

KUMBA IRON ORE LIMITED

Kumba Iron Ore Limited is a member of the Anglo American plc Group

Registration number: 2005/015852/06

JSE share code: KIO

ISIN: ZAE000085346

INCOME TAX NUMBER: 9586/481/15/3

(Kumba or the Company or the group)

EXTRACTS FROM THE REVIEWED INTERIM RESULTS FOR THE PERIOD ENDED 30 JUNE 2020 AND INTERIM CASH DIVIDEND DECLARATION

HIGHLIGHTS

- Four years of fatality-free production
- R13 billion of shared value created
- Average realised FOB price of US\$93/tonne
- Protected EBITDA margin of 55%
- ROCE of 84%
- Net cash of R15.7 billion
- Interim cash dividend of R19.60 per share

OVERVIEW

Themba Mkhwanazi, Chief Executive of Kumba said: "Kumba adapted its business quickly and comprehensively to meet the human, operational and market challenges of the likely enduring reality of Covid-19. The Company delivered a strong performance in the first half of the year, with EBITDA of R17.4 billion at a margin of 55%. We are a resilient and capital efficient business with a robust balance sheet, well positioned to navigate the current environment and the longer term.

The safety and health of our employees and contractors has always been our first priority. We have now marked four years of being fatality free. In these unprecedented times it is even more critical to safeguard both lives and livelihoods and support the ecosystem in which we operate. We have implemented an extensive WeCare programme across four pillars of physical health, mental health, living with dignity, and community response that supports our workforce, communities and suppliers. In practice, this programme includes screening and testing, workforce education and communication, mental health support, contingency plans to ensure social distancing at work and to allow for periods of self-isolation, as well as remote working. We are contributing to our local communities by providing essential services such as water, healthcare, and medical services in partnership with the Provincial Department of Health and the local municipalities. With the support of our host communities, unions and government and the safe practices of our people, we have been able to reopen and ramp up production safely.

Kumba's production of 17.9 Mt and sales of 18.6 Mt were in line with our Covid-19 adjusted guidance for the first half of the year, following continued improvements as we returned to pre-Covid-19 run-rates in June. Our strong EBITDA performance translated into R7.1 billion of attributable free cash flow. Taking into account our strong earnings, the resilience required for our new operating conditions, and need for a robust balance sheet, the Board declared an interim cash dividend of R19.60 per share, representing a payout ratio of 75% of headline earnings.

We remain committed to our strategic imperatives of margin enhancement and life extension which are key to our sustainability. Our margin continued to benefit from constructive market prices and currency weakness, as well as the early and decisive action taken to protect our margin through additional cash preservation measures including delivering R700 million in cost savings for the year to date.

Kumba has been through challenging times before and we know how to respond. Our approach to navigating the pandemic is based on ensuring the resilience of our business, living our values of care and respect, and fulfilling our purpose to re-imagine mining to improve people's lives. We are building on our strategy to further strengthen our business and ensure that we remain agile, resilient and able to meet the challenges that we face."

OPERATIONAL PERFORMANCE

Kumba's operational performance for the period reflects the lockdown and subsequent reopening of operations in Q2 2020 with reduced workforce levels of approximately 50%, before ramping up production to pre-Covid-19 run-rates in June. Consequently, total tonnes mined for the period decreased by 15% to 117.6 Mt (H1 2019: 138.0 Mt), with total waste

reducing by 17% to 94.6 Mt (H1 2019: 113.8 Mt).

Both production and sales are closely managed in line with Transnet's logistical capacity, which increased to approximately 80% in June 2020. As a result, total production was 11% lower at 17.9 Mt, relative to the 20.1 Mt delivered in the same period in 2019 with the impact of the pandemic most evident in the second quarter as volumes decreased by 20%.

Total sales volumes declined by 13% to 18.6 Mt (H1 2019: 21.4 Mt), driven by lower domestic offtake by ArcelorMittal SA of 0.4 Mt (H1 2019: 1.5 Mt), while export sales volumes decreased by 8% to 18.3 Mt (H1 2019: 19.9 Mt) due to logistical constraints and severe coastal weather conditions impacting ship loading at Saldanha port.

REVENUE AND EBITDA

Total revenue decreased by 8% to R31.6 billion (H1 2019: R34.5 billion), mainly as a result of lower prices and sales volumes, partially offset by a weaker exchange rate.

