

# Kumba Iron Ore Limited



## 2017 INTERIM RESULTS 25 JULY 2017



# 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.

# DELIVERING ON PROMISES

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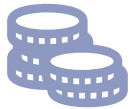
**Safety:** fatality free, material improvement on all key indicators

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**Operations:** another step change in productivity

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**Financials:** capturing benefit of price and performance

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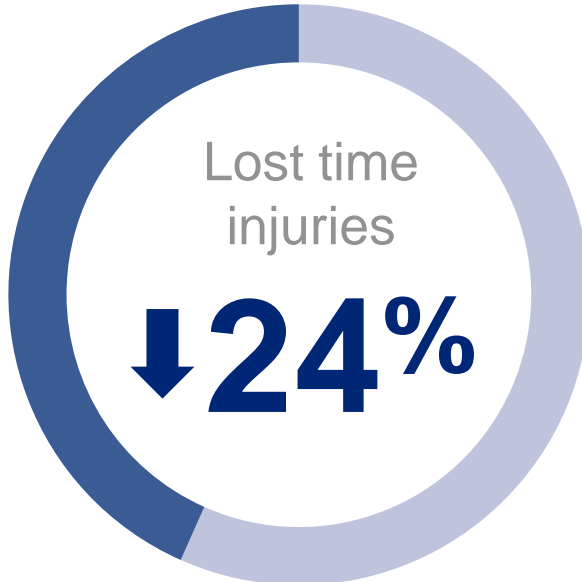
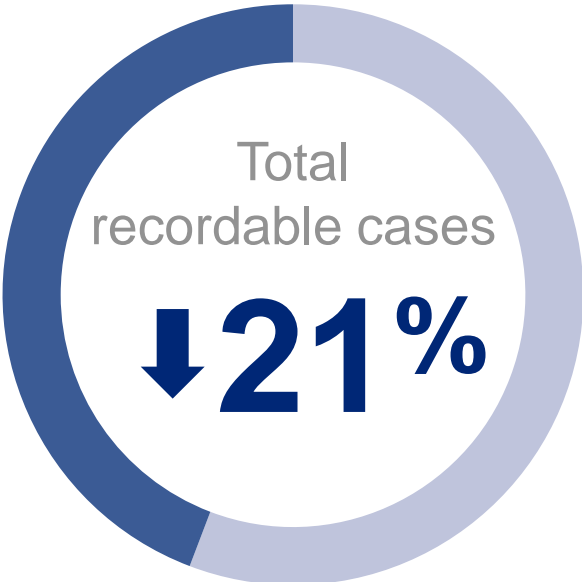
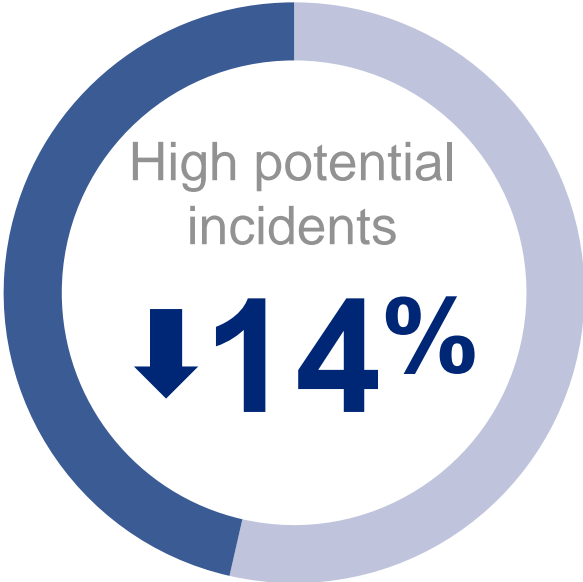
**Capital allocation:** balance sheet strengthened, dividend reinstated

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**Outlook:** guidance revised upwards, cost pressure remains

# CRITICAL INTERVENTIONS IMPROVE SAFETY INDICATORS



■ 1H17 ■ 1H16

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Fatality free

.73

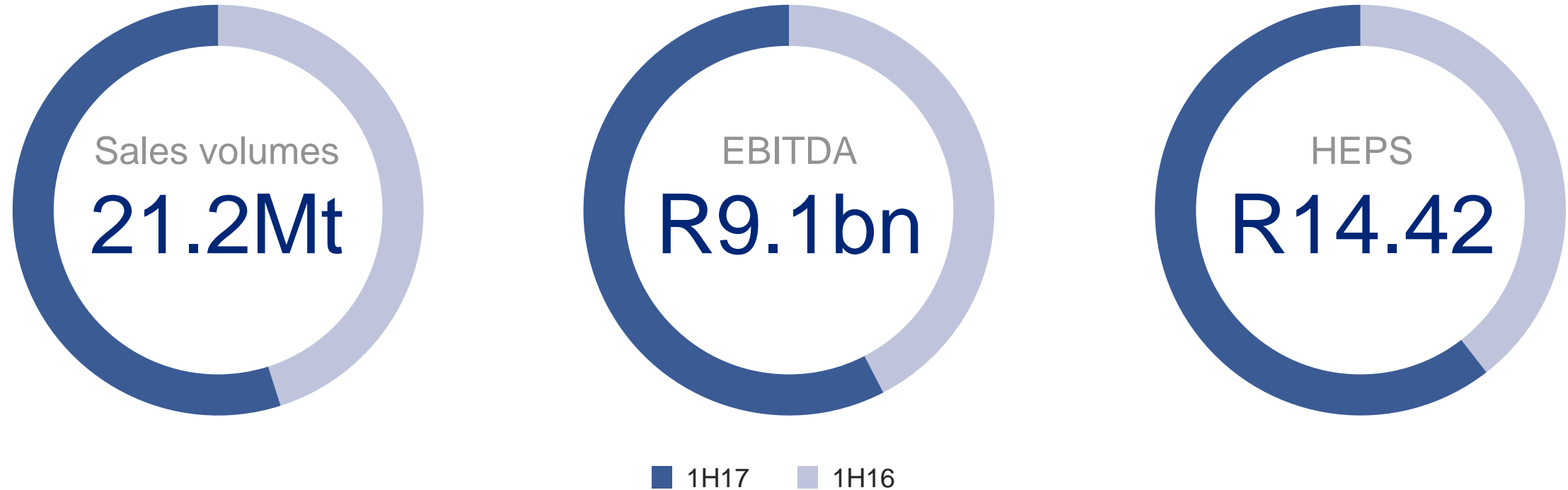
TRCFR improvement from .83

.23

LTIFR improvement from .27

# ROBUST OPERATING AND FINANCIAL PERFORMANCE

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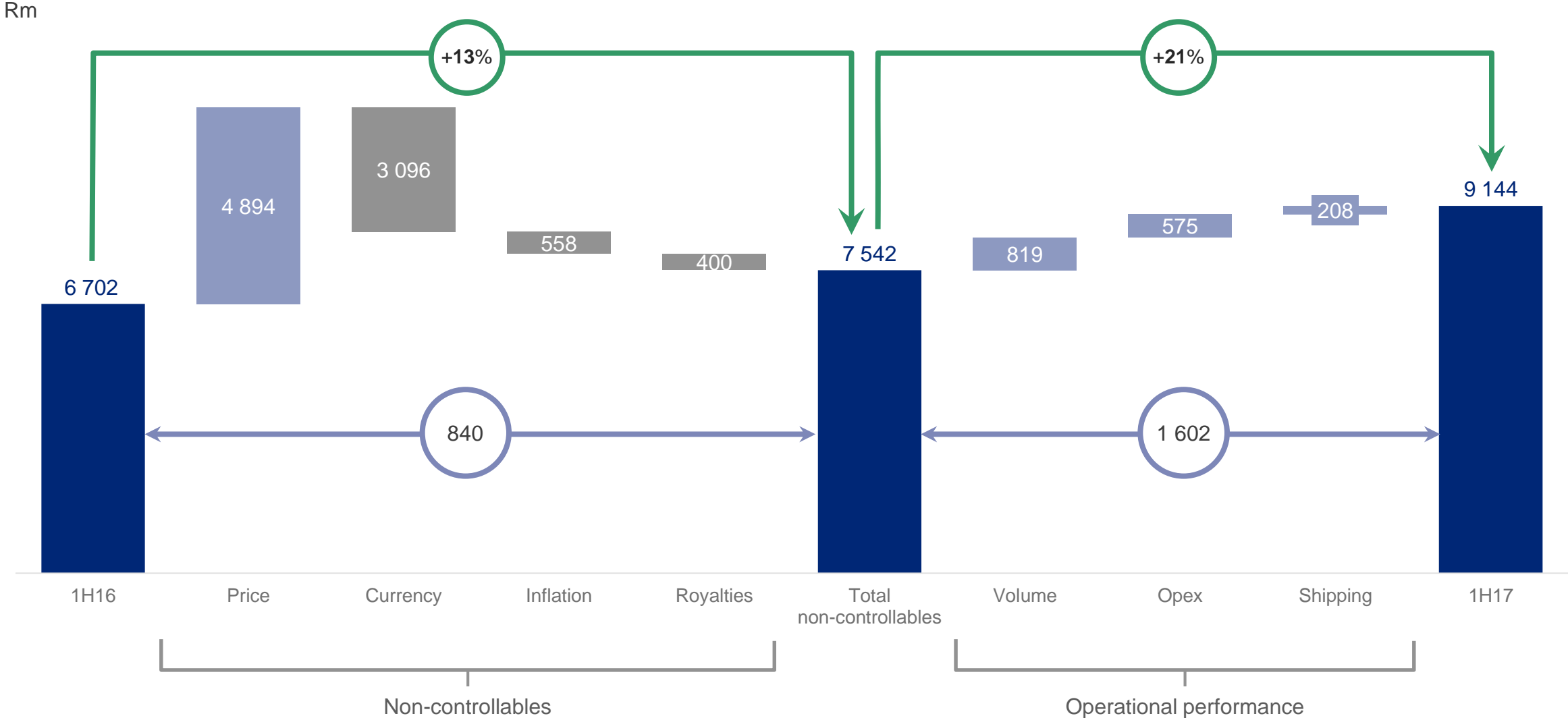
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**↑ 23%**  
Production

