

# KUMBA IRON ORE LIMITED

INTERIM FINANCIAL RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

**UNLOCKING OUR FULL POTENTIAL**

DISCIPLINED GROWTH FOR A SUSTAINABLE FUTURE



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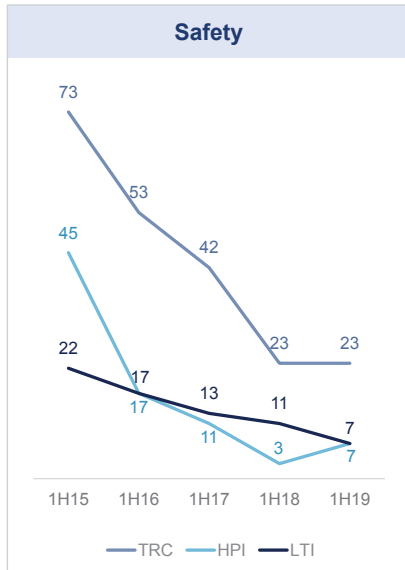
The conversion of Mineral Resource to Ore Reserves is dependent on the approval of pre-feasibility and feasibility studies by the relevant Kumba and Anglo American Investment Committees. Any exclusive Mineral Resources quoted in this presentation, currently under investigation for conversion to Ore Reserves 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 2018 Mineral Resource and Ore Reserve statement for further information. (<https://www.kumba.co.za/investors/annual-reporting.aspx>)

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## NOTES

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## 3 year fatality free record, SHE<sup>1</sup>performance is our first priority



1. Safety, Health and Environment (SHE)

### Health

Occupational health (new cases)

**5**

1H18: 0

### Environment

Major incidents (level 3-5)

**0**

1H18: 0

Voluntary HIV testing (employees)

**80%**

1H18: 74%

Rehabilitation (land reshaped)

**22ha**

1H18: 25ha

### NOTES

## Our value over volume strategy is paying dividends

### Demand for premium product

Export sales

▲ **19.9Mt**

1H18: 19.5Mt

### Strong EBITDA growth

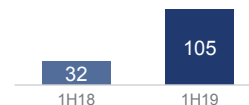
EBITDA

▲ **R20.1bn**

1H18: R7bn

### Exceptional returns

ROCE<sup>1</sup> (%)



### Realised price a differentiator

Average realised FOB price

▲ **US\$108/t**

1H18: US\$69/t

### Resilient balance sheet

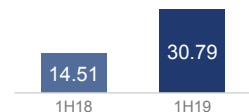
Attributable free cash flow

▲ **R12.7bn**

1H18: R2.8bn

### Dividend commitment

DPS (R/share)



1. Annualised

3

## NOTES

## Committed to South Africa, partnering for long-term success

### Rewarding employee talent

▲ **R2.4bn**

Salaries and benefits  
1H18: R2.3bn

### Delivering shareholder returns

▲ **R9.9bn**

Owners of Kumba  
1H18: R4.7bn

▲ **R3.1bn**

Empowerment partners  
1H18: R1.4bn

### Contributing to South Africa

▲ **R3.0bn**

Income tax  
1H18: R1.3bn

▲ **R867m**

Mineral royalty  
1H18: R468m

### Building communities

▲ **R71.1m**

Direct social investment  
1H18: R35.9m

### Supporting local businesses

▲ **R940m**

Host community suppliers  
1H18: R451m

▲ **R6.2bn**

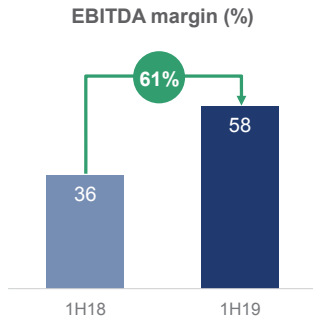
Procurement from BEE businesses  
1H18: R5.4bn



## NOTES

## Continuing to unlock our full potential

### Margin enhancement



✓ **Premium product portfolio**  
1H18

**68% lump**  
68% lump

✓ **Improved efficiency**  
1H18

**67%**  
63%

✓ **Cost savings**  
1H18

**R460m**  
R415m

### Life extension

✓ **Sishen: UHDMS feasibility**  
80% completed

✓ **Kolomela: Ploegfontein 85Mt**  
33% of exploration programme completed

✓ **Kolomela: Heuningkranz**  
67% of exploration programme completed

**TSWELELOPELE**

### Our ambitions by 2022:

- Margin enhancement \$10/t
- 20 year life of asset

## Marketing and Operational Overview

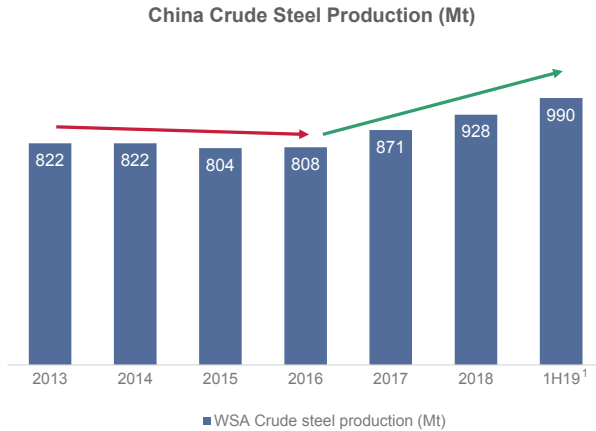


### NOTES

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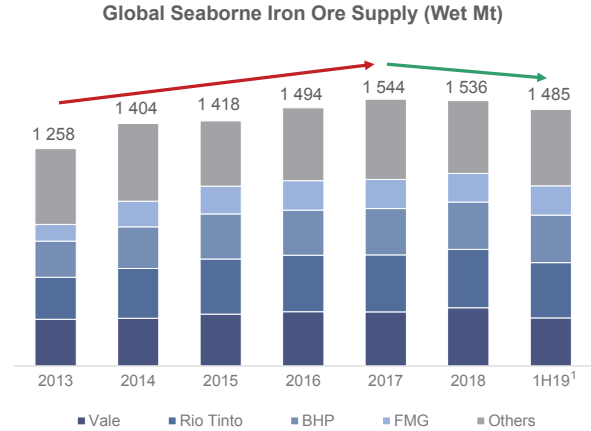


