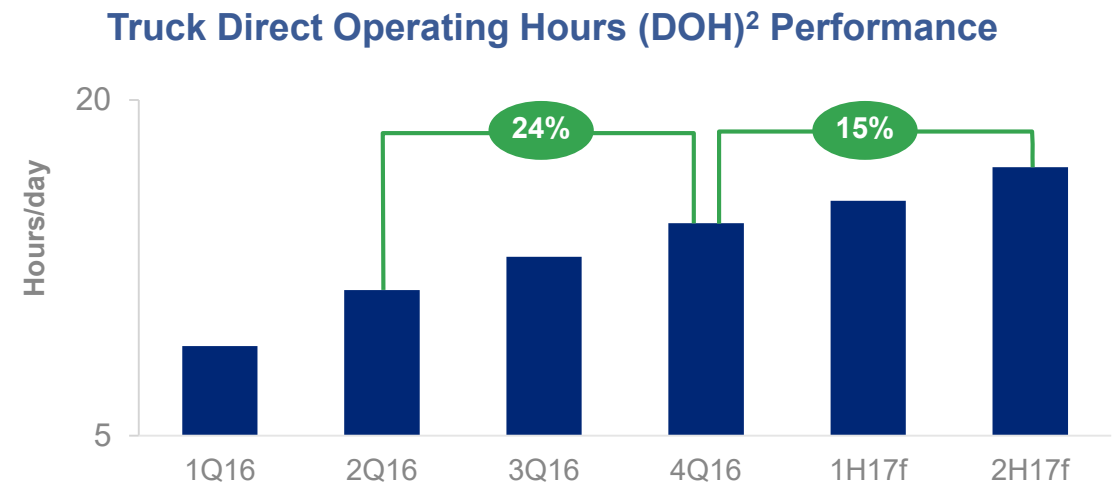
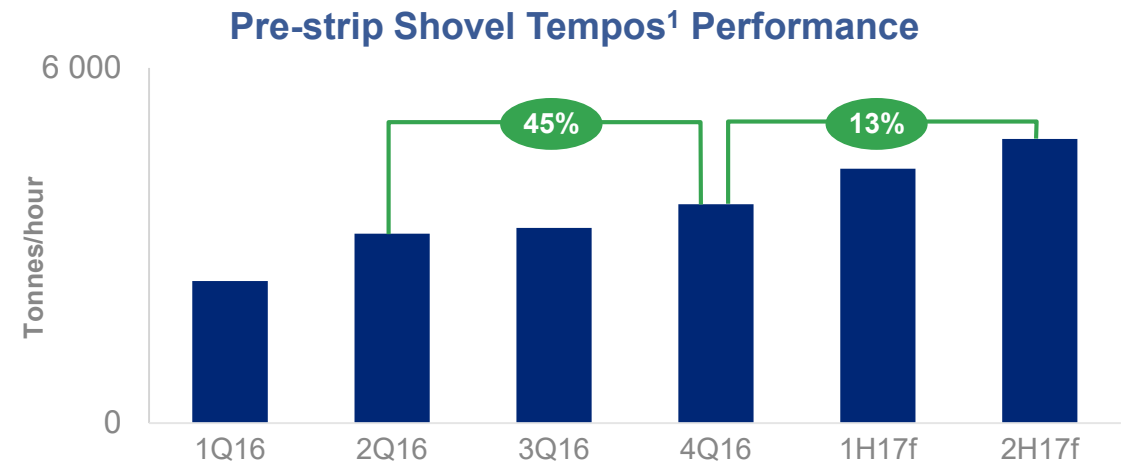
# SISHEN DELIVERS AGAINST TARGETS DESPITE CHALLENGING 1H16

- Finalised and implemented new mine plan based on lower cost pit shell
- Workforce restructuring completed without interruption
- Mining stable at higher 2H16 run rates
- Full year production of 28.4Mt exceeded guidance
- Guiding 27-28Mt in 2017 as strip ratio increases to >4, LoM strip ratio ~4
- Progress on high return, quick payback projects
- Life of mine increased to 17 years (previously 15 yrs)



# SISHEN OPERATIONAL EFFICIENCIES ARE CRITICAL TO OFFSET COST INFLATION

- Significant improvement in 2H16
- 4Q16 operated at 1H17 required rates
- Step-up in equipment efficiencies weighted towards 2H17
- Opportunity to reduce costs through improved productivity and efficiency
- Confidence in delivery



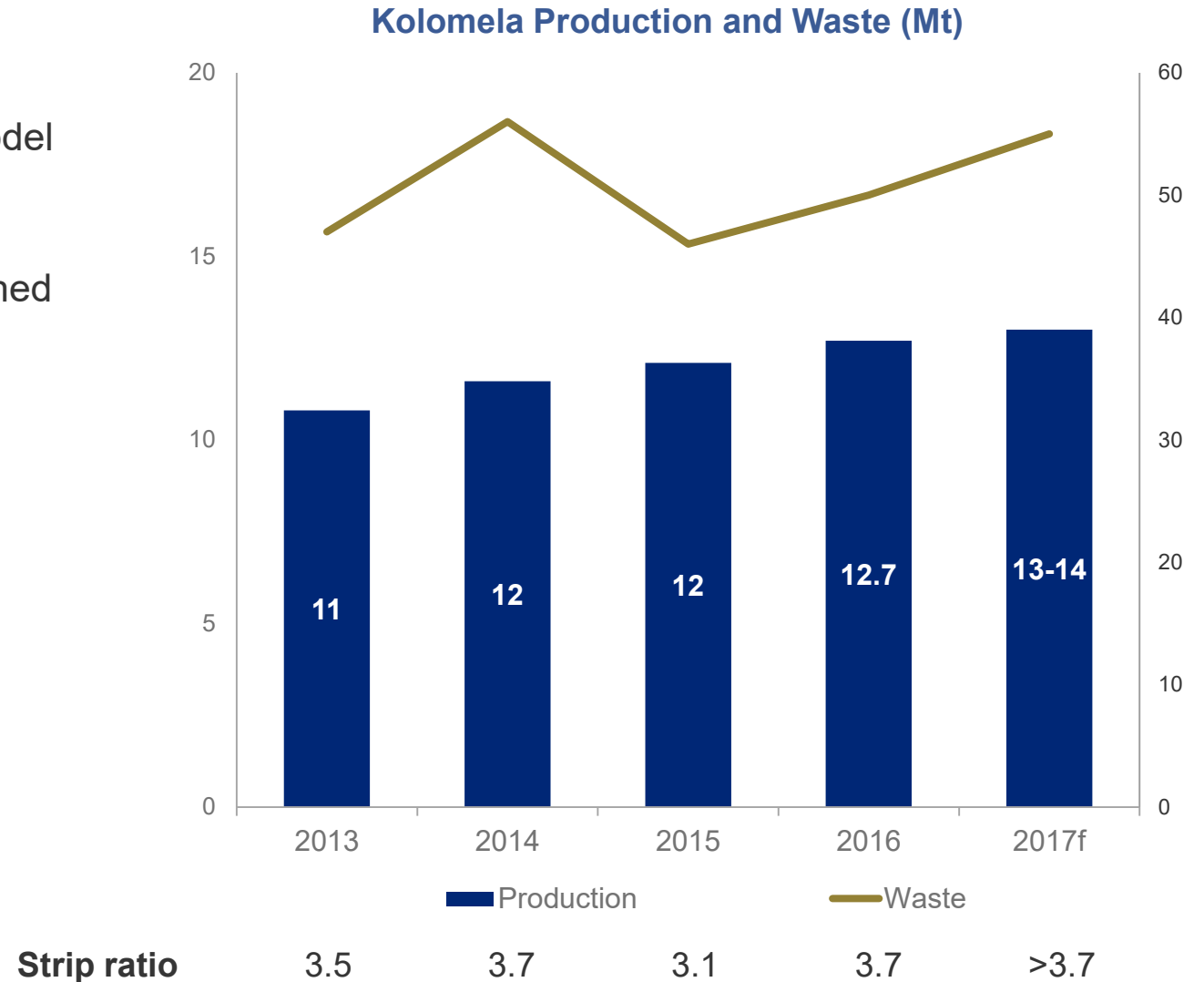
1. Shovel Tempo: production rate of shovel; tonnes per hour

2. Truck DOH: Time equipment is operational, performing production and non-production activities



# KOLOMELA POSITIONED TO EXCEED 13Mt IN 2017

- Full year production of 12.7Mt due continued optimisation and implementation of the operating model at plant
- Waste of 50Mt in line with higher production as planned
- Modular plant commissioned and on track to deliver ~0.7Mt in 2017
- Targeting 20% equipment efficiency improvement for 2017 to mitigate cost inflation
- LoM decreases to 18 years (previously 21 yrs) as production ramps up