**↑ 5.7%**  
EBITDA margin

**↑ 53%**  
HEPS

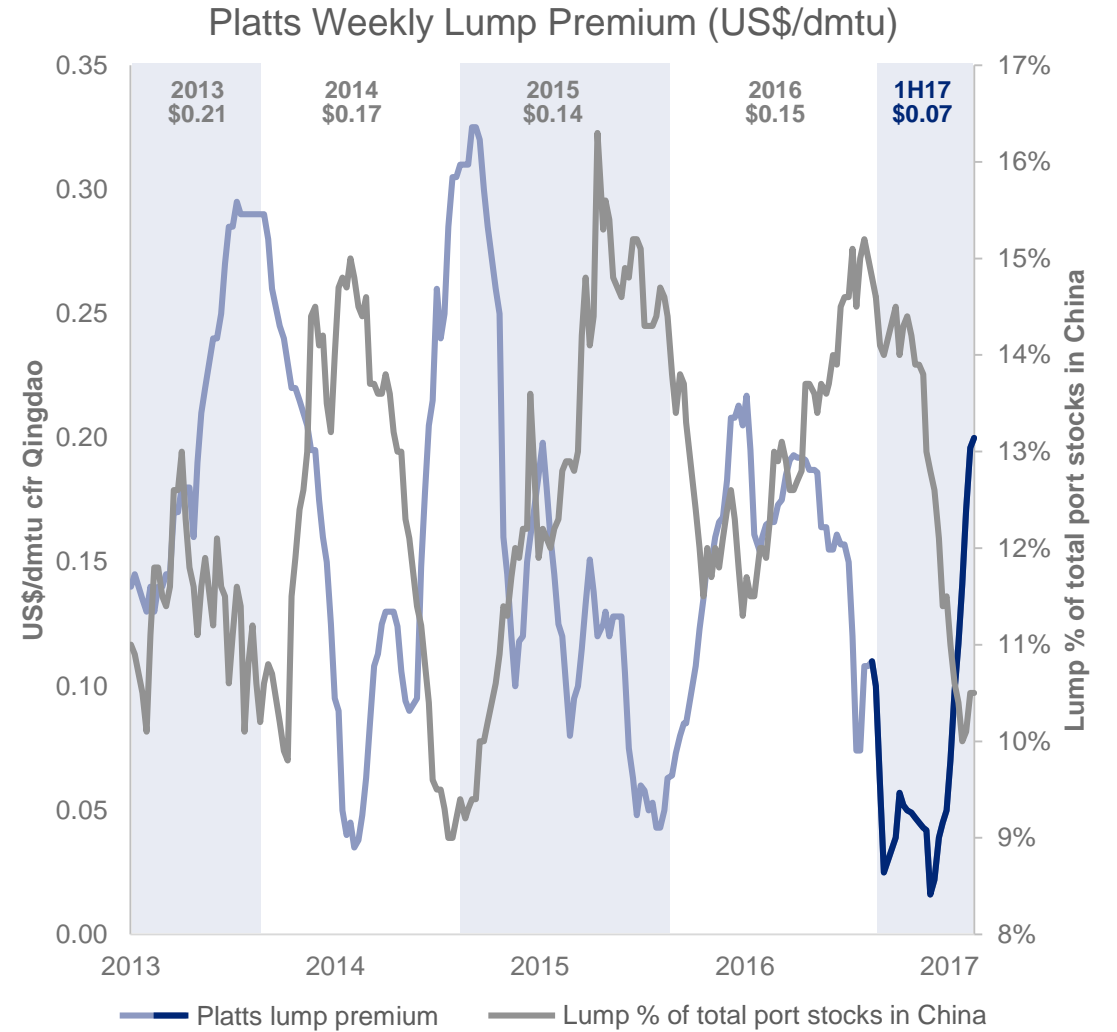
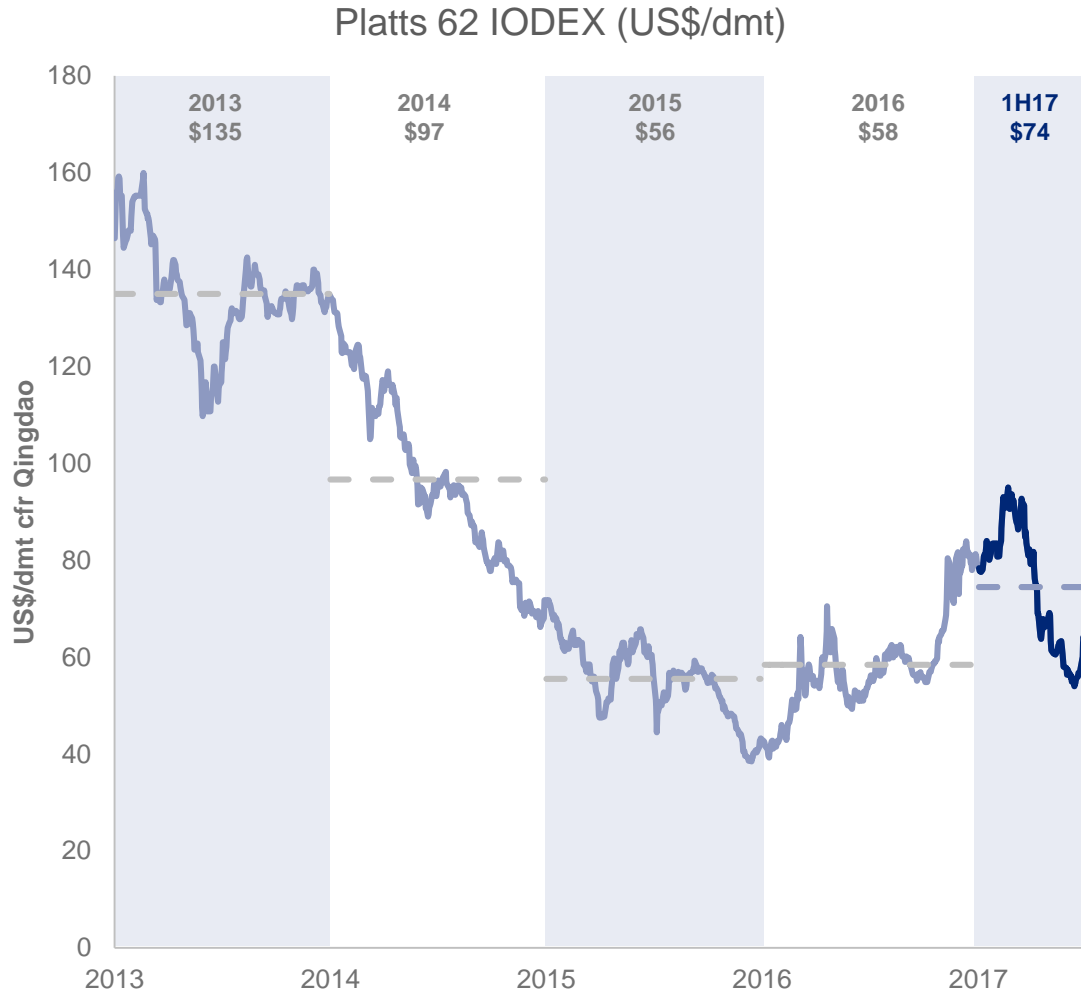
# EBITDA IMPROVEMENT DRIVEN BY PRICE AND PRODUCTIVITY GAINS