## Record steel production in China and tight seaborne iron ore supply



- Fiscal stimulus benefitting steel intensive sectors
- Double digit growth in China property starts

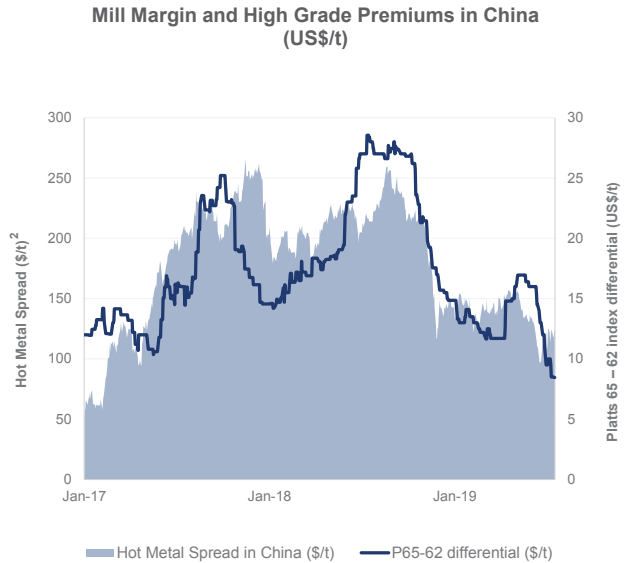
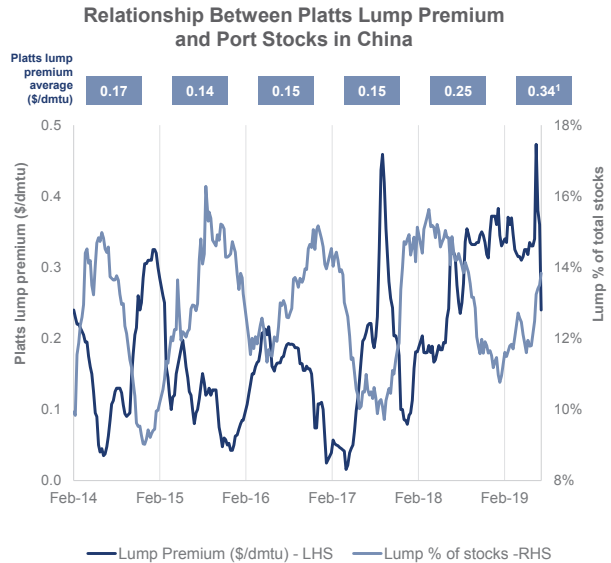
Source: World Steel Association, GTT  
1. Annualised



- Brazil's tailings dam incident in 1Q19
- Cyclone Veronica lowering BHP and Rio Tinto shipments

### NOTES

# Premia supported by tighter supply, but limited by mill margins

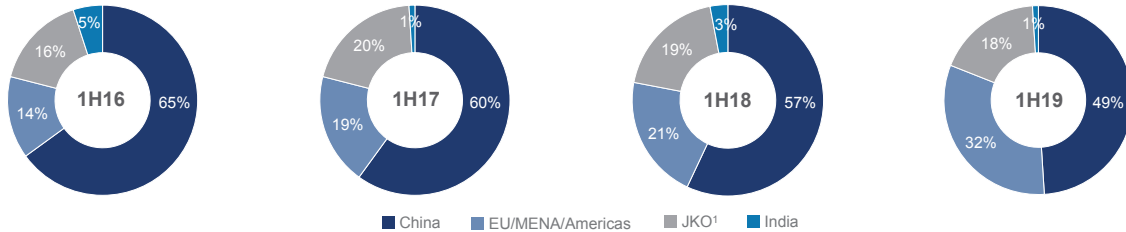


Source: Platts, GTT, Mysteel  
 1. YTD 2019 Average, 2. Hot metal Spread = Tangshan billet price/1.13 - (1.6x62%Fe) - (0.72xPLV Shanxi CFR China)

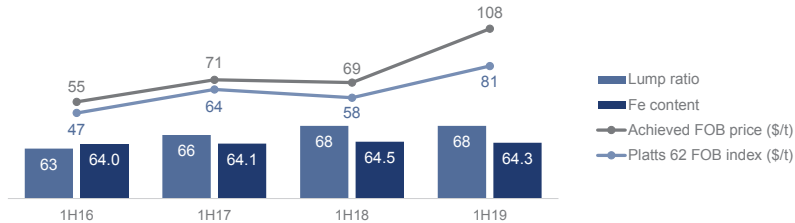
## NOTES

## Focusing on a more diverse customer portfolio resulting in higher premia

Geographic split, 1H16 – 1H19 (%)

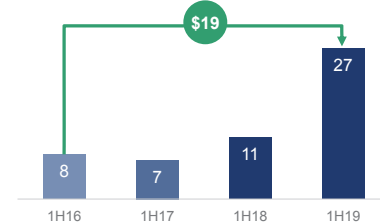


Kumba product quality evolution, 1H16 – 1H19 (%)



1. Japan, Korea and ASEAN

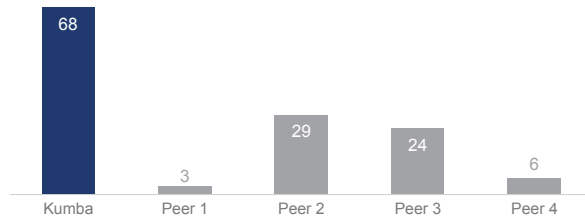
Price premium, \$/dmt over Platts 62 FOB



