



thungela

2022 Interim Results

Presentation for the six months ended 30 June 2022

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OUR PURPOSE

To responsibly
create value
together
for a shared future

2022 H1 HIGHLIGHTS

A FATALITY-FREE BUSINESS

Thungela has operated for

12 months

without a loss of life

PROFITABILITY

Profit for the period

R9.6 billion

(H1 2021: R351 million)

BALANCE SHEET STRENGTH

Adjusted operating free cash flow

R8.9 billion

(H1 2021: R1.7 billion utilisation)

Net cash position

R14.8 billion

(H1 2021: R3.0 billion)

COMMITMENT TO SHARE THE VALUE CREATED

Distribution of

R500 million

to SACO Employee and Nkulo
Community Partnership Trusts

MAXIMISING VALUE OF EXISTING ASSETS

Elders

production replacement project
approved by the Board

INTERIM ORDINARY DIVIDEND DECLARATION

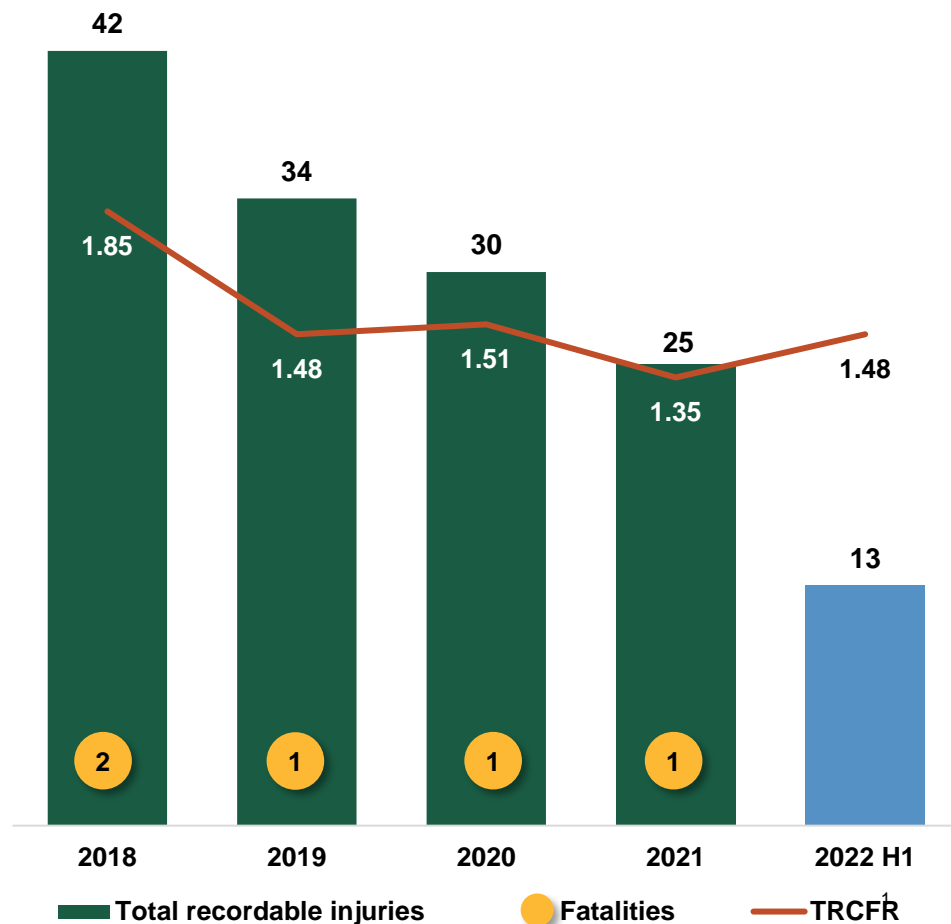
R60.00 per share

R8.2 billion

returned to shareholders

OPERATING A FATALITY FREE BUSINESS

KEY SAFETY METRICS



Notes: (1) Total Recordable Case Frequency Rate = Total number of recordable injuries per one million hours worked