## MARKET OVERVIEW

# LUMP PREMIUM RECOVERS FROM HISTORICAL LOWS

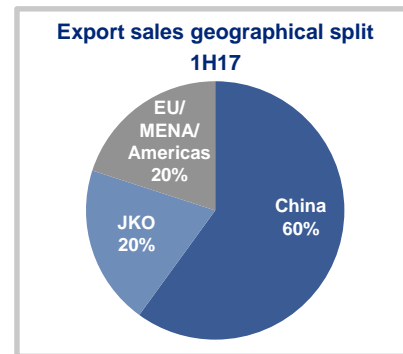
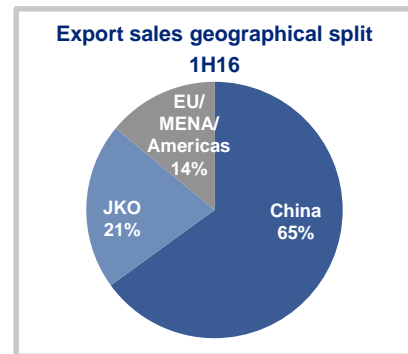
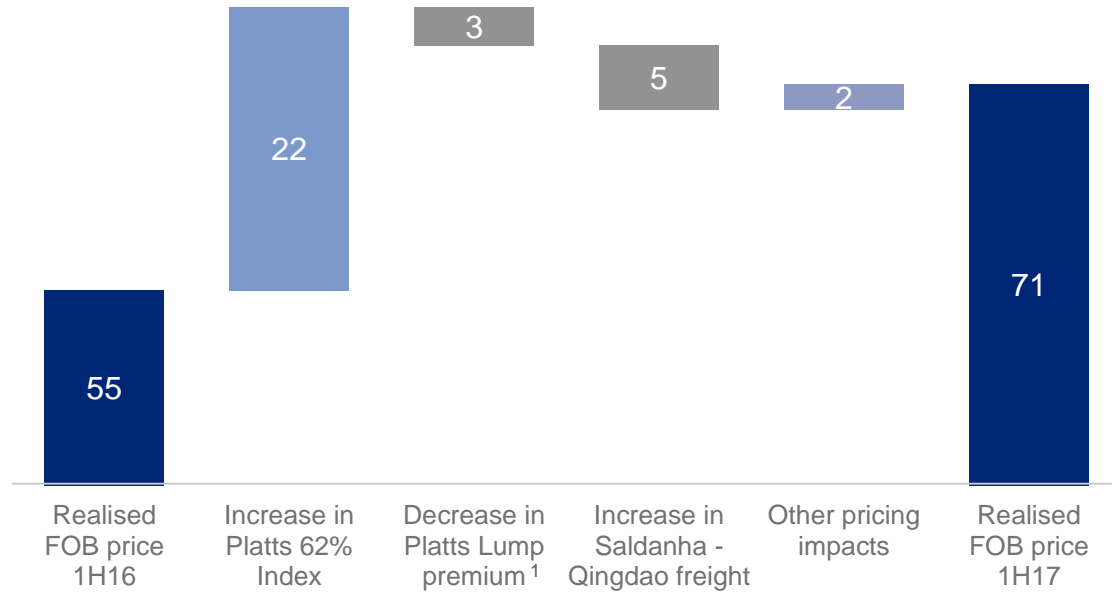


Source: Platts



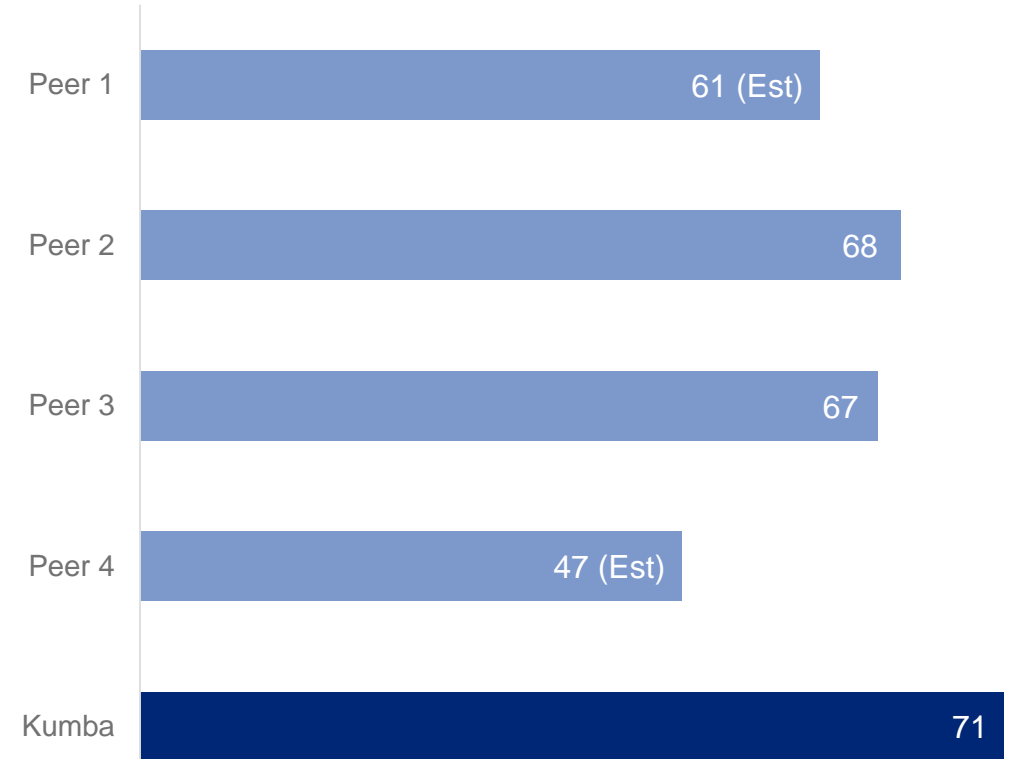
# HIGHER ABSOLUTE AND RELATIVE PRICES – OUTLOOK CAUTIOUS

Kumba's 1H17 Realised Price Reconciliation (US\$/dmt, FOB)



<sup>1</sup> In 1H17, 67% of Kumba's sales consisted of lump ore.

1H17 Realised Price (US\$/dmt, FOB), Peer Comparison



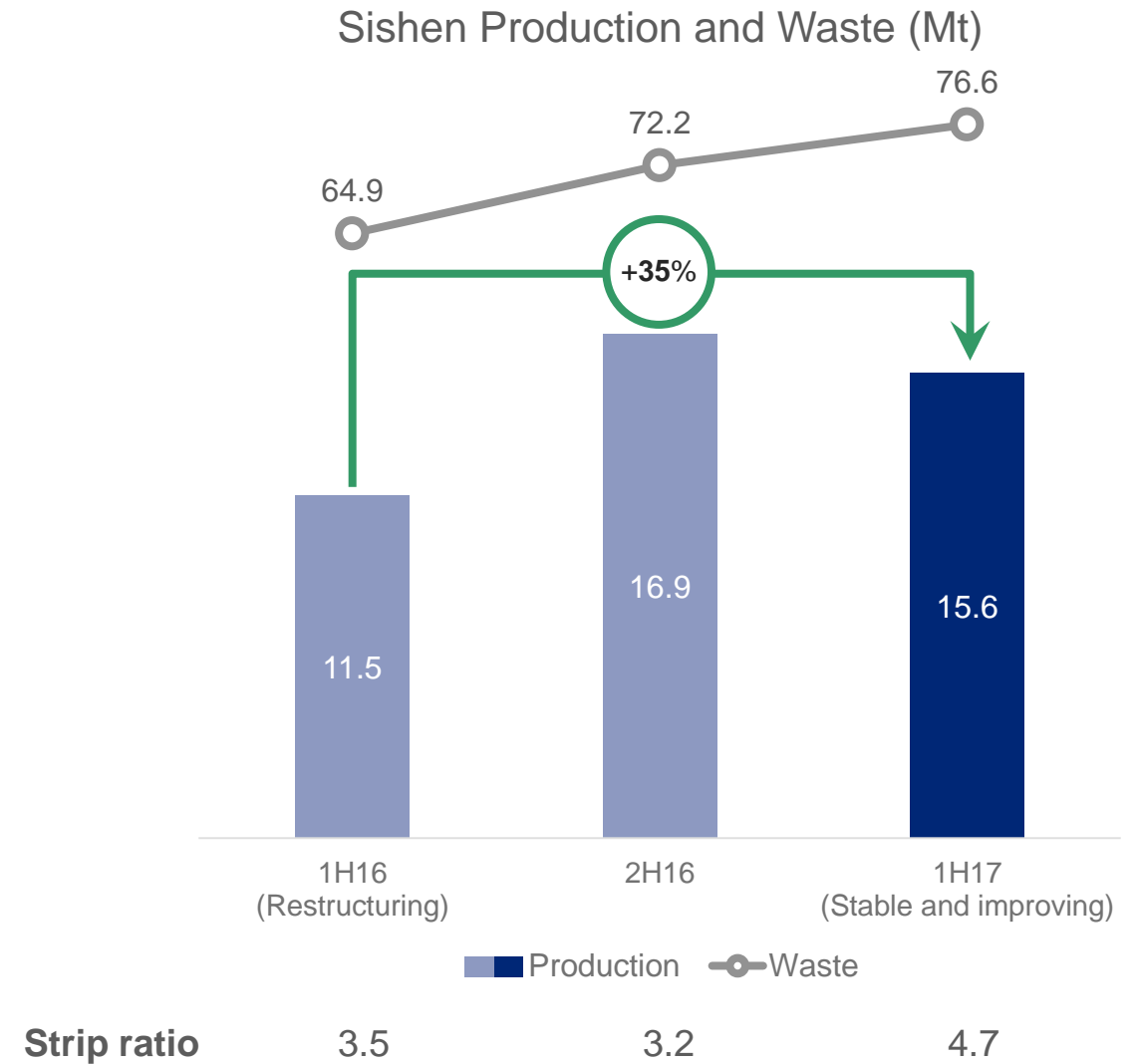
Peer 1 estimated using Q1 actuals & an assumed 103% realisation of the IODEX for Q2.  
Peer 4 estimated using Q1 actuals & published monthly product discounts for Q2.