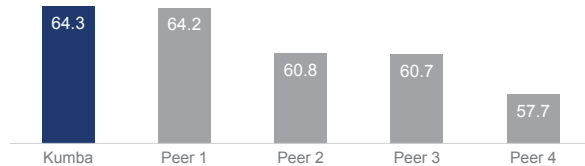
### NOTES

## Quality is our competitive advantage

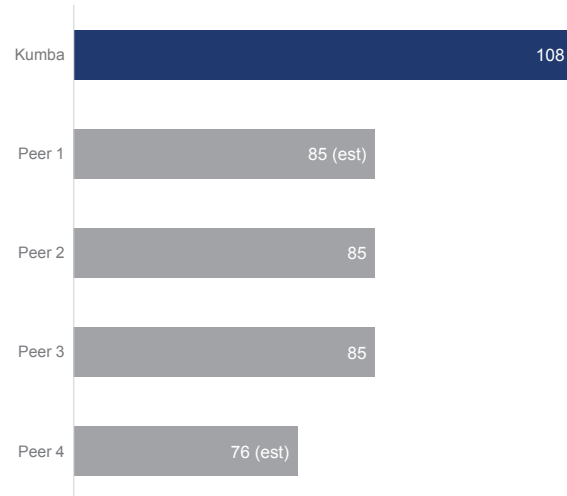
1H19 Lump: fine ratio comparison (%)



1H19 Average Fe content comparison (%)



1H19 Realised price comparison \$/dmt, FOB

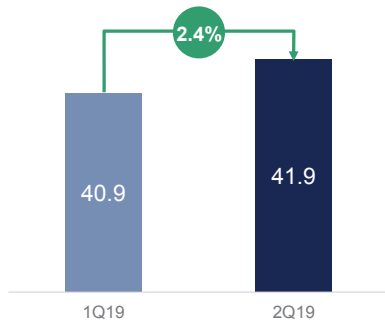


Source: Company reports, Wood Mackenzie

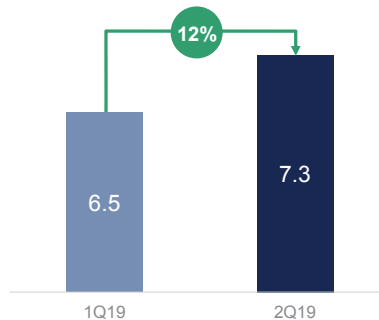
### NOTES

## Sishen – challenging start to the year, recovery demonstrated

Total waste mined  
**▼ 82.8Mt**  
1H18: 86.6Mt



Total production volumes  
**▼ 13.8Mt**  
1H18: 15.3Mt



Increased efficiency  
**▲ 67.3%**  
1H18: 62.6%

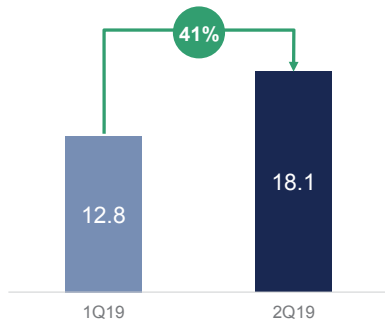
Competitive quality  
**■ 64.6%**  
1H18: 64.6%

Premium Lump:Fine  
**▲ 72.1%**  
1H18: 71.5%

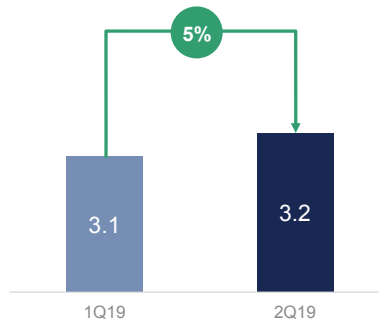
### NOTES

## Kolomela – solid mining performance, lower production due to DMS upgrade

Total waste mined  
**▲ 30.9Mt**  
1H18: 26.4Mt



Total production volumes  
**▼ 6.3Mt**  
1H18: 7.2Mt



Increased efficiency  
**▲ 66.9%**  
1H18: 63.8%

Competitive quality  
**■ 64.3%**  
1H18: 64.3%

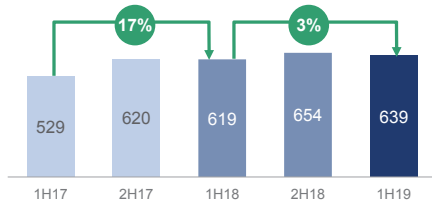
Premium Lump:Fine  
**▲ 59.4%**  
1H18: 59.0%

### NOTES

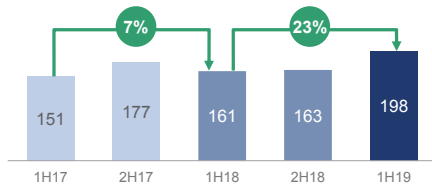
# Operational efficiency benefit from P101 initiatives

## Owner fleet efficiency (kt/day)

### Sishen



### Kolomela



1. P101 trucks
2. P101 shovels

## Driven by

- **Haul truck**  
 960<sup>1</sup>: 7.5kt/day  
 (1H18: 8.4kt/day; 2H18: 9.0kt/day)  
 860: 6.5kt/day  
 (1H18: 5.8kt/day; 2H18: 6.2kt/day)
- **Pre-strip shovel<sup>2</sup>**  
 81.6kt/day  
 (1H18: 76.7kt/day; 2H18: 77.9kt/day)

- Maintenance on 2/3 of 4100 shovels
  - Primary 960 truck fleet impacted
- Offset by
  - 2800 shovel performance
  - Secondary 860 truck fleet
  - 960 truck payload improved