ELIMINATION OF FATALITIES IS OF PARAMOUNT IMPORTANCE

- **Non-negotiable target: Fatality-free business**
- **12 months without a loss of life:** Encouraging performance, but we cannot allow ourselves to become complacent
- **Safety Strategy:** Back to basics, Work management and Culture change

SAFETY PERFORMANCE

- **TRCFR¹ of 1.48** for H1 2022
- **Various safety interventions**
- **ExCo Safety Day:** Held in second quarter to identify blind spots at our operations. Learnings shared across the operations and remedial actions identified at mines are being tracked and implemented

OUR STRATEGY

Delivering our strategy through four pillars



Drive
our ESG
aspirations



Maximise
the full potential
of our existing
assets



Create
future
diversification
options



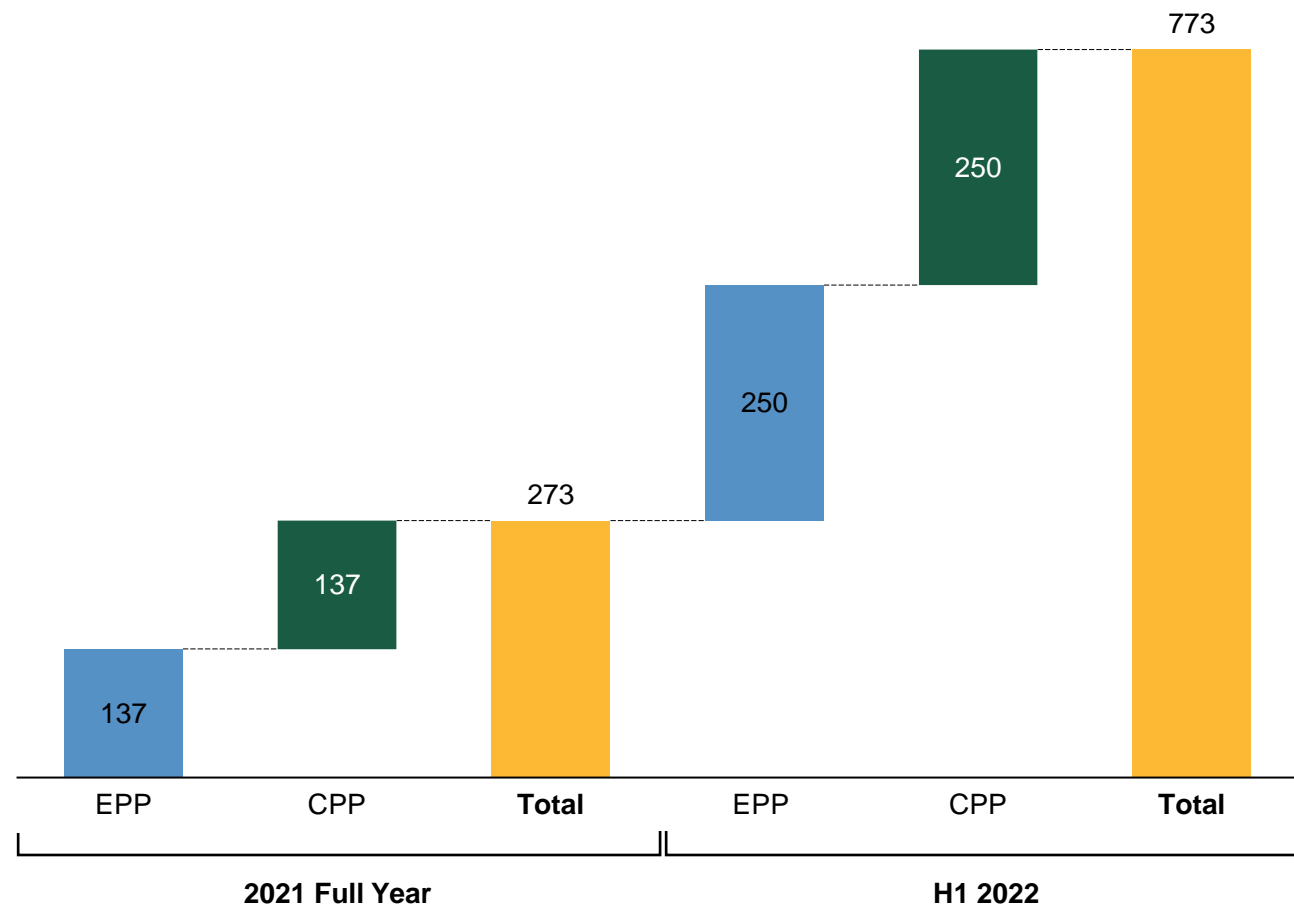
Optimise
capital
allocation

To responsibly create value together for a shared future

SPIKING ON “S” – DISTRIBUTION OF R500M TO EPP AND CPP



DISTRIBUTIONS TO EPP AND CPP¹ (R million)



OUR PEOPLE AS OUR PARTNERS

- R250m distribution to **SACO Employee Partnership Trust** for H1 2022 (in addition to R137 million distribution relating to 2021)

CREATING A LASTING SOCIAL IMPACT