Kumba's average realised iron ore export price decreased by 14% to US\$93/tonne (H1 2019: US\$108/tonne), while the average Rand/US\$ exchange rate weakened by 17% to R16.67/US\$1 (H1 2019: R14.20/US\$1). Sales volumes reduced by 13% to 18.6 Mt (H1 2019: 21.4 Mt) due to lower exports of 1.6 Mt and lower domestic sales of 1.1 Mt. Shipping revenue increased by R569 million, benefitting from a weaker currency and higher volumes, partly offset by lower freight rates.

EBITDA of R17.4 billion reflects a decrease of 14% compared with R20.1 billion in H1 2019. Currency gains from a weaker exchange rate and reduced operating expenses provided support. However, this was offset by the lower average realised FOB price of US\$93/tonne (H1 2019: US\$108/tonne), the 2.7 Mt impact of lower sales volumes and inflation-led cost escalation.

In line with this, Kumba's EBITDA margin decreased to 55% (H1 2019: 58%), with the mining operating margin declining to 53% (H1 2019: 56%), excluding a net freight loss incurred on shipping operations.

CASH FLOW

Kumba ended the period with a net cash position of R15.7 billion (H1 2019: R18.4 billion). Cash flow generated from operations was R15.0 billion (H1 2019: R19.2 billion), underpinned by EBITDA of R17.4 billion, while working capital increased due to finished stock increasing to 6.2 Mt (FY 2019: 4.5 Mt).

INTERIM CASH DIVIDEND DECLARED

Attributable and headline earnings per share were R26.21 and R26.19 (H1 2019: R31.39 and R31.51), respectively. In line with Kumba's capital allocation framework and dividend policy, which targets a payout range of between 50% and 75% of headline earnings, the Board has declared an interim cash dividend of R19.60 representing 75% of headline earnings.

OUTLOOK

Safety, health and wellbeing will continue to be our first priority. We are committed to improving on our four-year fatality-free track record through various initiatives to continue embedding safety behaviour and culture. The Covid-19 response measures implemented are being integrated into the way we operate and do business, and we will continue to support our communities, business partners, suppliers and customers as part of our commitment to improving lives and livelihoods.

The extent of the impact of Covid-19 on Kumba's operational and financial performance, including our full-year 2020 guidance, will depend on many factors, including the duration and severity of the pandemic and related restrictions, all of which are uncertain and cannot be fully predicted. The implications for our export markets are still unfolding. Although we are encouraged by China's recovery and the reopening of the European economies, we remain alert to the possibility of further risks developing, including a second wave of infection.

The Company's full-year 2020 guidance was revised together with our Covid-19 business response update. To date, operational performance has been in line with expectations and our guidance is as follows:

- Total sales of 38 Mt to 40 Mt
- Total production of 37 Mt to 39 Mt
- Sishen: ~26 Mt

- Kolomela: ~12 Mt
- Waste:
 - Sishen: 145 Mt to 160 Mt
 - Kolomela: 45 Mt to 55 Mt

Kumba's unit costs were reviewed to take into account the Covid-19 adjusted production volume guidance and cost savings target. Sishen's unit costs are expected to increase to between R385/tonne and R395/tonne, while Kolomela's unit costs remain between R280/tonne and R290/tonne with cost pressures from mining inflation and managing the Covid-19 impact expected to continue.

Since implementing our savings programme in 2018, we have saved R2.6 billion, and have effectively achieved our 2022 savings target two years ahead of time. With this in mind, and knowing we need to step up our rate of saving if we are to offset mining inflation, we are aiming to deliver a further R400 million of savings in the second half of 2020, bringing the total for 2020 to R1.1 billion.

Our longer-term cost-saving targets are under review. In light of the uncertain and fluid environment in which we are currently operating, we are monitoring developments and considering the potential risks and opportunities under various scenarios ranging from the environment deteriorating further to positioning for recovery should conditions improve. Once we have more certainty, we will provide an update on our longer-term cost-saving targets.

Our capital expenditure guidance of between R5.6 billion to R6.1 billion for 2020 includes the deferral of R1.0 billion of non-critical capital expenditure to 2021.