# IMPROVED LOGISTICS PERFORMANCE IN 2H16

- 39.8Mt railed
- Stocks reduced to more optimal level of 3.5Mt, with further reduction of 0.5Mt targeted

Mt	2016	2015	% change	2H16	1H16	% change
Railed to port	<b>39.8</b>	42.4	(6%)	21.5	18.3	17%
Sishen mine (incl. Saldanha Steel)	<b>26.8</b>	30.2	(11%)	15.1	11.7	29%
Kolomela mine	<b>13.0</b>	12.2	7%	6.4	6.6	(3%)
Total sales	<b>42.5</b>	47.8	(11%)	22.3	20.2	10%
Export	<b>39.1</b>	43.5	(10%)	21.0	18.1	16%
Domestic	<b>3.4</b>	4.3	(21%)	1.3	2.1	(38%)
Volume shipped	<b>38.7</b>	43.5	(11%)	20.6	18.1	14%
Finished product inventory	<b>3.5</b>	4.7	(26%)	3.5	2.3	52%

# OPERATIONAL GUIDANCE FY17

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## Sishen

- 27–28Mt in 2017 to 2020
- Waste 150–160Mt from 2017 to 2020
- Strip ratio to exceed 4 over the medium term, LoM ~4

## Kolomela

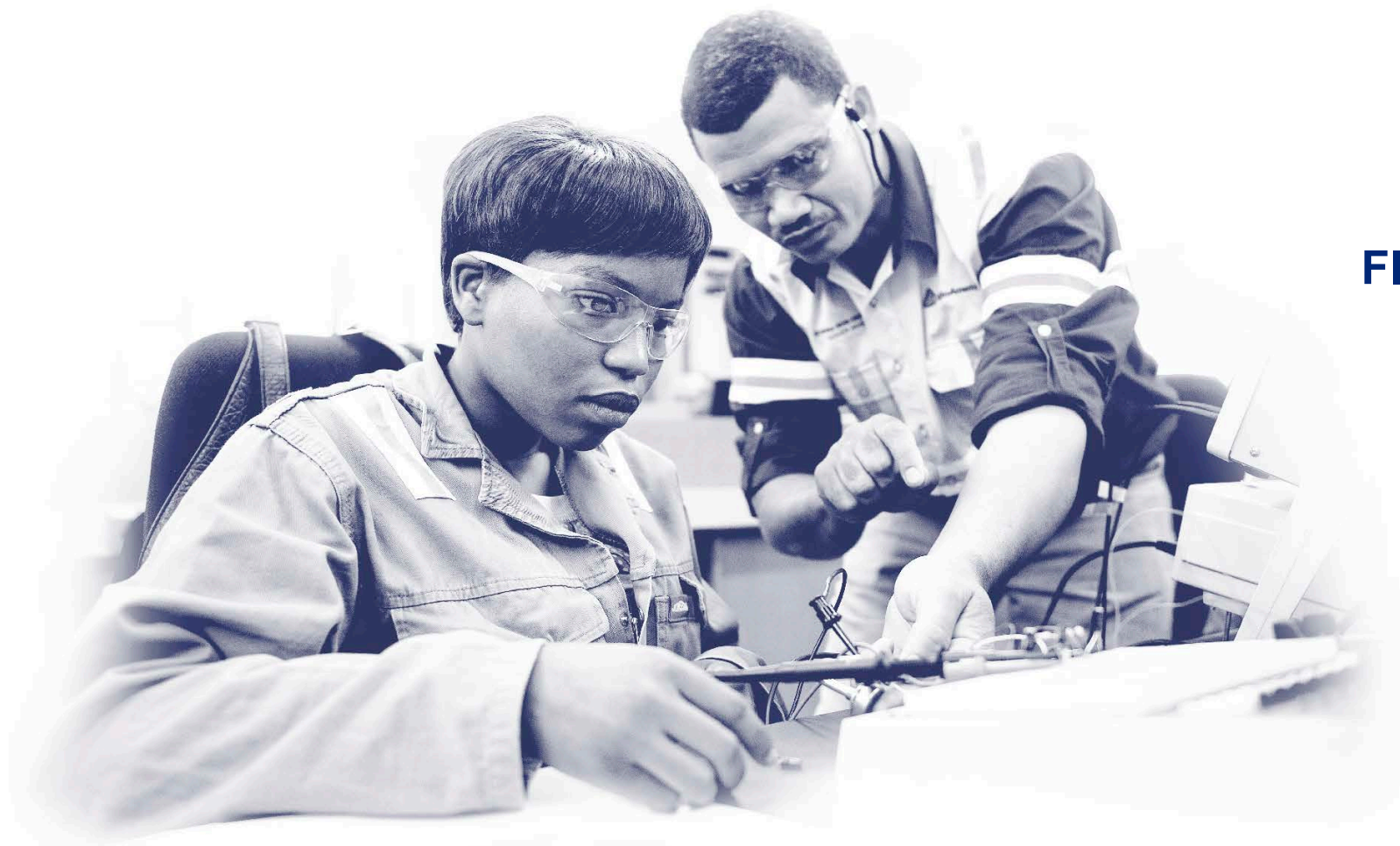
- 13–14Mtpa in 2017 to 2020
- Waste 50Mt–55Mt from 2017 to 2020
- Strip ratio at ~3.9 in the medium term, LoM ~3.8

## Thabazimbi

- Targeting transfer to ArcelorMittal in 1H17

**Total sales 40–42Mt in 2017**

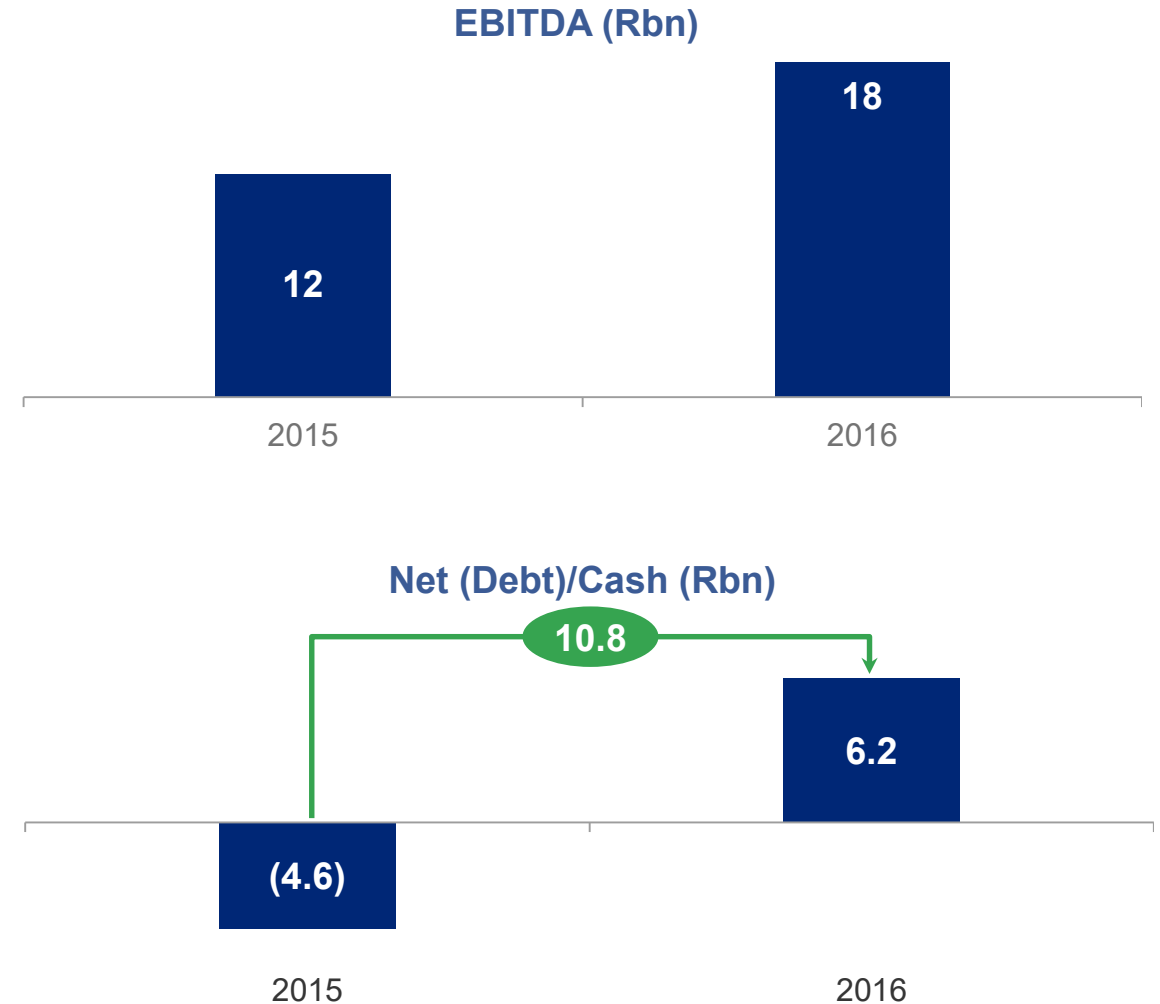




## **FINANCIAL OVERVIEW**

# FINANCIAL HIGHLIGHTS

- Substantial improvement of 21% in realised iron ore price to \$64/t
- Revenue increased 13% to R41bn
- Initiatives to lower the cost base deliver results
- Net cash position of R6.2bn
- Headline earnings of R8.7bn up 130%
- Capex of R2.4bn down 65%
- Dividend remains suspended