- R250m distribution to **Nkulo Community Partnership Trust** for H1 2022 (in addition to R137 million distribution relating to 2021)
- These distributions empower the trust to create a legacy beyond the life of our mines

COMBATTING ILLEGAL MINING

- Illegal mining a **serious social challenge with environmental and safety consequences**
- Environmental incident at Kromdraai South Shaft on 14 February – **good progress on remedial actions**
- We continue to combat illegal mining operations in Mpumalanga but addressing the issue will require a **concerted, well-resourced and collaborative effort**

Notes: (1) The SACO Employee Partnership Plan Trust and the Nkulo Community Partnership Trust each hold 5% of SACO

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THUTHUKANI ENTERPRISE AND SUPPLIER DEVELOPMENT PROGRAMME



LAUNCH OF OUR NEW ENTERPRISE SUPPLIER DEVELOPMENT (ESD) PROGRAMME

- 'Thuthukani' means **to uplift** in isiZulu
- Focused on providing small enterprises **with hands-on entrepreneurial business support, mentorship and technical enablement**
- **Loan funding** to be made available to qualifying applicants

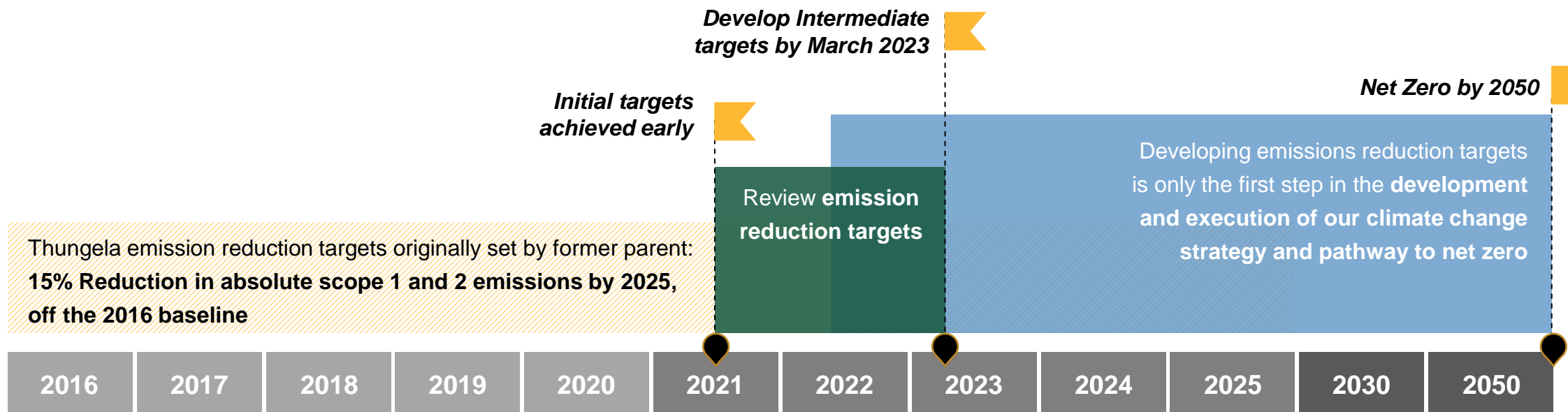
ESD CAN HAVE A SIGNIFICANT IMPACT ON LOCAL COMMUNITIES