### P101 initiatives

- Double-side loading on P101 shovel
- DOH and truck speed increase
- In-pit dumping, shorter haul distances
- Improved shift system

## NOTES

## Logistics performance significantly improved

Railed to port  
▲ **22.3Mt**  
1H18: 20.8Mt

Total sales  
▲ **21.4Mt**  
1H18: 21.2Mt

Total shipped  
▲ **19.9Mt**  
1H18: 19.5Mt

Finished product inventory  
▼ **4.5Mt**  
1H18: 6.2Mt



### NOTES



# Financial Overview



NOTES

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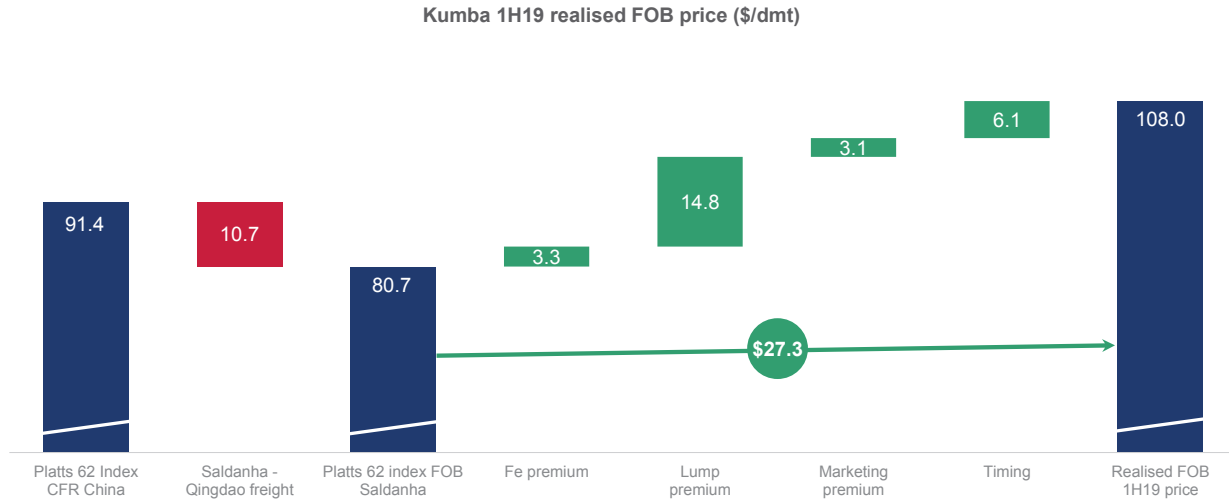
## Enhancing shareholder returns

Margin enhancement		Financial discipline		Sustainable returns	
✓ Average realised FOB price 1H18	US\$108/t US\$69/t	✓ Cost savings FY19 target	R460m R700m	✓ HEPS 1H18	R31.51 R9.31
✓ EBITDA margin 1H18	58% 36%	✓ Break-even price 1H18	US\$32/t US\$46/t	✓ DPS 1H18	R30.79 R14.51



### NOTES

## Enhanced price premia from continued focus on quality and marketing



### NOTES

## Revenue driven by market price and currency gains

Rm

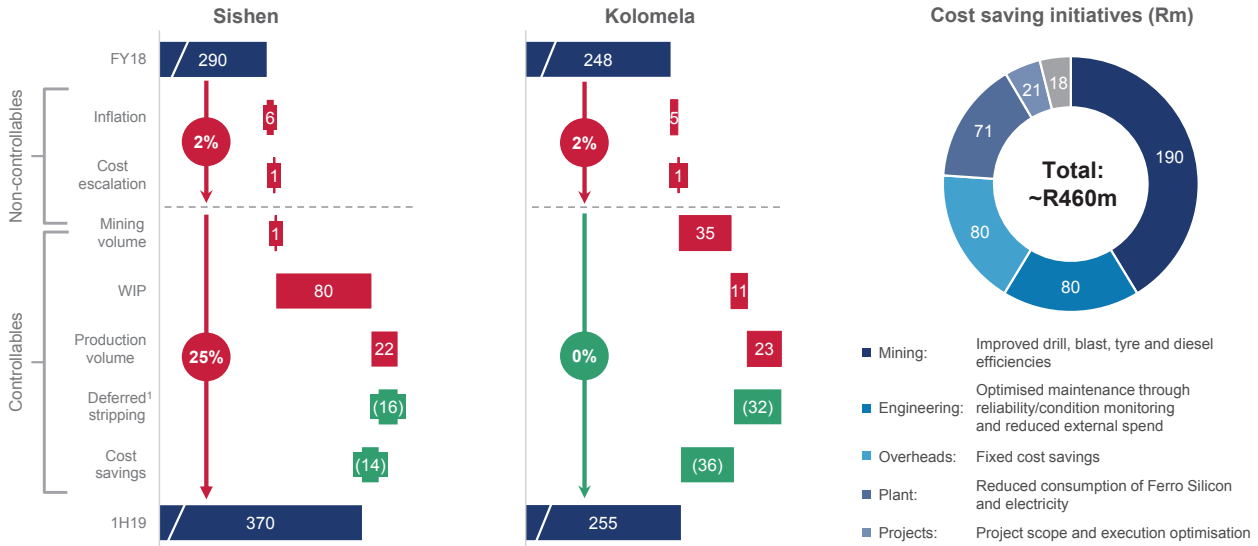


- Revenue increased by 77%
- Export sales volumes up 2%
- Market premium \$9/t up to \$12/t

- Average realised FOB export price up 57% to \$108/t (1H18: \$69/t)
- Average R/\$ exchange rate 16% weaker at R14.20 (1H18: R12.30)

### NOTES

## Unit cost – volumes and inflation impact partially offset by cost savings



1. Excluding impact of deferred stripping on unit cost: Sishen = 1H19: R66/t (FY18: R47/t); Kolomela = 1H19: R59/t (FY18: R22/t)