## OPERATIONAL OVERVIEW

# SISHEN DEMONSTRATING STABILITY

- Production up 35% to 15.6Mt from higher plant throughput and yields
- Waste up 18% to 76.6Mt
- Performance underpinned by improved productivity
- Strip ratio will exceed 4 in medium term



# FLEET PRODUCTIVITY IMPROVES BY 57%

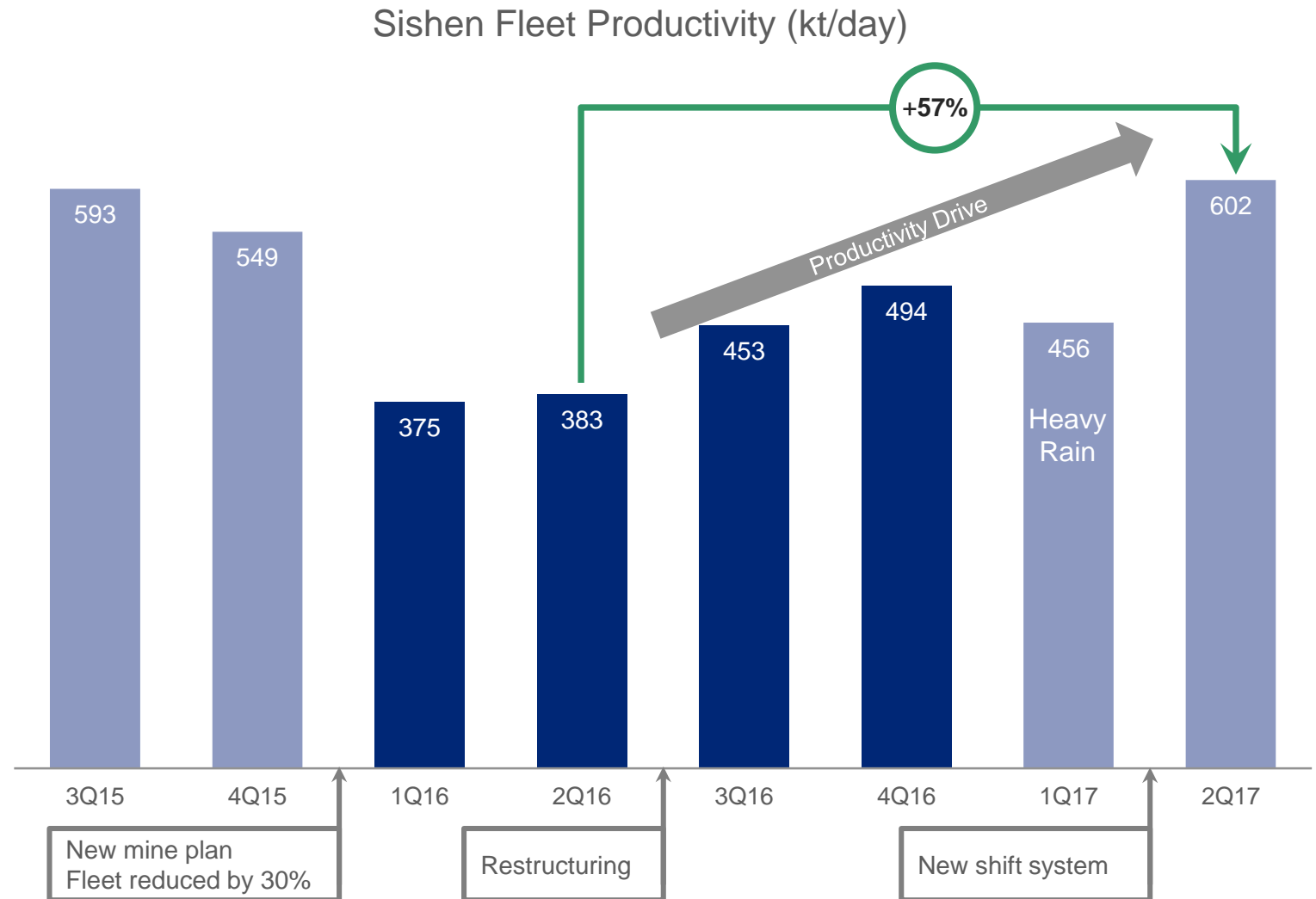
## Operating Model delivering benefits

### More hours worked

- Motivated workforce
- New shift system
- Efficient shift change
- Good attendance

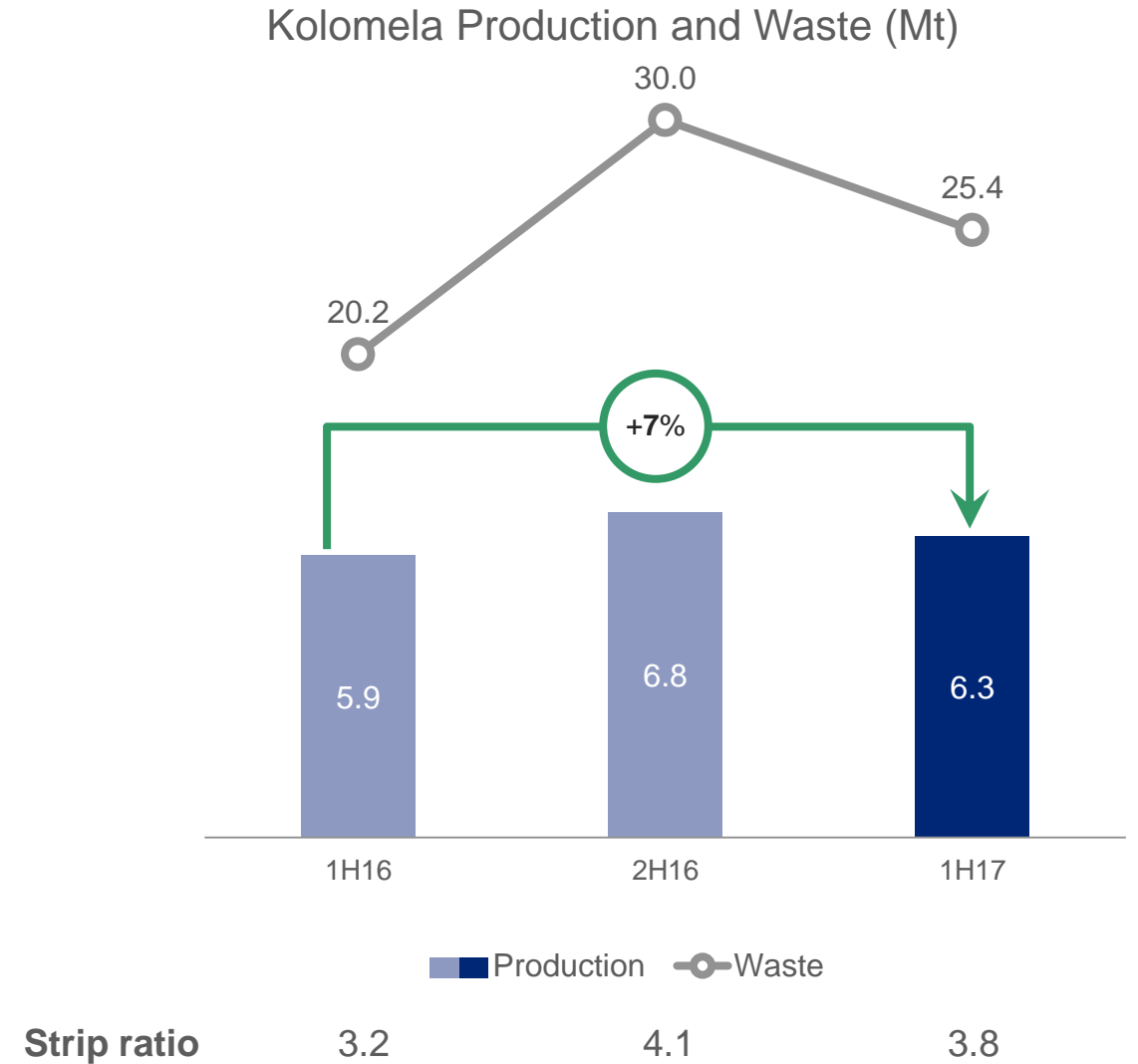
### Improved shovel productivity

- Improved planning
- Wider benches
- Improved blasting
- Double-sided loading



# KOLOMELA ACHIEVES ANOTHER SOLID PERFORMANCE

- Production up 7% to 6.3Mt
- Waste increased 26% to 25.4Mt
- Rain impacted 1Q but tonnes recovered in 2Q
- Improved performance due to plant and equipment efficiencies



# OPERATIONAL GUIDANCE

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## Sishen

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Production 28–29Mt in 2017

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Waste 155–165Mt in 2017

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Strip ratio to exceed 4 over the medium term, LoM ~4

## Kolomela

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Production 13–14Mt in 2017

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Waste 50Mt–55Mt in 2017

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Strip ratio at ~3.9 over the medium term, LoM ~3.8

Total sales 41–43Mt in 2017

# LOGISTICS REFLECT HIGHER PRODUCTION

Mt	1H17	1H16	% change	2H16	% change
Railed to port (incl. Saldanha Steel)	<b>20.8</b>	18.3	14	21.5	(3)
Sishen mine (incl. Saldanha Steel)	<b>14.4</b>	11.7	23	15.1	(5)
Kolomela mine	<b>6.4</b>	6.6	(3)	6.4	-
Total sales	<b>21.2</b>	20.2	5	22.3	(5)
Export	<b>19.5</b>	18.1	8	21.0	(7)
Domestic	<b>1.7</b>	2.1	(16)	1.3	38
Sishen mine	<b>1.7</b>	1.4	24	1.3	38
Thabazimbi mine	-	0.7	(100)	-	-
Total ore shipped	<b>19.5</b>	18.1	8	20.6	(5)
CFR (shipped by Kumba)	<b>12.7</b>	12.7	0	14.6	(13)
FOB (shipped by customers)	<b>6.8</b>	5.4	26	6	13
Finished product inventory	<b>4.4</b>	2.3	91	3.5	26

# SUPPORTING TRANSFORMATION, CHALLENGING MCIII

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- Kumba fully committed to meaningful and sustainable transformation of the mining industry
- Charter needs to promote investment and employment growth; and be practical
- Kumba supports the CoM course of action and welcomes the suspension of implementation
- Our rights are secure