- Supports the **building of sustainable, scalable host community suppliers**, enabling them to participate in the Thungela supply chain
- Potential to **develop entrepreneurs and suppliers** and in so doing creating jobs
- Will contribute to **development of a thriving small business sector** in Mpumalanga

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CHARTING A PATHWAY TO NET ZERO BY 2050

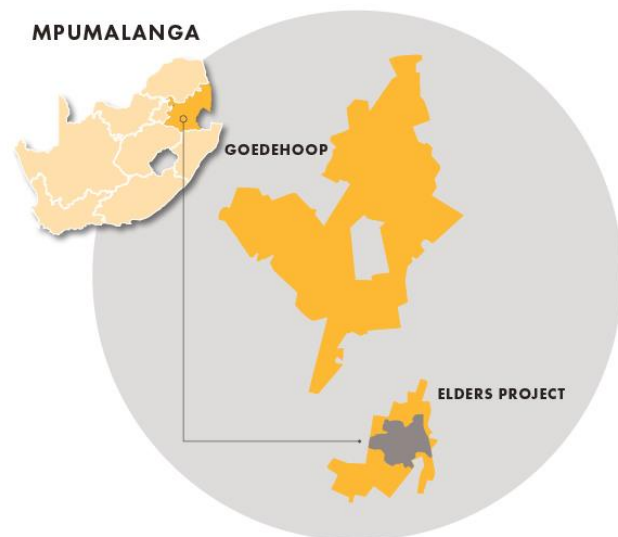


WHILE WE CHART OUR PATHWAY TO NET ZERO WE ARE WORKING TOWARDS REDUCING CARBON INTENSITY AT OUR OPERATIONS

- Ventilation system optimisation
- Various initiatives to reduce diesel consumption
- Truck and shovel cycle time variability management
- Mine digitalisation
- Installation of solar plant at eMalahleni Water Reclamation Plant
- 4MW solar photovoltaic plant at Zibulo