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### NOTES

## Break-even price driven by favourable market conditions and margin strategy

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



- Improved controllables driven by:

- Cost savings of R460m (1H18: R415m)
- Marketing price premium (1H18: \$1/t)
- Higher on-mine SIB capex

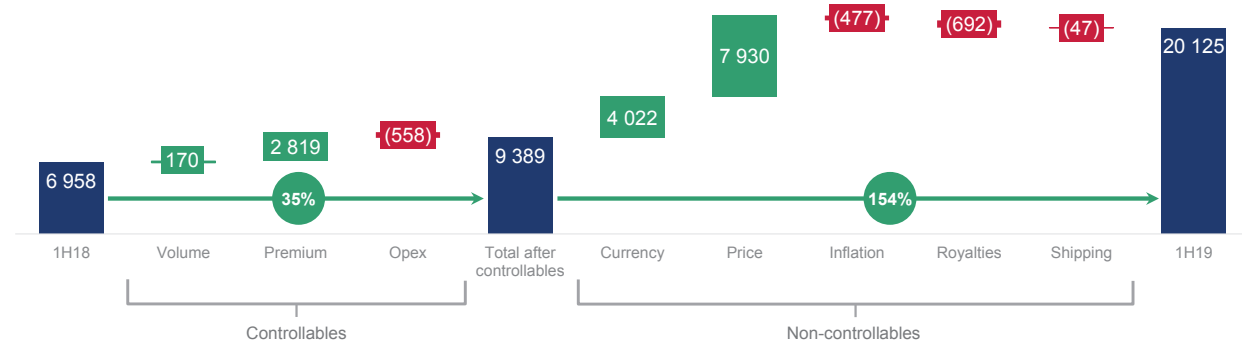
- Lower non-controllable costs attributable to:

- Higher lump premium of \$14.80/t (1H18: \$7.90/t) and price timing differences (1H18: \$0.10/t)
- Freight rates decreased 14% to \$10.70/t (1H18: \$12.50/t)
- Higher input cost inflation and escalation, and royalties

### NOTES

## EBITDA reflects benefit of strong prices, currency gains and margin strategy

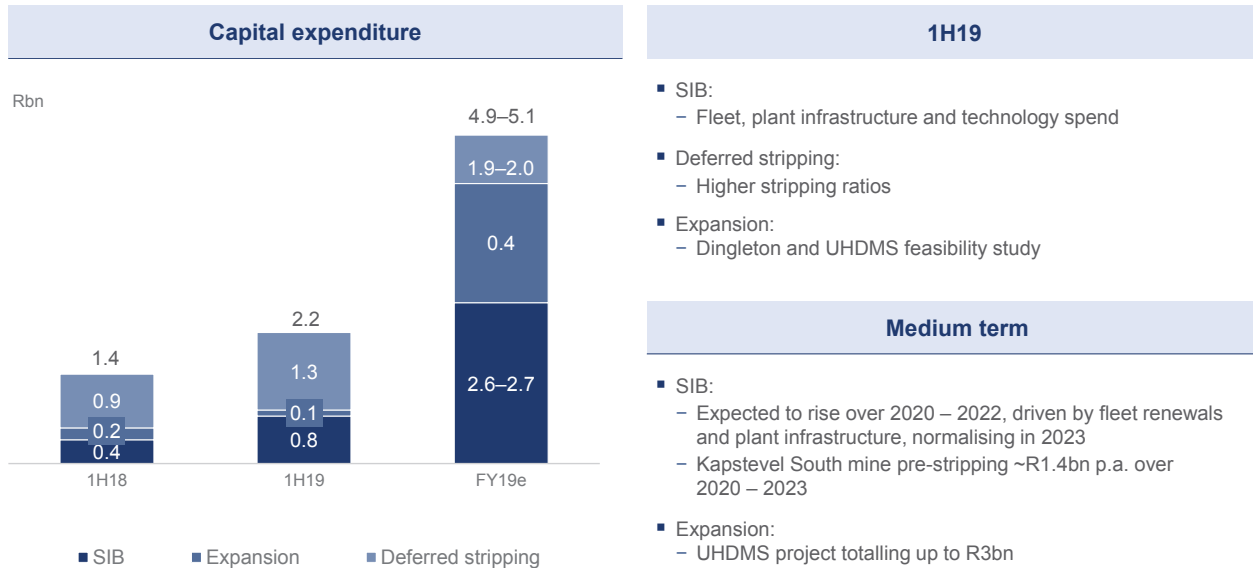
Rm



<p>Competitive product quality</p> <p><b>64.3%</b></p> <p>1H18: 64.5%</p>	<p>Improved efficiency</p> <p><b>67.3%</b></p> <p>1H18: 63%</p>	<p>Cost savings</p> <p><b>R460m</b></p> <p>1H18: R415m</p>
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### NOTES

## Disciplined capital allocation in line with our strategy

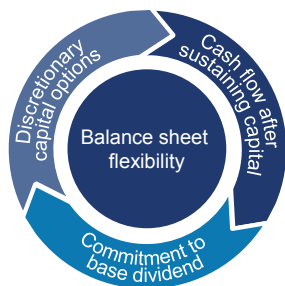


### NOTES



## Strong balance sheet and capital discipline deliver stellar returns

### Capital allocation framework



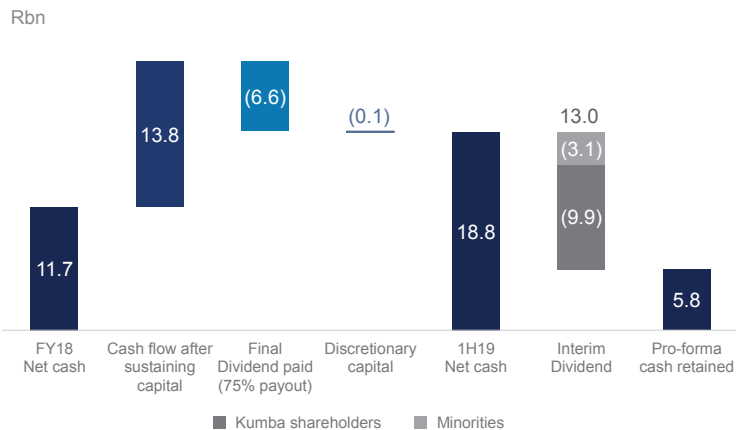
### Discretionary capital options

Future project options

Value accretive investment opportunities

Additional shareholder returns

### Capital allocation: 1H19



## NOTES

## Strategy



### NOTES

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## Margin enhancement of \$10 per tonne by 2022