# FINANCIAL REVIEW

Rm	2016 <sup>1</sup>	2015	% change	2H16	1H16 <sup>1</sup>	% change
Revenue	<b>40,767</b>	36,138	13%	22,585	18,182	24%
Operating expenses	<b>(25,451)</b>	(33,494)	(24%)	(12,475)	(12,976)	(4%)
Operating expenses	<b>(24,782)</b>	(30,177)	(18%)	(11,592)	(13,190)	(12%)
Impairment charge	<b>(4)</b>	(5,978)	(100%)	-	(4)	(100%)
Mineral royalty	<b>(986)</b>	(191)	416%	(738)	(248)	198%
Deferred stripping capitalised	<b>321</b>	2,852	(89%)	(145)	466	(131%)
Operating profit (EBIT)	<b>15,316</b>	2,644	479%	10,110	5,206	94%
Operating margin (%) <sup>2</sup>	<b>38</b>	24		45	29	
Headline earnings	<b>8,724</b>	3,792	130%	5,715	3,009	90%
Effective tax rate (%) <sup>3</sup>	<b>26</b>	69		28	23	
Cash generated from operations	<b>17,218</b>	13,841	24%	9,586	7,632	26%

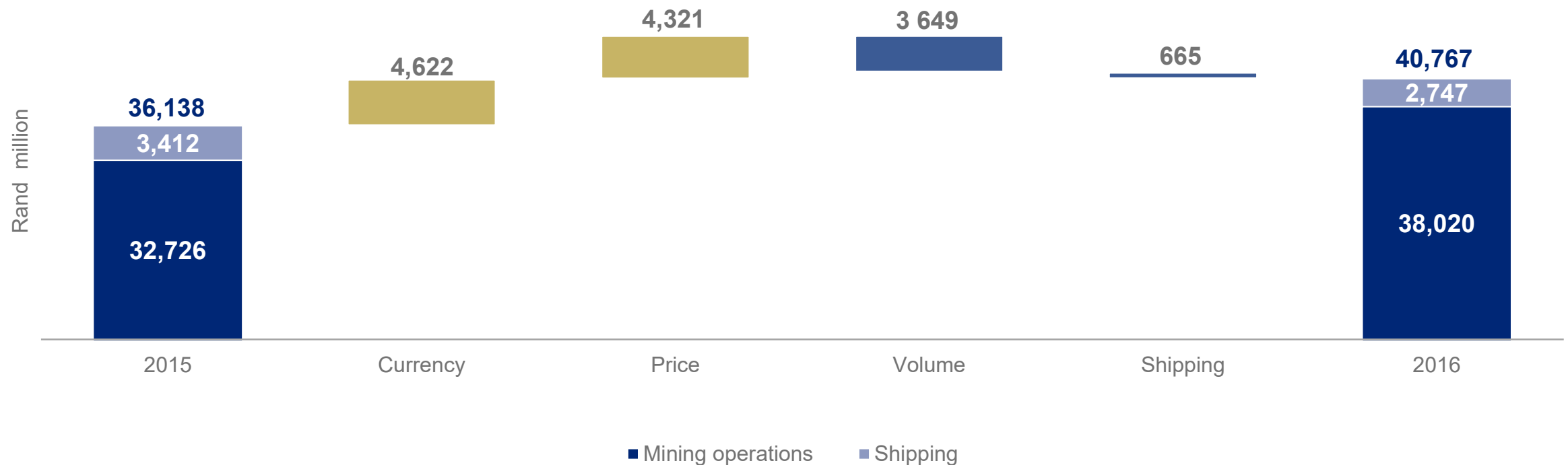
1. Including Thabazimbi

2. Excluding the impairment charge

3. Excluding the mineral royalty

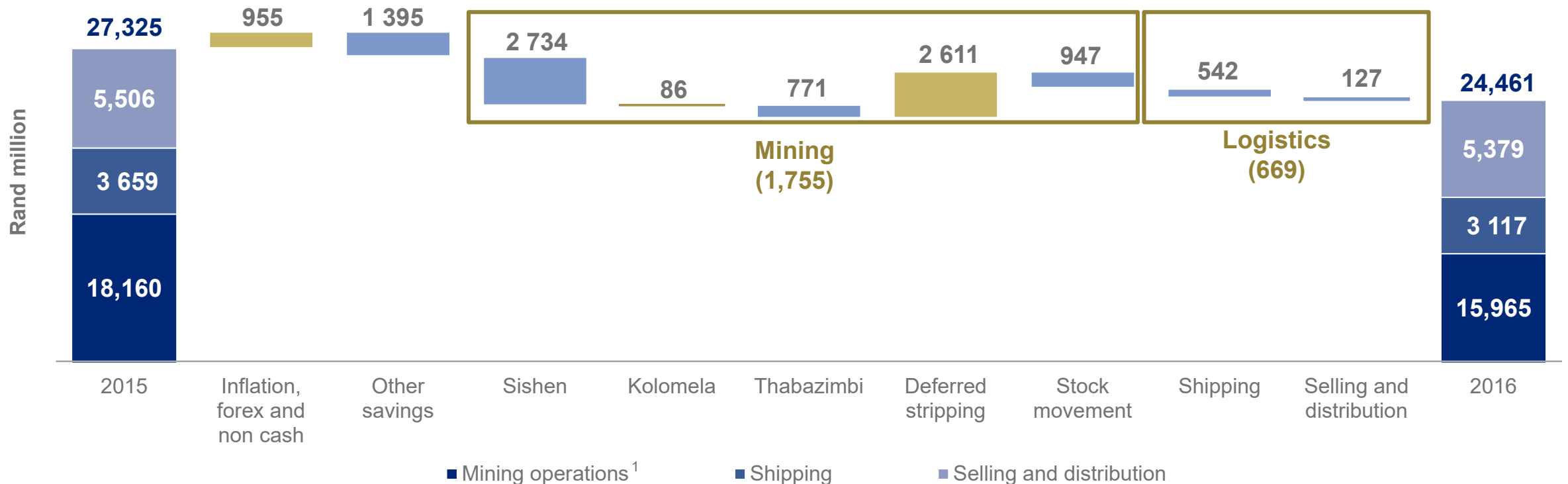
# REVENUE: HIGHER REALISED PRICES PARTIALLY OFFSET BY LOWER VOLUMES

- Revenue increased by 13%
  - 15% weaker average ZAR/\$ exchange rate of R14.69
  - Realised FOB export prices increased by 21% to \$64/t driven by higher spot prices and improved price realisation
  - Total sales volumes decreased by 5.3Mt to 42.5Mt in line with reduced output from reconfigured Sishen pit



# OPERATING EXPENDITURE

- Mining costs down 17% in real terms largely due to reconfiguration of Sishen pit and closure of Thabazimbi
- Freight rates declined to historical low levels, on average 15% lower from 2015
- Lower deferred stripping capitalisation as Sishen targeting low strip waste areas
- Stocks drawn down to more optimal level of 3.5Mt, targeting 3.0Mt