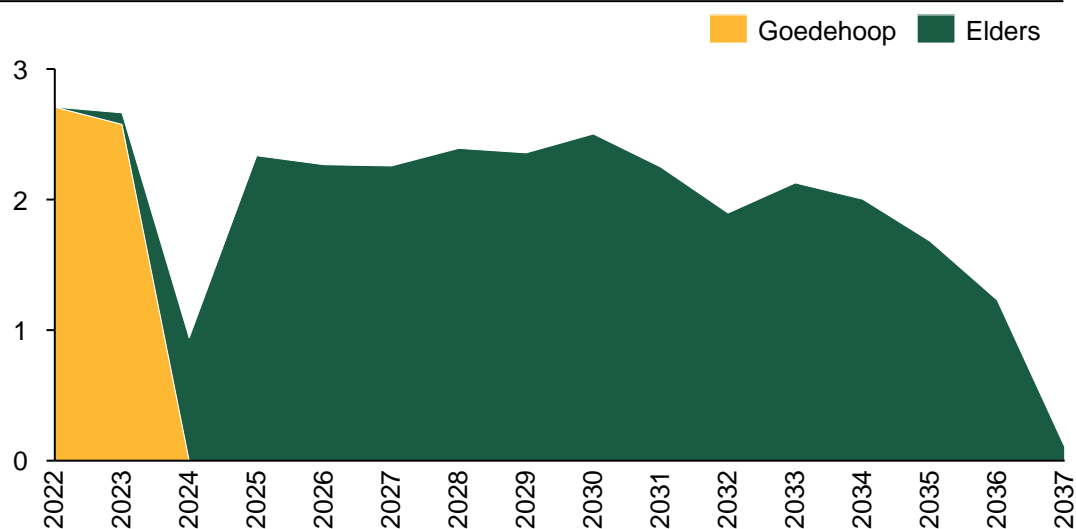
ELDERS PROJECT APPROVED BY THE BOARD



MAXIMISING VALUE OF EXISTING ASSETS AND OPTIMISING CAPITAL

- Elders has been an integral part of Thungela's equity story from the outset as it will **replace existing production volumes from Goedehoop**
- Elders was originally envisaged to cost R3 billion, but **capital optimisation** through the "Thungela lens" has seen us approve a **capital cost of R2 billion** (in 2022 money terms)
- Elders will **sustain regional jobs and existing community suppliers**

GOEDEHOOP/ELDERS EXPORT SALEABLE PRODUCTION PROFILE (MT)



DEVELOPMENT PHILOSOPHY AND PATHWAY

- **Underground operation** - conventional 5 section mine
- Construction to start in Q3 2022, with **first coal in Q4 2023**
- **Robust project economics** at conservative long-term prices
- **Solar-powered energy solution** for the complex