## Delivery beyond compliance

- Effective 29% BEE shareholding
- R28bn economic value to BEE shareholders (incl. 1H17 dividend)
- >R2.7bn on 3 401 houses
- R57.4bn procurement with BEE suppliers
- 73% HDSA on Board and 64% in management; 21% of employees are women
- 5% payroll on skills development p.a.
- R980m on community development



# STAKEHOLDER RELATIONSHIPS

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## Dingleton

- Consolidated Sishen mining right (Section 102) granted
- Waste management licence granted
- Negotiations with lawyers of remaining households initiated
- Waste mining continues



## Thabazimbi

- Closure application submitted to the DMR
- Engagements with DMR on Section 11 ongoing



## Labour

- Continue to enjoy a stable labour environment
- Wage negotiations in progress

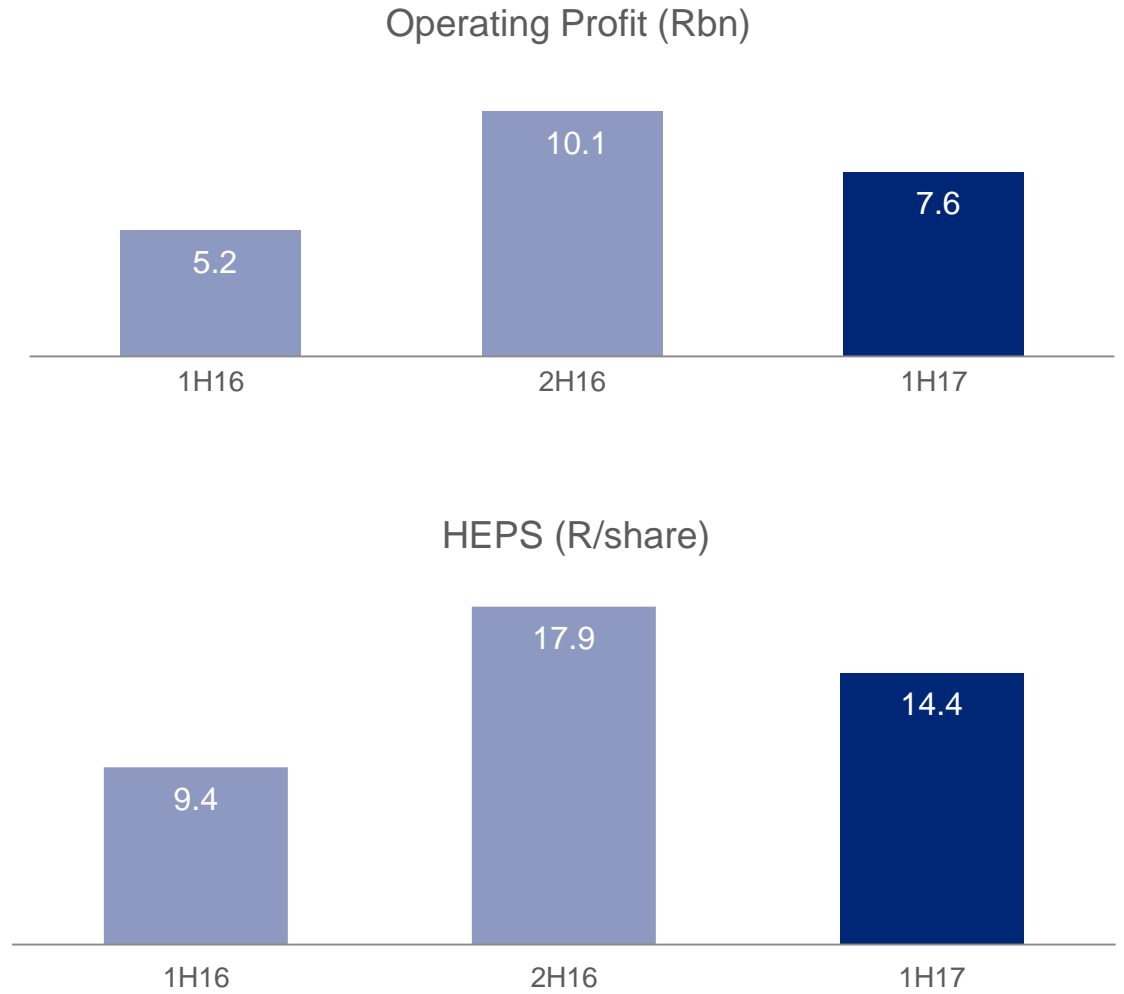


## FINANCIAL OVERVIEW

# FINANCIAL HIGHLIGHTS

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- Revenue increased 18% to R21.5bn
- EBITDA margin increased 6% to 43%
- Headline earnings of R4.6bn up 53%
- Capex of R1.1bn down 17%
- Net cash position of R13.5bn
- Dividend reinstated – R15.97 per share



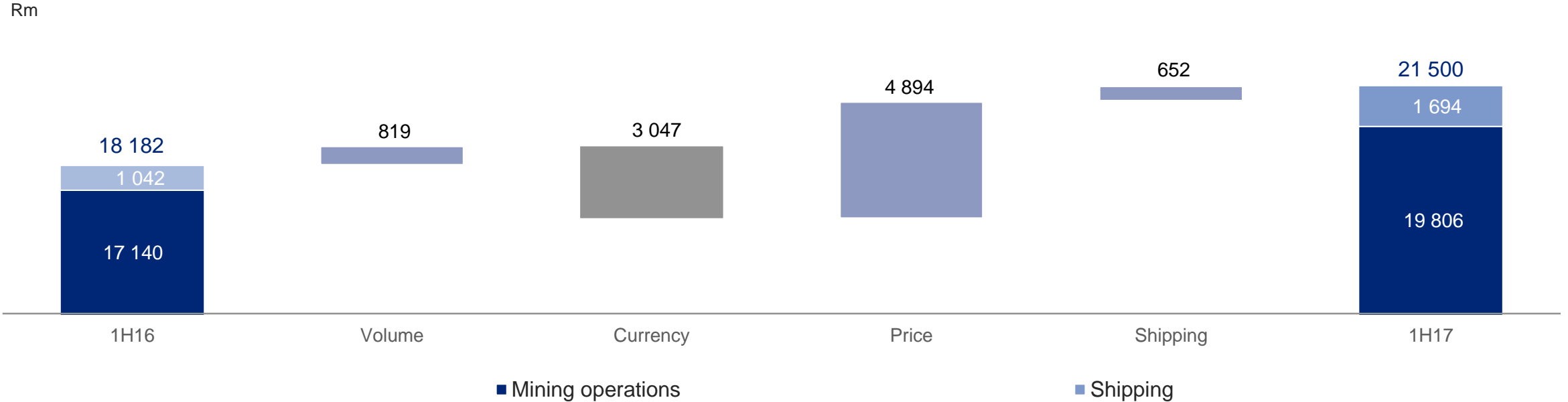
# BREAKEVEN - CONTROLLABLE COSTS CONTAINED

Platts 62% Breakeven Price (\$/t)



- Breakeven price up US\$14/t from FY16 average
- Controllable costs up US\$1/t
  - On-mine costs up US\$2/t, driven by:
    - higher mining volumes and cost escalation
    - offset by improved efficiencies and higher production
  - Overheads and SIB reduced by US\$1/t due to continued optimisation
- Non-controllable costs up US\$8/t
  - Freight rates up US\$3/t on FY16
  - Higher royalties of US\$1/t
  - Stronger currency adding US\$4/t
- Lump and market premium down US\$5/t

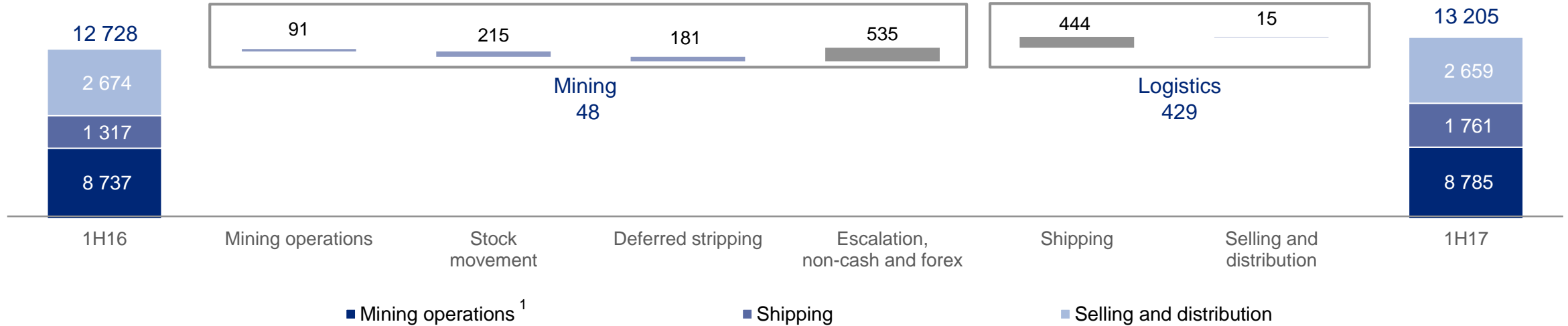
# REVENUE GROWTH FROM HIGHER VOLUMES AND STRONG PRICES



- Revenue increased by 18%
- Total sales 21.2Mt: export sales up by 1.4Mt, domestic sales 0.4Mt lower
- 14% stronger average R/US\$ exchange rate of R13.21 (1H16: R15.40)
- Realised average FOB export price rose by 29% to US\$71/t (1H16: US\$55/t)