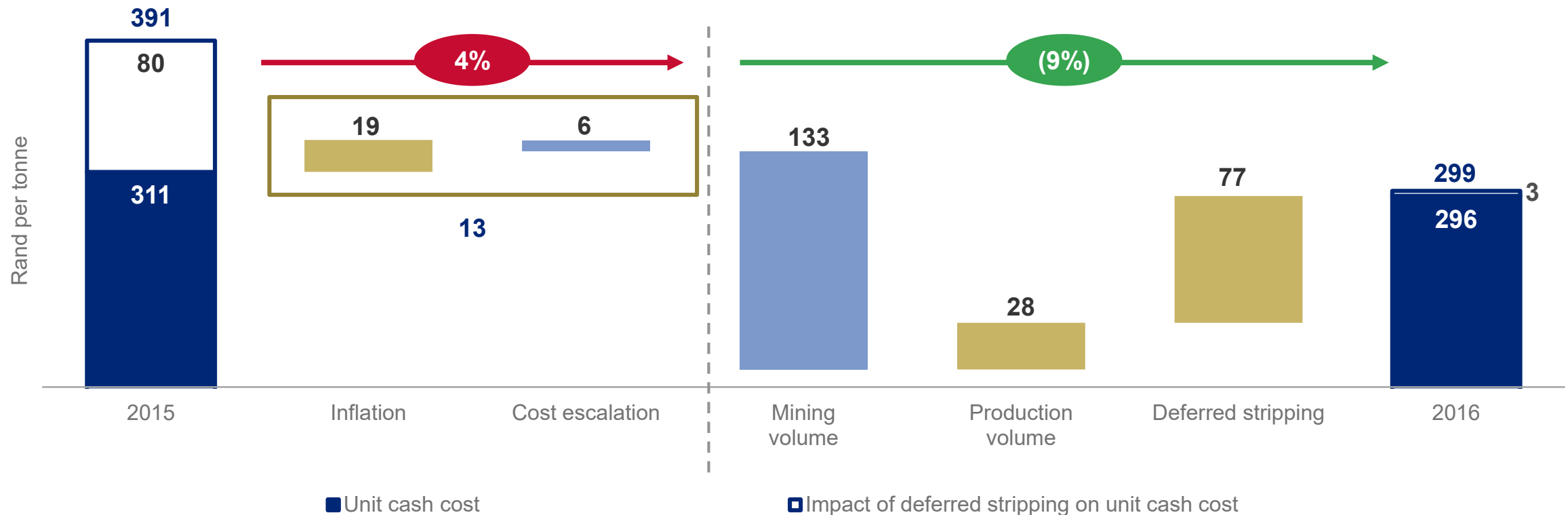
1. Excluding mineral royalty and impairment charge



# SISHEN UNIT CASH COST

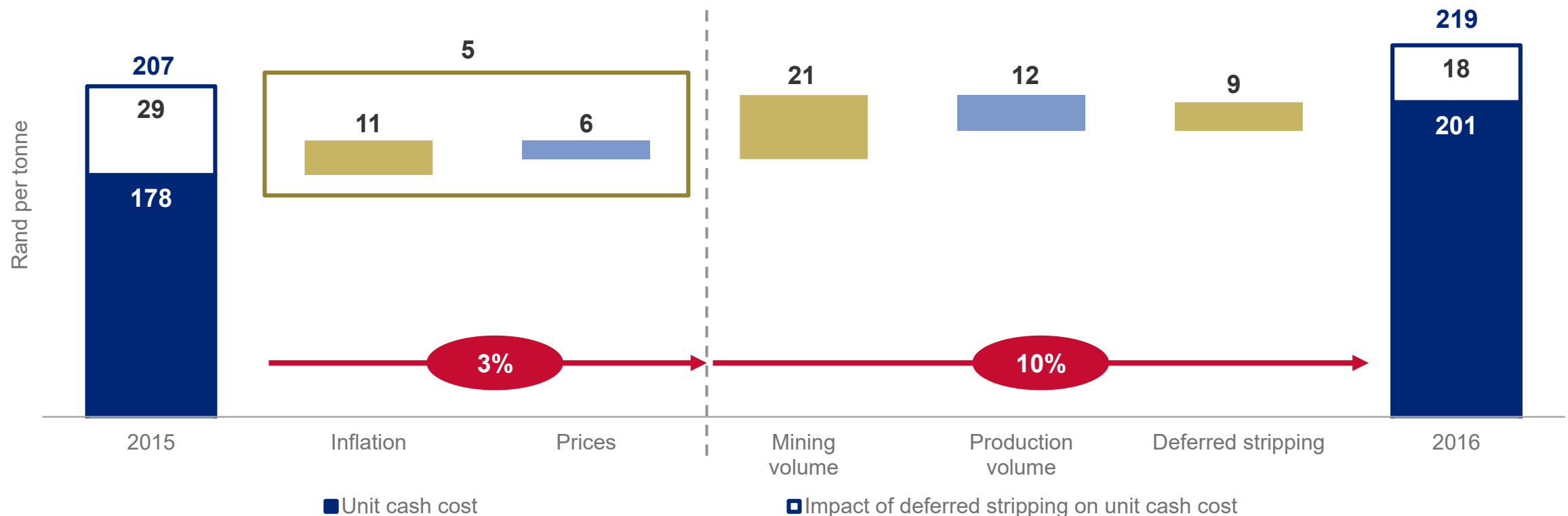
## GOOD COST PERFORMANCE IN A YEAR OF SIGNIFICANT CHANGE

- Cost escalation contained below inflation due to lower diesel price and supply chain discipline
- Mining cost benefitted from 85Mt lower mining volumes and overhead cost savings from optimised pit shell
- Impacted negatively by 3Mt lower production volumes
- Lower deferred stripping capitalisation due to reduced strip ratio



# KOLOMELA UNIT CASH COST: MINING AND PRODUCTION VOLUME GROWTH DRIVES UNIT COST PERFORMANCE

- Cost escalation contained at 3%, well below inflation, aided by lower mining input prices and overhead cost savings
- 5Mt ramp-up in mining volumes in support of further production volume growth
- Higher production volumes from increased DSO plant tempos<sup>1</sup> supported unit cost



1. Production rate at which the DSO plant runs: tonnes per hour

# CAPITAL GUIDANCE: RE-BASED PIT DESIGN AND CAPITAL DISCIPLINE DRIVES OPTIMISED CAPEX PROFILE

## 2016

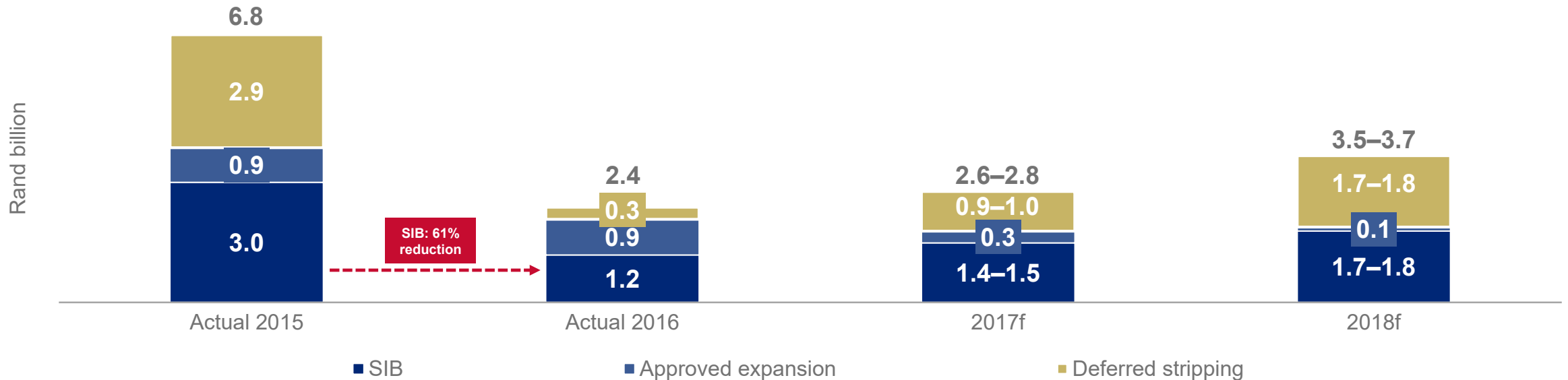
- Significant SIB reduction of ~R2bn (61%), driven by:
  - Completion of Sishen primary fleet renewal
  - Re-scoped infrastructure projects
- Sishen deferred stripping impacted by revised mine plan and mining low strip areas in pit

## Medium term

- Sishen: maintenance of infrastructure in support of revised pit shell and operational efficiencies
- Kolomela: SIB aligned to higher production