### Enhanced product portfolio

Total sales of premium products

**40%**

1H19: 24%



### Improved operational efficiency

P101 benchmark

**>100%**

1H19: 67%



### Cost saving initiatives

Cumulative target

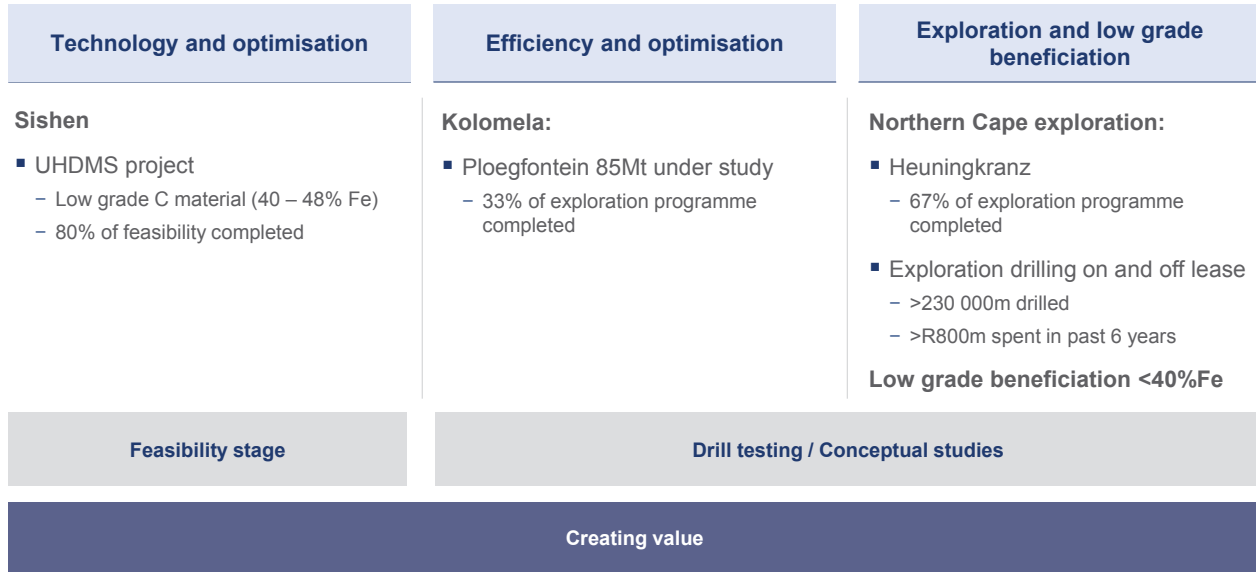
**R2.6bn**

1H19: R460m  
FY19 target: R700m



### NOTES

## Life of asset over 20 years by 2022



### NOTES

## Guidance for 2019

Total production

**42 – 43Mt**

Revised

Total sales

**43 – 44Mt**

Maintained

Capex

**R4.9 – 5.1bn**

Revised

### Sishen

- Production: 29 – 30Mt
- Waste: 170 – 180Mt
- Unit costs: R325 – 335/t
- Strip ratio: to exceed 4.5, LoM ~3.4
- LoM: 14 years

### Kolomela

- Production: ~13Mt
- Waste: 55 – 60Mt
- Unit costs: R255 – 265/t
- Strip ratio: to exceed 4, LoM ~4
- LoM: 14 years

## NOTES

## Our value proposition

Assets	Capabilities	Sustainable returns
<ul style="list-style-type: none"><li>▪ Premium product portfolio</li><li>▪ Life extension opportunities</li><li>▪ License to operate</li><li>▪ Mutually beneficial partnerships</li></ul>	<ul style="list-style-type: none"><li>▪ Safe and flexible production</li><li>▪ Operating model and technology</li><li>▪ Marketing</li><li>▪ Talented people</li></ul>	<ul style="list-style-type: none"><li>▪ Strong cash generation</li><li>▪ Capital allocation discipline</li><li>▪ Attractive and sustainable dividends</li></ul>



### NOTES

## Questions



NOTES

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## Annexures



## NOTES

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## Annexure 1: Logistics performance significantly improved

Mt	1H19	1H18	% change	2H18	% change
Railed to port (incl. Saldanha Steel)	<b>22.3</b>	20.8	7	19.8	13
Sishen mine (incl. Saldanha Steel)	<b>14.9</b>	13.7	9	13.4	11
Kolomela mine	<b>7.3</b>	7.1	3	6.4	14
Total sales	<b>21.4</b>	21.2	1	22.1	(3)
Export	<b>19.9</b>	19.5	2	20.5	(3)
Domestic	<b>1.5</b>	1.7	(12)	1.6	(6)
Total ore shipped	<b>19.9</b>	19.5	2	20.8	(4)
CFR (shipped by Kumba)	<b>12.7</b>	12.8	(1)	13.8	(8)
FOB (shipped by customers)	<b>7.2</b>	6.7	7	7.0	3
Finished product inventory	<b>4.5</b>	6.2	(27)	5.3	(15)