Themba Mkhwanazi concluded: "Our competitive products, flexible value chain and geographically diverse customer portfolio base ensure that we are in a position of strength. These unprecedented times further highlight the importance of maintaining our cost discipline, talented workforce and the ability to adapt quickly to a fast-evolving environment with care and respect for all of our stakeholders. We delivered a solid first half performance with R17.4 billion of EBITDA and R7.1 billion in attributable free cash flow. Our robust balance sheet and capital discipline provide us with the financial flexibility to allocate capital where it is needed most in our business during this time of uncertainty, while delivering sustainable returns to our shareholders."

NOTICE OF INTERIM CASH DIVIDEND

At the Board meeting on 27 July 2020, the directors approved a gross interim cash dividend of 1,960 cents per share on the ordinary shares from profits accrued during the period ended 30 June 2020. The dividend has been declared from income reserves.

The dividend will be subject to a dividend withholding tax of 20% for all shareholders who are not exempt from or do not qualify for a reduced rate of withholding tax. The net dividend payable to shareholders after withholding tax at a rate of 20% amounts to 1,568.00000 cents per share.

The issued share capital at the declaration date is 322,085,974 ordinary shares.

The salient dates are as follows:

Publication of declaration data	Tuesday, 28 July 2020
Last day for trading to qualify and participate in the interim dividend	Tuesday, 18 August 2020
Trading ex-dividend commences	Wednesday, 19 August 2020
Record date	Friday, 21 August 2020
Dividend payment date	Monday, 24 August 2020

Share certificates may not be dematerialised or rematerialised between Wednesday, 19 August 2020 and Friday, 21 August 2020, both days inclusive.

EARNINGS PER SHARE for the period ended

	30 June 2020	30 June 2019	% change	31 December 2019
Rand per share				

Earnings				
Basic	26.21	31.39	(17)	50.73
Diluted	26.15	31.15	(16)	50.58
Headline earnings				
Basic	26.19	31.51	(17)	50.88
Diluted	26.13	31.26	(16)	50.73
Dividend				
Interim	19.60	30.79	(36)	30.79
Final	n/a	n/a	-	15.99

SALIENT FEATURES AND OPERATING STATISTICS
for the period ended

	30 June 2020	30 June 2019	% change	31 December 2019
Market information				
Closing share price (Rand)	463	499	(7)	417
Market capitalisation (Rand million)	149,158	160,843	(7)	134,326
Net asset value attributable to owners of Kumba (Rand per share)	123.64	124.35	(1)	112.49
Operating statistics ('000 tonnes)				
Production	17,924	20,060	(11)	42,388
Sishen mine	12,362	13,757	(10)	29,175
Kolomela mine	5,562	6,303	(12)	13,213
Sales	18,612	21,351	(13)	42,218
Export sales	18,260	19,886	(8)	40,038
Domestic sales	352	1,464	(76)	2,180
Sishen mine FOR unit cost (Rand per tonne)				
Unit cost	469.27	486.67	(4)	467.27
Cash cost	325.40	370.44	(12)	345.11
Kolomela mine FOR unit cost (Rand per tonne)				
Unit cost	427.45	354.79	20	374.40
Cash cost	306.40	255.31	20	270.38

EXTRACTS FROM THE REVIEWED INTERIM RESULTS FOR THE PERIOD ENDED 30 JUNE 2020

This unreviewed short form announcement is the responsibility of the directors of the Company. The information disclosed is only a summary of the information in the reviewed full announcement and does not contain full or complete details. The full interim results announcement should be considered for any investment decisions. The full interim results announcement for Kumba is available for viewing on the Company's website www.angloamericankumba.com/investors/financial-results-centre.aspx and at <https://senspdf.jse.co.za/documents/2020/JSE/ISSE/KIO/KumbaInt20.pdf>

The interim results announcement is also available for inspection at the Company's registered office and the offices of our sponsors during normal business hours and is available at no charge. Alternatively, copies of the full announcement may be requested from the Company's investor relations department (penny.himlok@angloamerican.com).

Directors: Non-executive: MSV Gantsho (Chairman), MS Bomela, SG French (Irish), TP Goodlace (British/South African), MA Jenkins, NB Langa-Royds, SS Ntsaluba, BP Sonjica, DG Wanblad
Executive: TM Mkhwanazi (Chief Executive), BA Mazarura (Chief Financial Officer)

Sponsor to Kumba: RAND MERCHANT BANK (A division of FirstRand Bank Limited)

For more information please visit: www.angloamericankumba.com

28 July 2020