## Long term

- SIB of ~R2bn p.a. (nominal) expected through the cycle

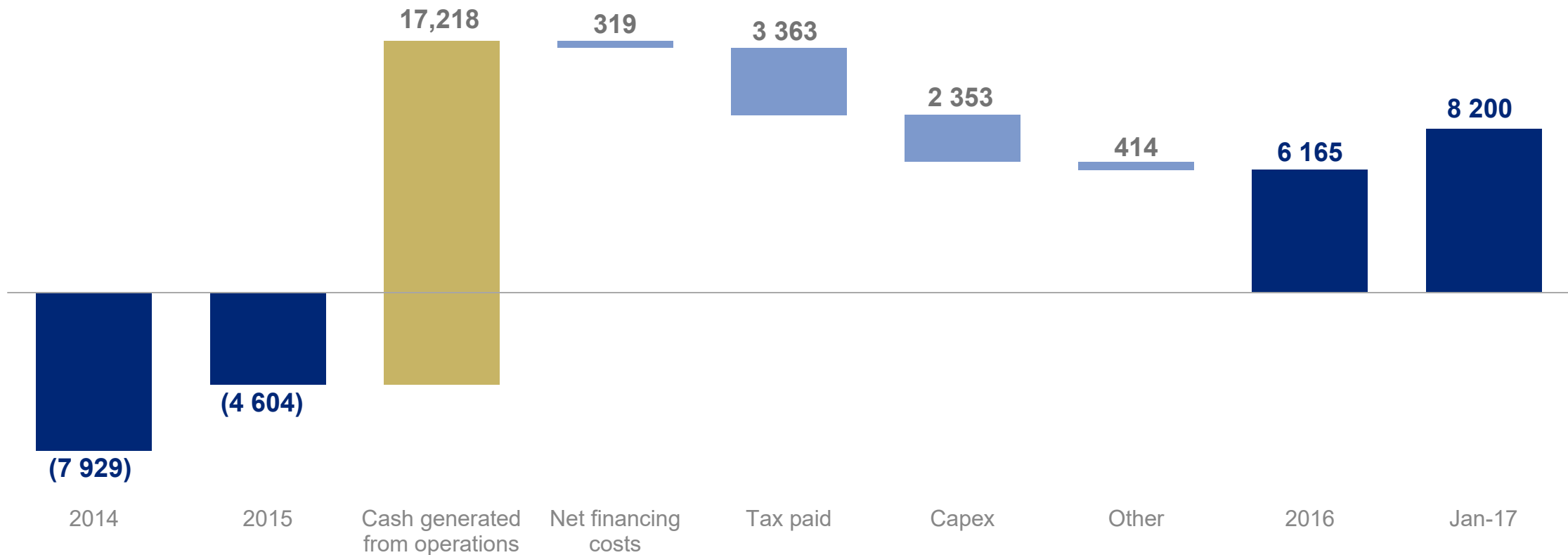


Totals exclude unapproved capex of: 2017 – R0.2bn; 2018 – R0.4bn

# STRONG BALANCE SHEET

## NET CASH POSITION OF R6.2BN

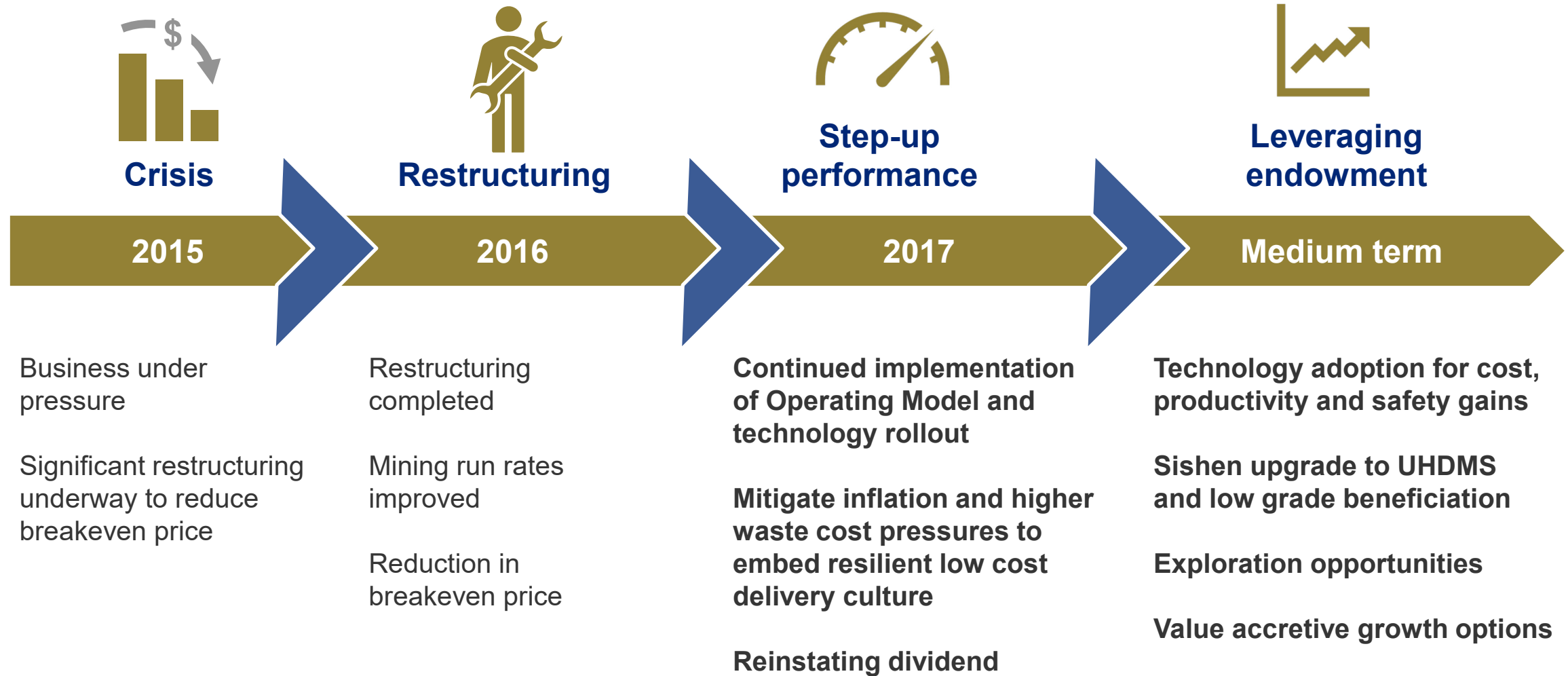
- Significant repositioning of operations has allowed strong cash generation in rebased lower iron ore price environment
- Cash flow supported by optimised capex profile
- Excess cash utilised to pay down debt
  - R4.5bn term facility early-settled post year end
  - R12bn undrawn committed debt facilities
- Dividend reinstatement expected