# OPERATING EXPENDITURE CONTAINED

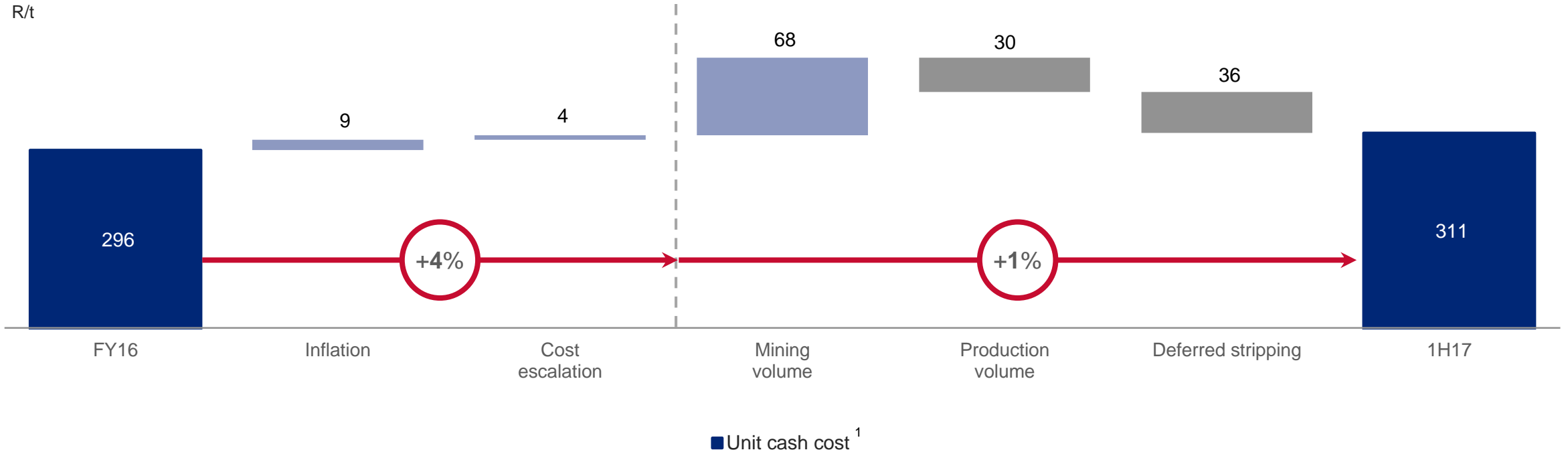
Rm



- Operating expenditure up 4% to R13.2bn
- Cost savings of R752m
- Increased capitalisation of deferred stripping due to higher stripping ratio at Sishen
- Higher shipping costs as freight rates increased to US\$10/t

<sup>1</sup> Excluding the mineral royalty

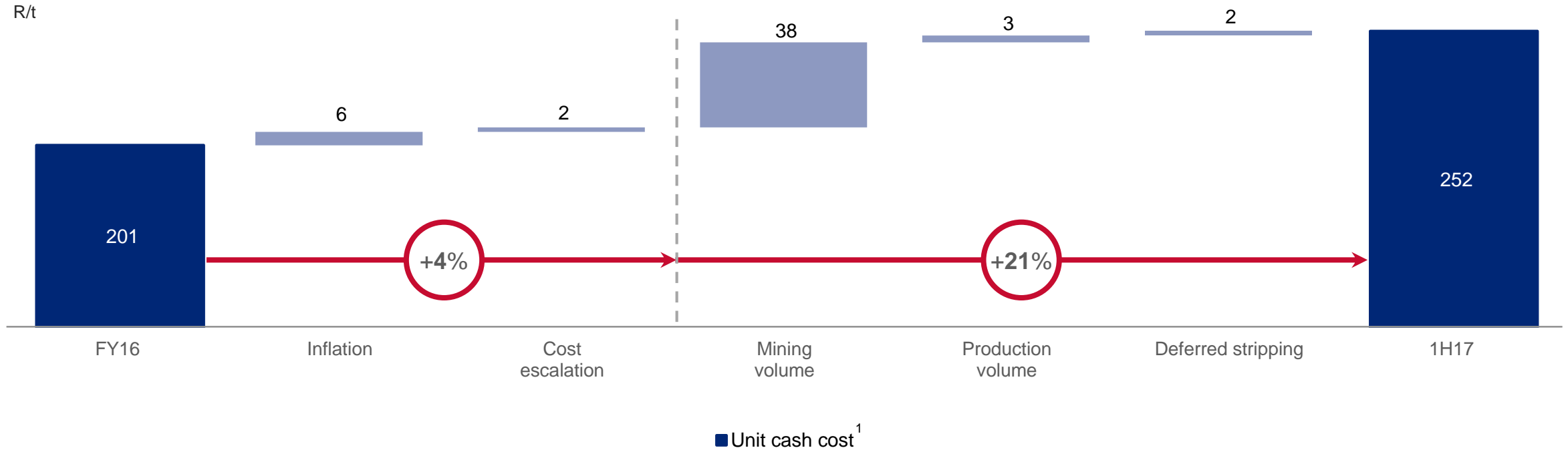
# SISHEN: UNIT COST AIDED BY INCREASED VOLUMES AND EFFICIENCIES



- Increased costs offset by improved production
- Higher capitalisation of deferred stripping costs driven by strip ratio
- Cost escalation due to 5.9% CPI and higher diesel price
- Mining cost per tonne decreased by 3% in real terms

<sup>1</sup> Excluding impact of deferred stripping on unit cost 1H17 R35/t (FY16: R3/t)

# KOLOMELA: UNIT COST DRIVEN BY HIGHER STRIP RATIO AND MODULAR PLANT



- Increased costs as WIP stock is crushed as feedstock for modular plant
- Above inflationary cost increases from higher fuel prices

<sup>1</sup> Excluding impact of deferred stripping on unit cost 1H17 R17/t (FY16: R18/t)



# CAPITAL EXPENDITURE SUPPORTS PRODUCTION

## 2017

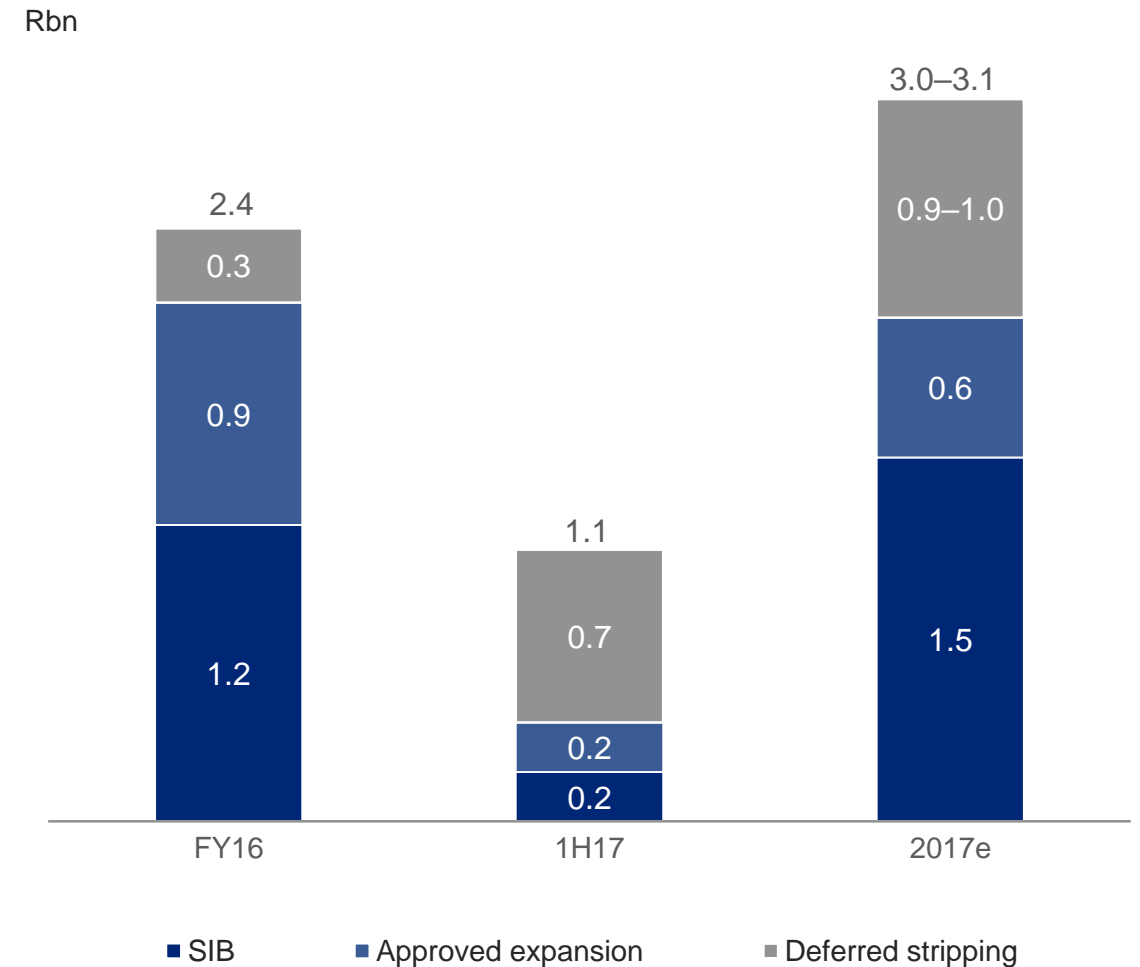
- 2H17 SIB supports production and efficiency targets
- Expansion increase versus previous guidance due to approval of Sishen 2<sup>nd</sup> modular