### NOTES

## Annexure 2: Operating margin driven by higher revenue

Rm	1H19	1H18 <sup>1</sup>	% change	2H18 <sup>1</sup>	% change
Revenue	34 498	19 474	77	26 251	31
Operating expenses	(16 530)	(14 390)	15	(15 039)	10
Operating profit	17 968	5 084	252	11 212	60
Operating margin (%) <sup>2</sup>	52	26	100	43	21
Profit for the period	13 183	3 853	242	8 742	51
Equity holders of Kumba	10 058	2 943	242	6 672	51
Non-controlling interest	3 125	910	243	2 070	51
Effective tax rate (%)	27	27		24	
Cash generated from operations	19 224	6 874	180	12 032	60

1. Including Thabazimbi mine  
2. Excluding the impairment

32

### NOTES

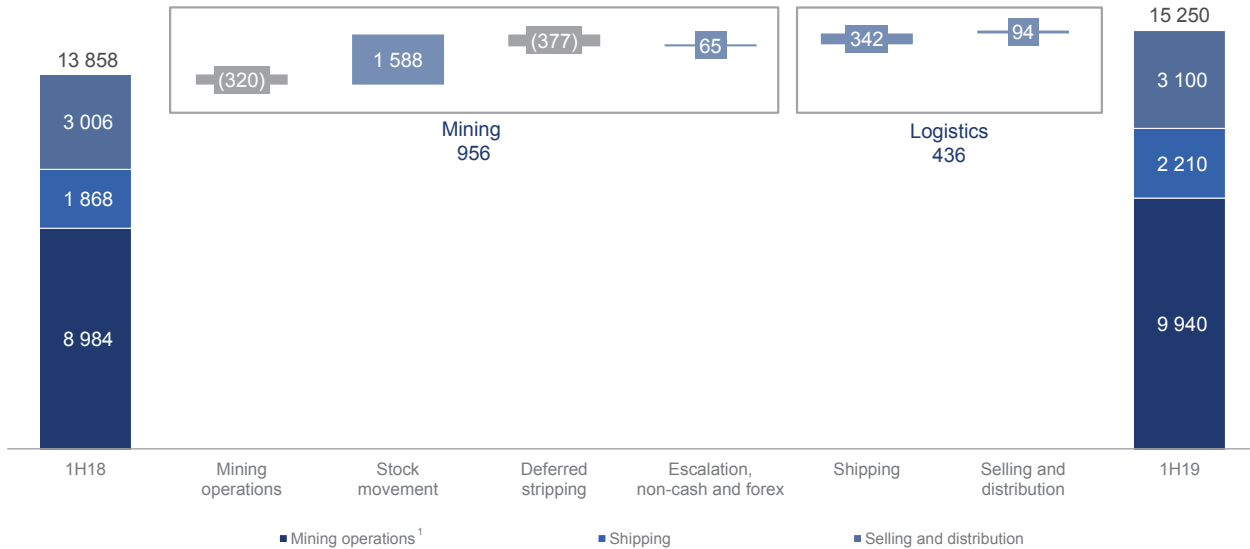
## Annexure 3: Revenue sector analysis

	1H19	1H18	% change	2H18	% change
Export (Rm)	30 584	16 388	87	21 873	40
Tonnes sold (Mt)	19.9	19.5	2	20.5	(3)
US Dollar per tonne	108	69	57	75	44
Rand per tonne	1 537	840	83	1 067	44
Domestic (Rm)	1 767	1 233	43	1 554	14
Shipping operations (Rm)	2 147	1 853	16	2 824	(24)
<b>Total revenue</b>	<b>34 498</b>	<b>19 474</b>	<b>77</b>	<b>26 251</b>	<b>31</b>
Rand/US Dollar exchange rate	14.20	12.30	15	14.19	–