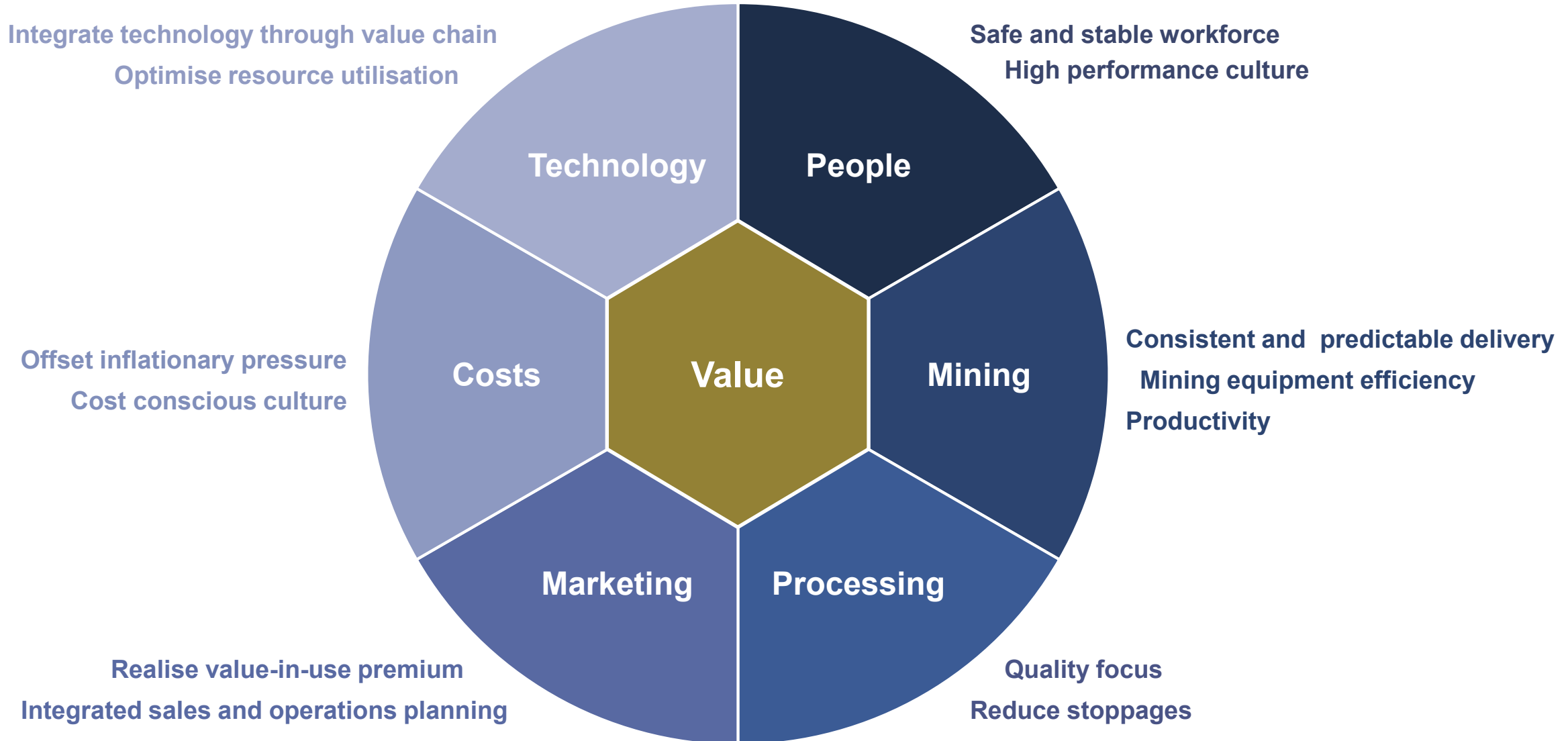
**OUTLOOK AND  
STRATEGY**

# OUR FUTURE IS DEPENDENT ON OPERATIONAL EXCELLENCE AND EMBRACING TECHNOLOGY FOR GROWTH



# MAXIMISING THE RETURN POTENTIAL OF OUR CURRENT ASSETS

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# ADOPTING TECHNOLOGY TO IMPROVE SAFETY, EFFICIENCY AND RESOURCE UTILISATION

## Mining and Plant

Industrial IT infrastructure upgrade

Modular Dispatch upgrade

Autonomous drilling

Advanced process control

Autonomous braking for haul trucks

Drones for aerial surveys

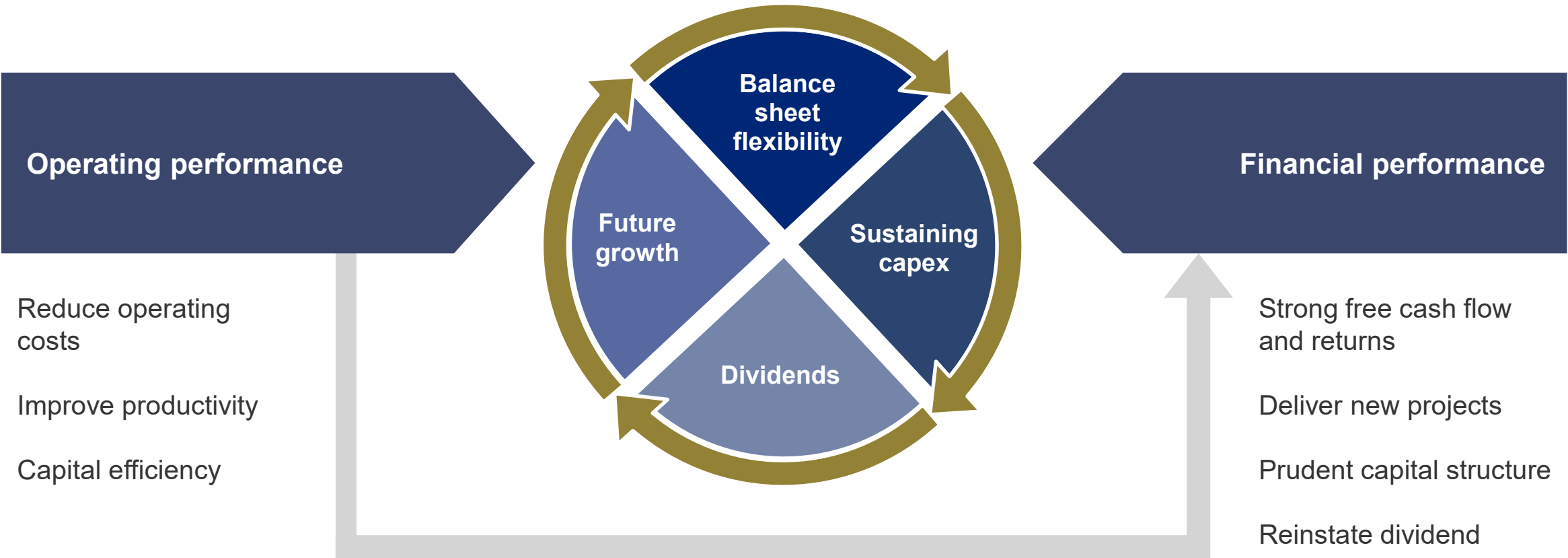
## Sishen Resource Utilisation

	Technology	Separation density (g/cc)	In-situ grade cut-off (%Fe)	Estimated Value unlock
1970	DMS	≤ 3.6	>60	2016 Ore Reserves 552Mt <sup>1</sup>
2009	JIG	~4.2	>48	
2015	UHDMS	>4.2	>40	2016 Exclusive Mineral Resource 213Mt <sup>2</sup>
Future	Beneficiation		>30	Under investigation <sup>3</sup>

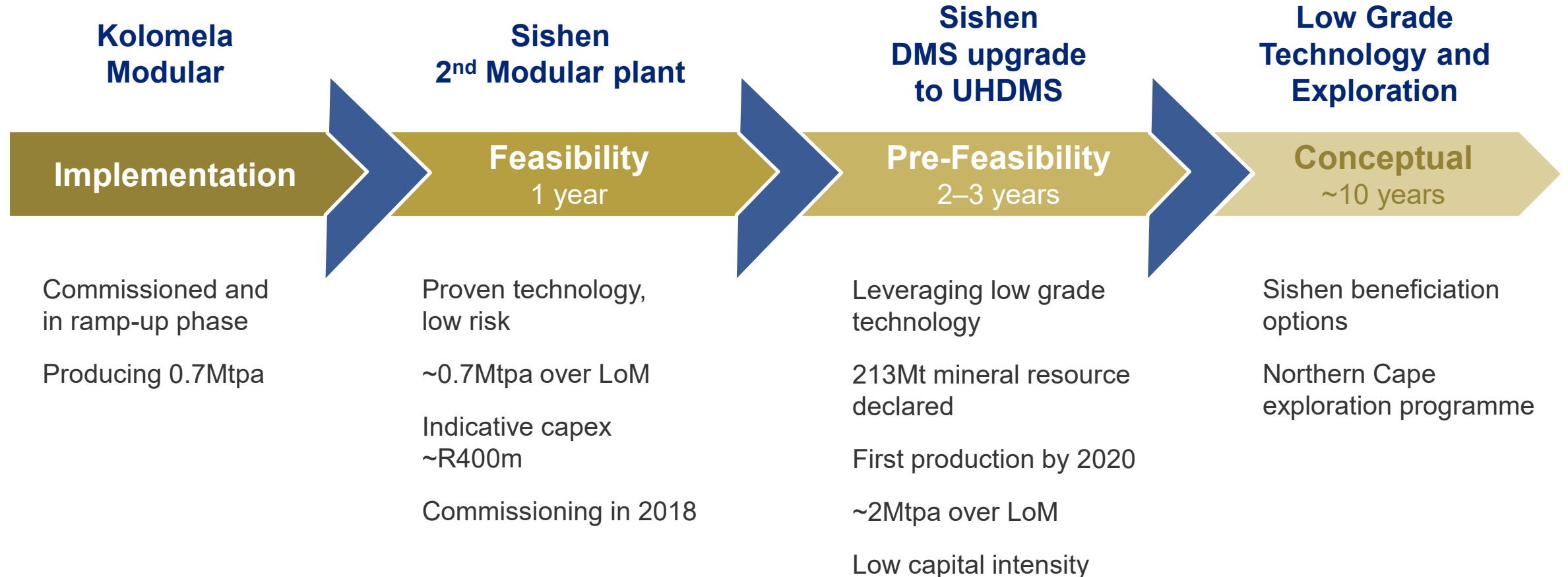


# DISCIPLINED CAPITAL ALLOCATION FRAMEWORK

## Capital allocation priorities



# PROGRESSING OUR VALUE ACCRETIVE PROJECT PIPELINE



# SUMMARY

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- ✘ Safety a challenge**
  - Need to work to eliminate fatalities
- ✓ More robust operating platform in place**
  - Sishen and Kolomela production above target
  - Cost base materially reset
- ✓ Financial health improved**
  - Higher margins and free cash flow generation
  - Strong balance sheet
- ✓ Sishen 21.4% residual mining right awarded**
- ✓ Settlement agreement reached with SARS**
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## **QUESTIONS**