## Medium term

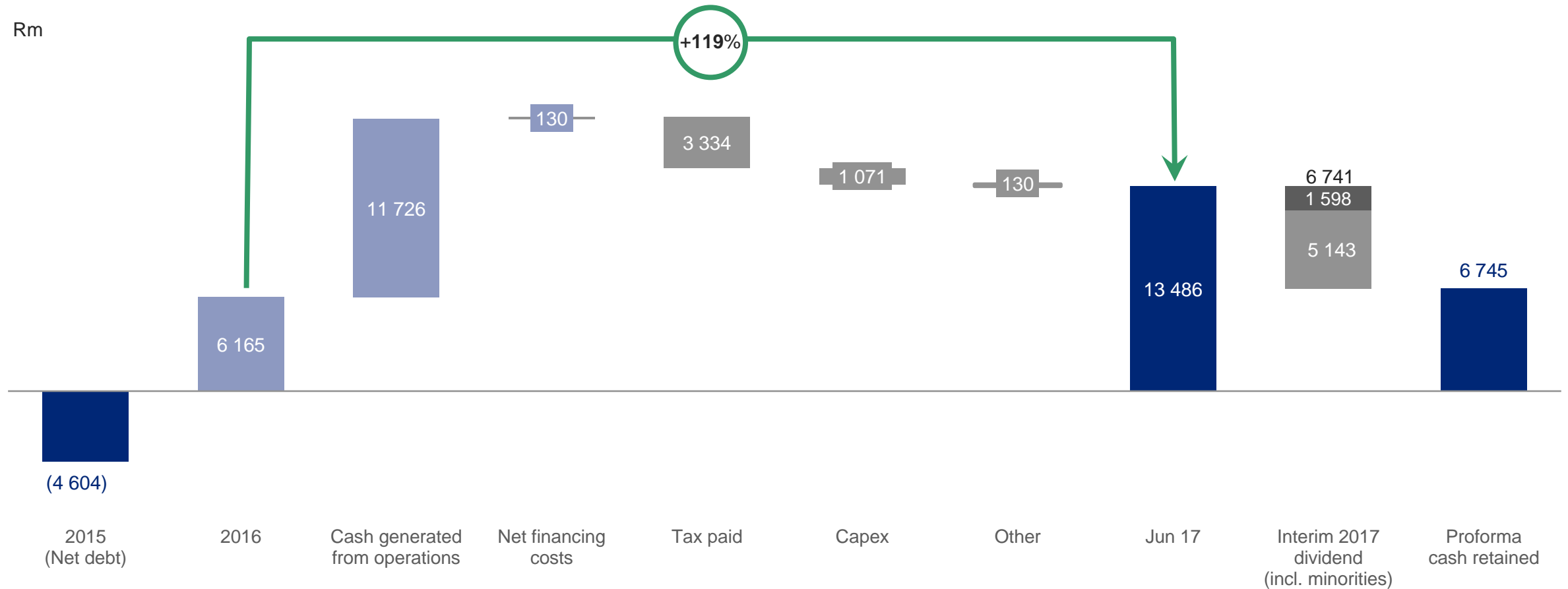
- Sishen: maintenance of infrastructure in support of revised pit shell and operational efficiencies
- Kolomela: SIB aligned to higher production

## Long term

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



# BALANCE SHEET NOW STRONGER AND MORE FLEXIBLE



- Strong cash generation of R11.7bn
- Cash balance of R13.5bn at 30 June 2017
- Dividend reinstated
- Returning R6.7bn to shareholders



**OUTLOOK**

# MAXIMISING THE RETURN POTENTIAL OF OUR CURRENT ASSETS

Integrate technology through value chain  
Optimise resource utilisation

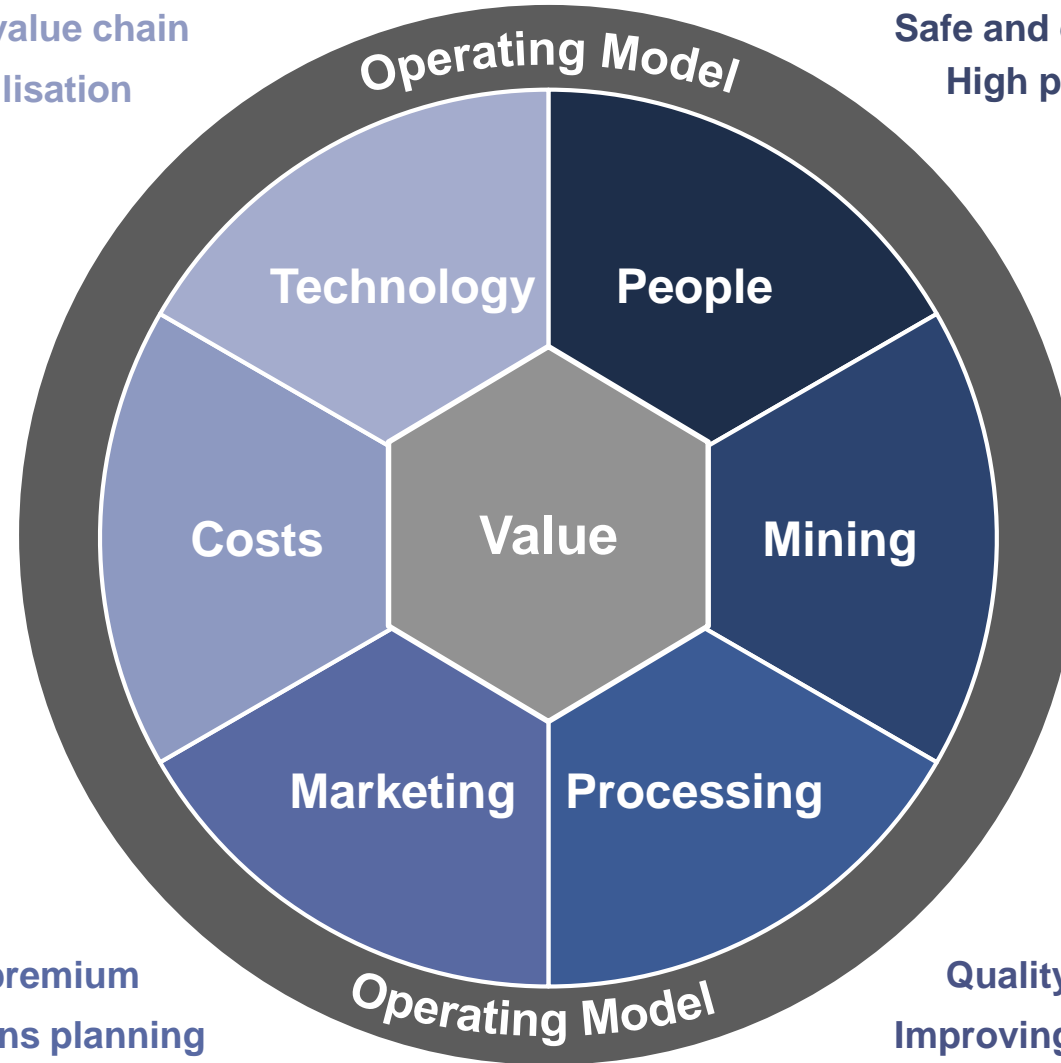
Safe and energised workforce  
High performance culture

Offset inflationary pressure  
Cost conscious culture

Consistent and predictable delivery  
Mining equipment efficiency  
Productivity

Realise value-in-use premium  
Integrated sales and operations planning

Quality focus  
Improving throughput



# THOROUGH REVIEW OF VALUE CHAIN UNDERWAY



Resource  
Development



Mining



Processing



Infrastructure



Marketing

Focus on resource utilisation, productivity and efficiency

Safety underpins everything we do

## Benchmark performance

Safety – elimination of fatalities  
Operating Model  
Truck and shovel productivity  
Maintenance quality  
Technology implementation

## Asset utilisation

DMS plant upgrade to UHDMS  
Feed optimisation  
Low grade development  
Exploration  
Infrastructure optimisation

## Cost management

Ongoing discussions with suppliers  
Strict budgeting process

## Optimise marketing

Price realisation  
Customer diversification

# DELIVERING ON PROMISES

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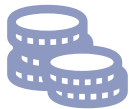
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**Operations:** another step change in productivity

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**Financials:** capturing benefit of price and performance

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**Capital allocation:** balance sheet strengthened, dividend reinstated

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**Outlook:** guidance revised upwards, cost pressure remains



QUESTIONS





# ANNEXURE 1: ROBUST OPERATING MARGIN AND HEALTHY CASH GENERATION

Rm	1H17 <sup>1</sup>	1H16 <sup>1</sup>	% change	2H16 <sup>1</sup>	% change
Revenue	21 500	18 182	18	22 585	(5)
Operating expenses	(13 853)	(12 976)	7	(12 475)	11
Operating profit	7 647	5 206	47	10 110	(24)
Operating margin (%) <sup>2</sup>	36	29		45	
Profit for the period	5 998	3 820	57	7 325	(18)
Equity holders of Kumba	4 586	2 974	54	5 648	(19)
Non-controlling interest	1 412	846	67	1 677	(16)
Effective tax rate (%)	23	23		28	
Cash generated from operations	11 726	7 632	54	9 586	22

<sup>1</sup> Including Thabazimbi

<sup>2</sup> Excluding the impairment charge for 2016

## ANNEXURE 2: REVENUE SECTOR ANALYSIS

	1H17	1H16	% change	2H16	% change
Export (Rm)	18 375	15 412	19	19 746	(7)
Tonnes sold (Mt)	19.5	18.1	8	21	(7)
US Dollar per tonne	71	55	29	67	6
Rand per tonne	942	851	11	940	-
Domestic (Rm)	1 431	1 728	(17)	1 134	26
Shipping operations (Rm)	1 694	1 042	63	1 705	(1)
<b>Total revenue</b>	<b>21 500</b>	<b>18 182</b>	<b>18</b>	<b>22 585</b>	<b>(5)</b>
Rand/US Dollar exchange rate	13.21	15.40	(14)	13.98	(6)