### NOTES

## Annexure 4: Operating expenditure driven by stock movement

Rm



1. Excluding the mineral royalty and impairment

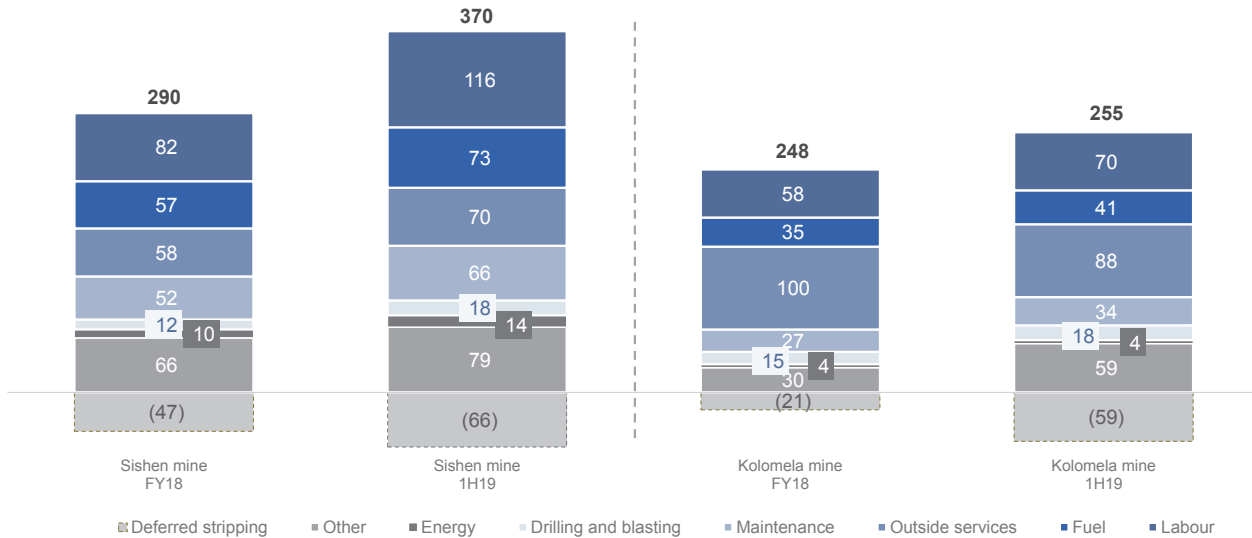
### NOTES

## Annexure 5: Operating expenditure analysis

Rm	1H19	1H18	% change	2H18	% change
Cost of goods sold	9 940	8 984	11	8 843	12
Cost of goods produced	9 089	8 731	4	7 491	21
Production costs	8 566	9 004	(5)	8 657	(1)
Sishen mine	6 149	6 282	(2)	5 927	4
Kolomela mine	2 384	2 499	(5)	2 580	(8)
Thabazimbi mine	—	44	(100)	25	(100)
Other	33	179	(82)	125	(74)
Inventory movement WIP	523	(273)	>100	(1 166)	>100
A grade	623	(992)	>100	(258)	>100
B grade	(100)	719	>(100)	(908)	(89)
Inventory movement finished product	412	(380)	>(100)	551	(25)
Corporate support and studies	592	580	2	759	(22)
Forex and other	(153)	53	>(100)	42	>(100)
Mineral royalty	1 224	532	>100	344	>100
Impairment	56	—	—	—	—
Selling and distribution	3 100	3 006	3	3 188	(2)
Shipping operations	2 210	1 868	18	2 664	(17)
<b>Operating expenses</b>	<b>16 530</b>	<b>14 390</b>	<b>15</b>	<b>15 039</b>	<b>10</b>

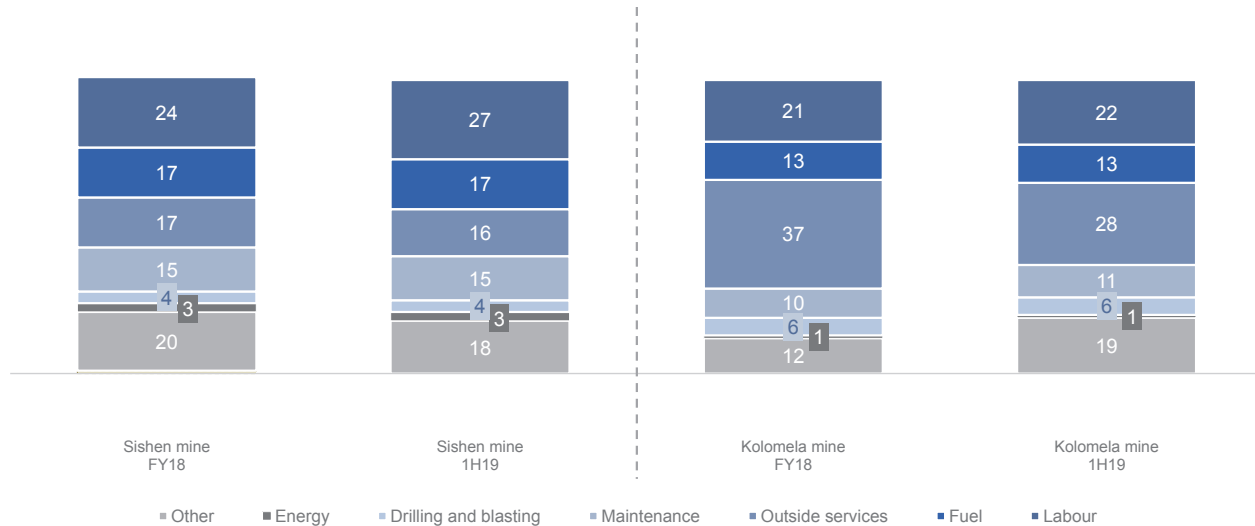
### NOTES

## Annexure 6: Sishen and Kolomela mines' unit cash cost structure (R/t)



### NOTES

## Annexure 7: Sishen and Kolomela mines' unit cash cost structure (%)



### NOTES

## Annexure 8: Capital expenditure analysis

Rm	1H19	FY18	FY19e
Approved expansion	134	506	~400
Deferred stripping	1 282	1 699	1 900 – 2 000
Sishen	912	1 370	1 300 – 1 400
Kolomela	370	299	600
SIB Sishen	595	1 691	1 900 – 2 000
SIB Kolomela	232	597	700
<b>Total capital expenditure</b>	<b>2 243</b>	<b>4 463</b>	<b>4 900 – 5 100</b>

*All guidance based on current forecast exchange rates*

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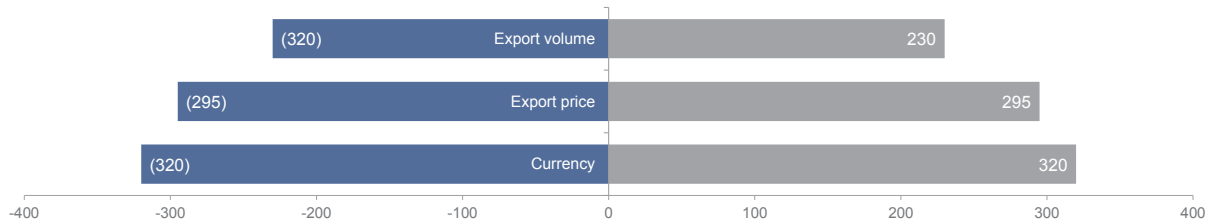
### NOTES



## Annexure 9: Sensitivity analysis 1H19

### 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\$	R225m
Export Price (US\$/t)	US\$1.00/t	R270m
Volume (kt)	100kt	R115m
		<b>Breakeven price impact</b>
Currency (Rand/US\$)	R1.00/US\$	US\$3.00/t

Source: WSA, Kumba market intelligence, GTIS Based on 4M16 data

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## NOTES

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