## ANNEXURE 1: REVENUE: SECTOR ANALYSES

	2016	2015	% change	2H16	1H16	% change
Export (Rm)	<b>35,158</b>	29,571	19%	19,746	15,412	28%
Tonnes sold (Mt)	<b>39.1</b>	43.5	(10%)	21	18.1	16%
US Dollar per tonne	<b>61</b>	53	15%	67	55	22%
Rand per tonne	<b>899</b>	679	32%	940	851	10%
Domestic (Rm)	<b>2,862</b>	3,155	(9%)	1,134	1,728	(34%)
Shipping operations (Rm)	<b>2,747</b>	3,412	(19%)	1,705	1,042	64%
<b>Total revenue</b>	<b>40,767</b>	36,138	13%	22,585	18,182	24%
Rand/US Dollar exchange rate	<b>14.69</b>	12.76	15%	13.98	15.40	(9%)

## ANNEXURE 2: AGGREGATE OPERATING EXPENDITURE

Rm	2016	2015	% change	2H16	1H16	% change
Cost of goods sold	<b>15,965</b>	18,160	(12%)	7,232	8,733	(17%)
Cost of goods produced	<b>15,160</b>	16,541	(8%)	8,037	7,123	13%
Production costs	<b>15,470</b>	16,927	(9%)	8,117	7,353	10%
Sishen mine	<b>11,372</b>	12,776	(11%)	5,845	5,527	6%
Kolomela mine	<b>3,888</b>	3,367	(15%)	2,257	1,631	38%
Thabazimbi mine	<b>195</b>	696	(72%)	8	187	(96%)
Other	<b>15</b>	88	(83%)	7	8	(13%)
Inventory movement WIP	<b>(310)</b>	(386)	20%	(80)	(230)	65%
A grade	<b>118</b>	(368)	132%	116	2	5,700%
B grade	<b>(428)</b>	(18)	(2,278%)	(196)	(232)	16%
Inventory movement finished product	<b>300</b>	1,322	(77%)	(659)	959	(169%)
Corporate support and studies	<b>1,074</b>	1,227	(12%)	566	508	11%
Forex, non-cash and other	<b>(569)</b>	(930)	39%	(712)	143	(598%)
Mineral royalty	<b>986</b>	191	416%	738	248	198%
Impairment charge	<b>4</b>	5,978	(100%)	-	4	(100%)
Selling and distribution	<b>5,379</b>	5,506	(2%)	2,705	2,674	1%
Shipping operations	<b>3,117</b>	3,659	(15%)	1,800	1,317	37%
<b>Operating expenses</b>	<b>25,451</b>	<b>33,494</b>	<b>(24%)</b>	<b>12,475</b>	<b>12,976</b>	<b>(4%)</b>

## ANNEXURE 3: CAPITAL EXPENDITURE ANALYSES

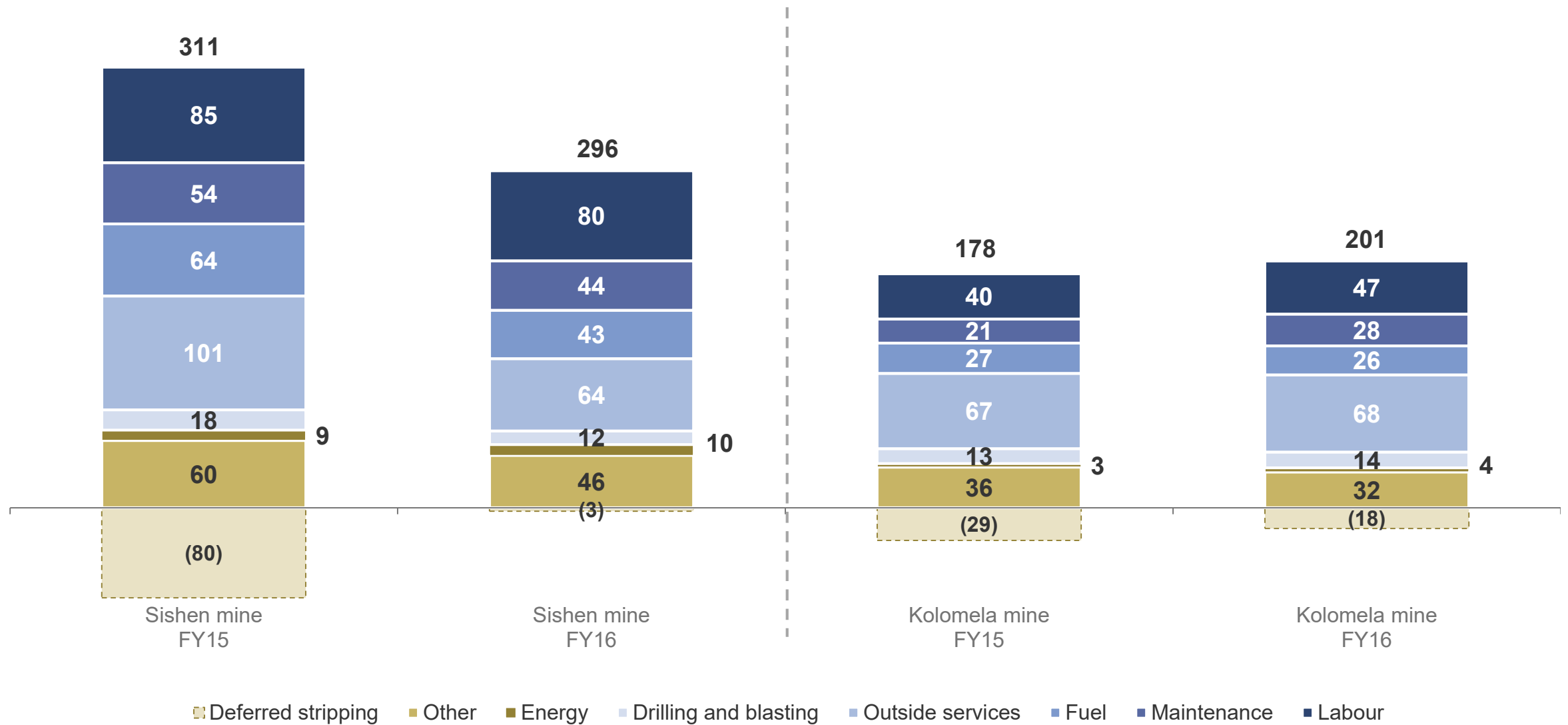
Rm	2015	2016	12 months 31 Dec 2017	12 months 31 Dec 2018
	Medium term forecast			
Approved expansion	870	856	~300	~100
Deferred stripping	2,852	321	900–1,000	1,700–1,800
Sishen	2,508	88	600–700	1,400–1,500
Kolomela	344	233	~300	~300
SIB Sishen	2,418	875	900–1,000	1,000–1,100
SIB Kolomela	612	301	~500	~700
<b>Total approved capital expenditure</b>	<b>6,752</b>	<b>2,353</b>	<b>2,600–2,800</b>	<b>3,500–3,700</b>
Unapproved expansion <sup>1</sup>	-	-	~200	~400
<b>Total approved and unapproved capital expenditure</b>	<b>6,752</b>	<b>2,353</b>	<b>2,800–3,000</b>	<b>3,900–4,100</b>