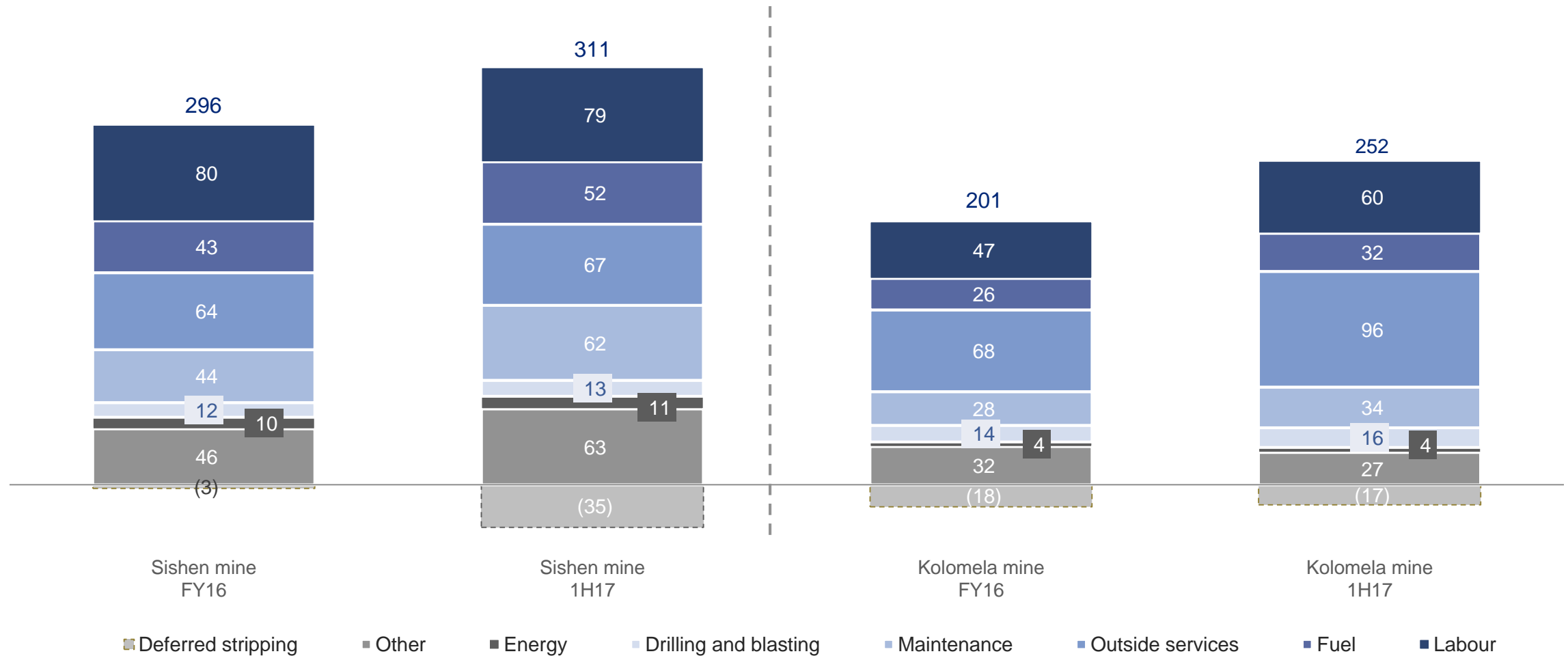
# ANNEXURE 3: AGGREGATE OPERATING EXPENDITURE

Rm	1H17	1H16	% change	2H16	% change
Cost of goods sold	8 785	8 733	1	7 232	21
Cost of goods produced	8 152	7 123	14	8 037	1
Production costs	7 655	7 353	4	8 117	(6)
Sishen mine	5 336	5 527	(3)	5 845	(9)
Kolomela mine	2 111	1 631	29	2 257	(6)
Thabazimbi mine	104	187	(44)	8	1 200
Other	105	8	1 213	7	1 400
Inventory movement WIP	497	(230)	316	(80)	721
A grade	-	2	100	116	(100)
B grade	497	(232)	314	(196)	354
Inventory movement finished product	16	959	(98)	(659)	102
Corporate support and studies	450	508	(11)	566	(20)
Forex and other	166	143	16	(712)	123
Mineral royalty	648	248	161	738	(12)
Impairment charge	-	4	(100)	-	-
Selling and distribution	2 659	2 674	(1)	2 705	(2)
Shipping operations	1 761	1 317	33	1 800	(2)
<b>Operating expenses</b>	<b>13 853</b>	<b>12 976</b>	<b>7</b>	<b>12 475</b>	<b>11</b>

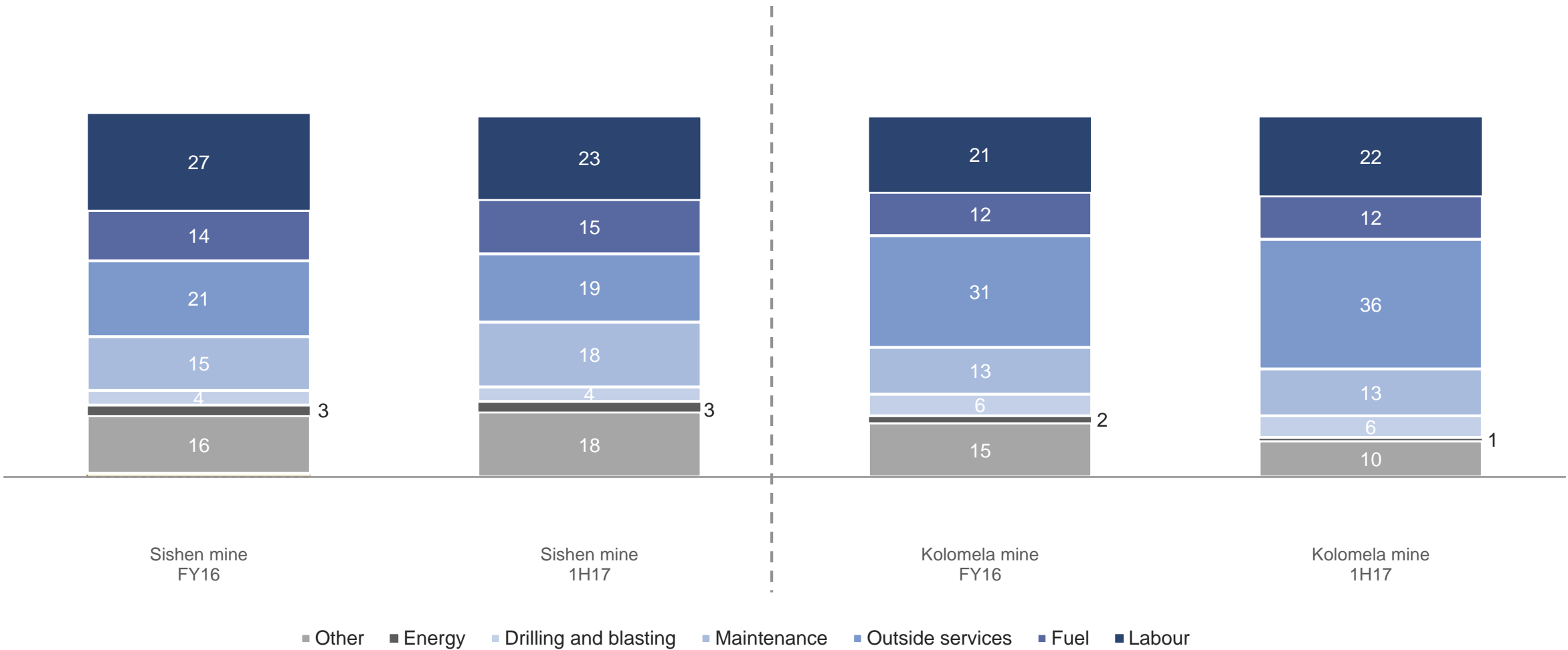
# ANNEXURE 4: CAPITAL EXPENDITURE ANALYSIS

Rm	1H17	FY16	FY17
Approved expansion	197	856	600
Deferred stripping	656	321	900–1 000
Sishen	550	88	600–700
Kolomela	106	233	~300
SIB Sishen	140	875	900
SIB Kolomela	73	301	600
SIB Thabazimbi	5	-	-
<b>Total approved capital expenditure</b>	<b>1 071</b>	<b>2 353</b>	<b>3 000–3 100</b>

# ANNEXURE 5: SISHEN AND KOLOMELA MINES' UNIT CASH COST STRUCTURE (R/t)



# ANNEXURE 6: SISHEN AND KOLOMELA MINES' UNIT CASH COST STRUCTURE (%)



# ANNEXURE 7: SENSITIVITY ANALYSIS 1H17

Change per unit of key operational drivers, each tested independently

Sensitivity analysis	Unit change	EBIT impact
Currency (Rand/US\$)	R0.10/US\$	R150m
Export Price (US\$/t)	US\$1.00/t	R250m
Volume (kt)	100kt	R65m

Sensitivity analysis	Unit change	Breakeven price impact
Currency (Rand/US\$)	R1.00/US\$	US\$3.00/t

1% change to key operational drivers, each tested independently

Sensitivity Analysis (1% change) – EBIT Impact (Rm)