1. Unapproved capex includes high-level estimates for the project pipeline

All guidance based on current forecast exchange rates

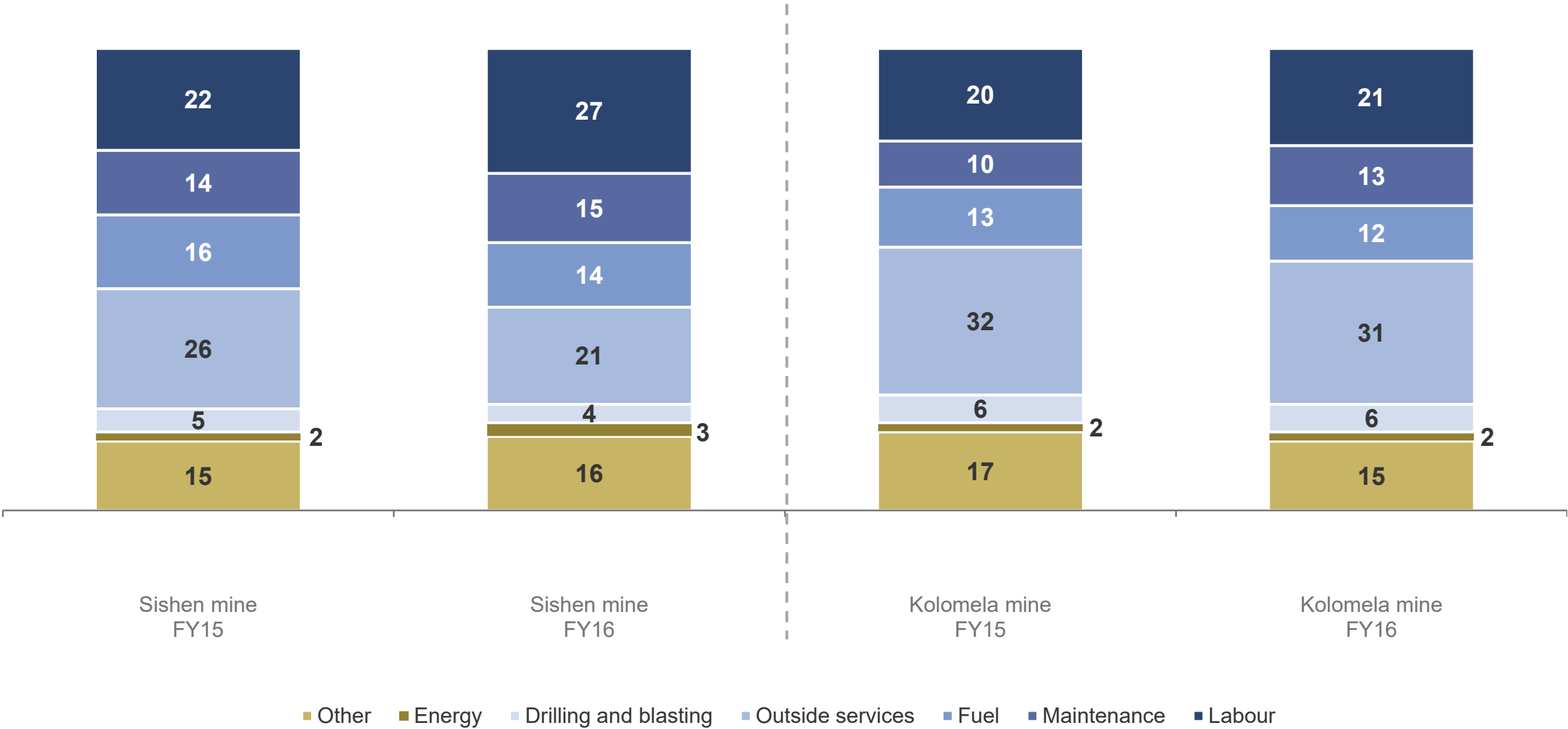
Cash capex depicted in table

# ANNEXURE 4: SISHEN AND KOLOMELA UNIT CASH COST STRUCTURE (R/t)





# ANNEXURE 5: SISHEN AND KOLOMELA MINES' UNIT CASH COST STRUCTURE (%)



## ANNEXURE 6: OPERATIONAL METRICS

Sishen	Mt	2016	2015	% change	2H16	1H16	% change
Total tonnes mined		<b>178.3</b>	<b>261.4</b>	(32%)	94.6	83.7	13%
Waste mined		<b>137.1</b>	<b>222.2</b>	(38%)	72.2	64.9	11%
Ex-pit ore		<b>41.2</b>	<b>39.2</b>	5%	22.4	18.8	19%
Production		<b>28.4</b>	<b>31.4</b>	(10%)	16.9	11.5	47%
Stripping ratio <sup>1</sup>		<b>3.3</b>	<b>5.7</b>		3.2	3.5	
Finished product inventory (closing)		<b>1.4</b>	<b>1.6</b>		1.4	0.7	
<b>Kolomela</b>							
Total tonnes mined		<b>64.0</b>	60.6	6%	37.3	26.7	40%
Waste mined		<b>50.2</b>	45.7	10%	30.0	20.2	49%
Ex-pit ore		<b>13.8</b>	14.9	(7%)	7.3	6.5	12%
Production		<b>12.7</b>	12.1	5%	6.8	5.9	15%
Stripping ratio <sup>1</sup>		<b>3.7</b>	3.1		4.2	3.2	
Finished product inventory (closing)		<b>0.6</b>	1.2		0.6	0.4	

1. Waste tonnes mined / ex-pit ore

## ANNEXURE 7: EXPORT SALES AND PRICES

Export sales and prices	2016	2015	2014
Total export sales (Mt)	39.1	43.5	40.5
Contract (%)	72	72	72
Spot (%)	28	28	28
Average FOB price received (US\$/t)	64	53	91

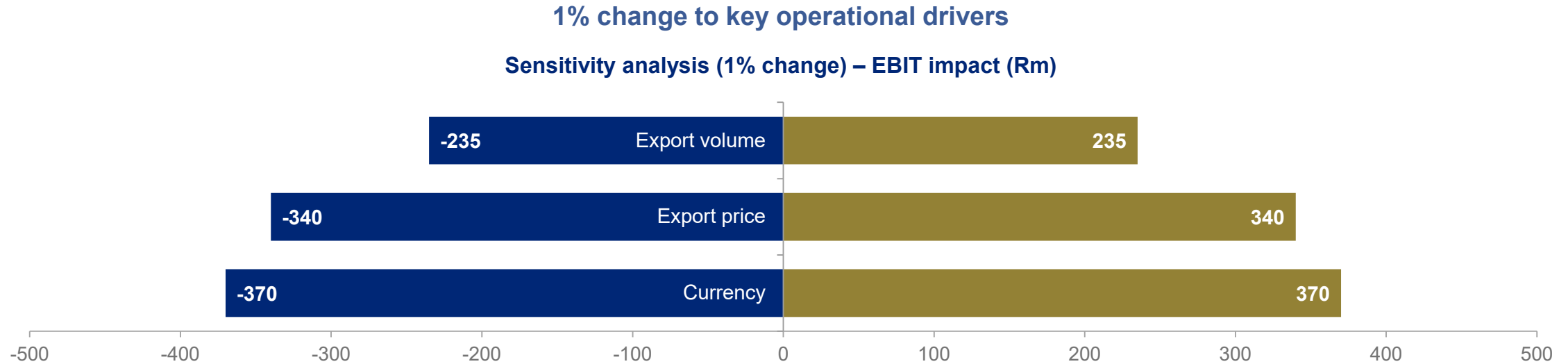
### Export sales geographical split %

Europe/MENA/ America	14	10	10
Japan and Korea	17	20	21
India and Other Asia	5	7	12
China	64	63	57
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

### Volumes shipped Mt

Total ore shipped	38.7	43.5	40.1
Shipped by Kumba	27.3	29.8	23.0

# ANNEXURE 8: SENSITIVITY ANALYSIS – FY16



Change per unit of key operational drivers, each tested independently

Sensitivity Analysis	Unit change	EBIT impact
Currency (ZAR/USD)	R0.10/USD	R250m
Export Price (USD/tonne)	\$1.00/t	R560m
Volume (Kt)	100Kt	R60m

Sensitivity Analysis	Unit change	Breakeven price impact
Currency (ZAR/USD)	R1.00/\$	\$2.20/tonne

# FOOTNOTES TO SLIDE 31: ADOPTING TECHNOLOGY TO IMPROVE SAFETY, EFFICIENCY AND RESOURCE UTILISATION

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1. Sishen Mine Ore Reserve (run-of-mine) estimates as at 31 December 2016 (please refer to R&R Section of 2016 Kumba Integrated Report): 353.8Mt (@55.8% Fe) Proved and 198.4Mt (@ 54.5% Fe) Probable
2. Sishen Mine exclusive low-grade Mineral Resource estimates as at 31 December 2016 (apportioned as part of total Sishen mine exclusive Mineral Resources as stated in R&R Section of 2016 Kumba Integrated Report: 48.9Mt Measured (@ 43.4% Fe), 123.1Mt (@ 44.1% Fe) Indicated and 41.3Mt (@ 44.1% Fe) Inferred. Due to the uncertainty that may be attached to some Inferred Mineral Resources, it cannot be assumed that all or part of an Inferred Mineral Resource will necessarily be upgraded to an Indicated or Measured Resource after continued exploration.
3. The Sishen Mine future potential is dependent on the company's success in identifying and or developing beneficiation methodologies to beneficiate low-grade Haematitic iron ore material. The low-grade ore ( $30\% \leq \%Fe < 40\%$ ) has already been spatially defined in a classified three-dimensional geological model. No tonnages figures can be quoted at this stage due to the fact that reasonable prospects for eventual economic extraction must still be proved via project studies, especially considering beneficiation methodologies and market requirements, which is at pre-concept level at this point in time.