ELDERS PROJECT KEY INVESTMENT CRITERIA

STRATEGIC PILLARS



Drive
our ESG
aspirations



Maximise
the full potential of
our existing
assets



Create
future diversification
options



Optimise
capital allocation

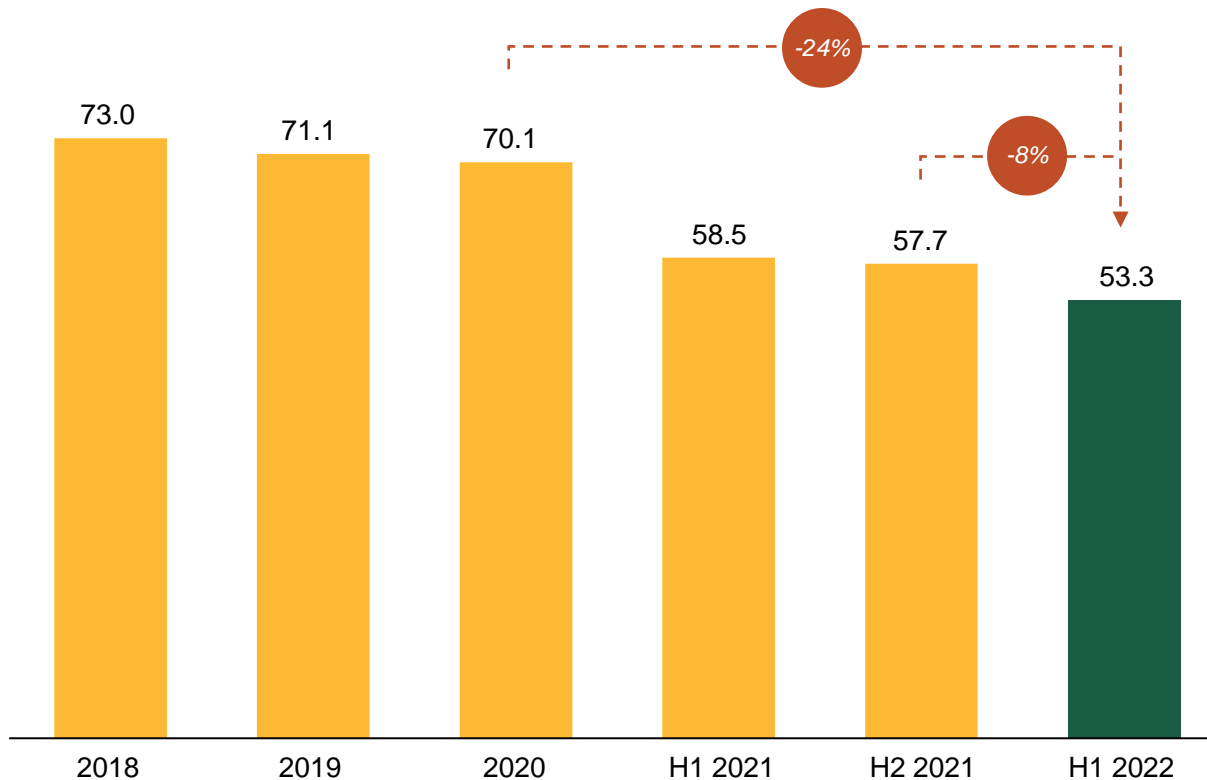
INVESTMENT CRITERIA

✓	✓	✓	<p>Drive responsible stewardship</p>
ENVIRONMENTAL	SOCIAL	GOVERNANCE	
<ul style="list-style-type: none"> • No increase to current production profile • Solar energy • Irrigation initiatives 	<ul style="list-style-type: none"> • Regional development • Sustain regional jobs 	<ul style="list-style-type: none"> • Approved Environmental impact assessment and Integrated water use license 	
✓	✓	✓	
COST/MARGIN CURVE	PAYBACK	CAPITAL INTENSITY	<p>Upgrade our asset portfolio</p>
<ul style="list-style-type: none"> • Lower half of global seaborne cost curve • ~\$65/t FOB/t (energy adjusted) 	<ul style="list-style-type: none"> • ~ 4.5 years from start of construction 	<ul style="list-style-type: none"> • Lower capital intensity compared to previous projects 	
✓	✓	✓	<p>Maximise shareholder value</p>
NPV / CAPITAL	IRR	CLOSURE COST	
<p>NPV at 15% real WACC:</p> <ul style="list-style-type: none"> • R0.6bn (\$82/t LT price) • R6.4bn (Forward curve¹) 	<ul style="list-style-type: none"> • 24% (\$82/t LT price) 	<ul style="list-style-type: none"> • ~R100m (real) 	

Notes: (1) Forward curve up to 2025, last year in real terms over balance of the project life

TFR PERFORMANCE AND MITIGATION

TFR¹ AVERAGE COAL RAILED TO RBCT (Mt per annum run rate)



Notes: (1) Transnet Freight Rail

INCONSISTENT AND POOR TFR PERFORMANCE

- At 30 June 2022 annualised run rate was **53.3Mt per annum**,
- H1 2022 rail performance impacted by **locomotive failures, availability of spares, theft of infrastructure and two significant derailments**
- **Annual maintenance shut completed** in July 2022
- **On-going monitoring of ramp-up performance** following the shut

THUNGELA MITIGATION MEASURES

- Continue to **engage relevant government structures and Transnet**
- Industry continues to support **security measures, maintenance and supply chain support** as requested by Transnet
- We are currently **evaluating alternative logistics arrangements** to mitigate the continued risk of inconsistent rail performance

The background image shows two miners in a dark, industrial setting. They are wearing white hard hats with blue headlamps and safety glasses. The miner on the left is wearing a brown work jacket and is writing on a document with a blue pen. The miner on the right is wearing a blue and yellow high-visibility jacket. The document has the 'thngela' logo on it. The scene is dimly lit, with the primary light source being the miners' headlamps.

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The Numbers

Our performance

HIGHLIGHTS

PROFIT FOR THE PERIOD

R9.6 billion

(H1 2021: R351 million)

ADJUSTED EBITDA

R16.7 billion

(H1 2021: R1.9 billion)

ADJUSTED OFCF

R8.9 billion

(H1 2021:
R1.7 billion utilisation)

DIVIDEND

R60 per share

R8.2 billion
92% of Adjusted OFCF

EXPORT EQUITY SALES

6.5Mt

(H1 2021: 6.6Mt)

EXPORT SALEABLE PRODUCTION

6.1Mt

(H1 2021: 6.7Mt)

FOB COST/ EXPORT TONNE

R1,093/t

(H1 2021: R820/t)

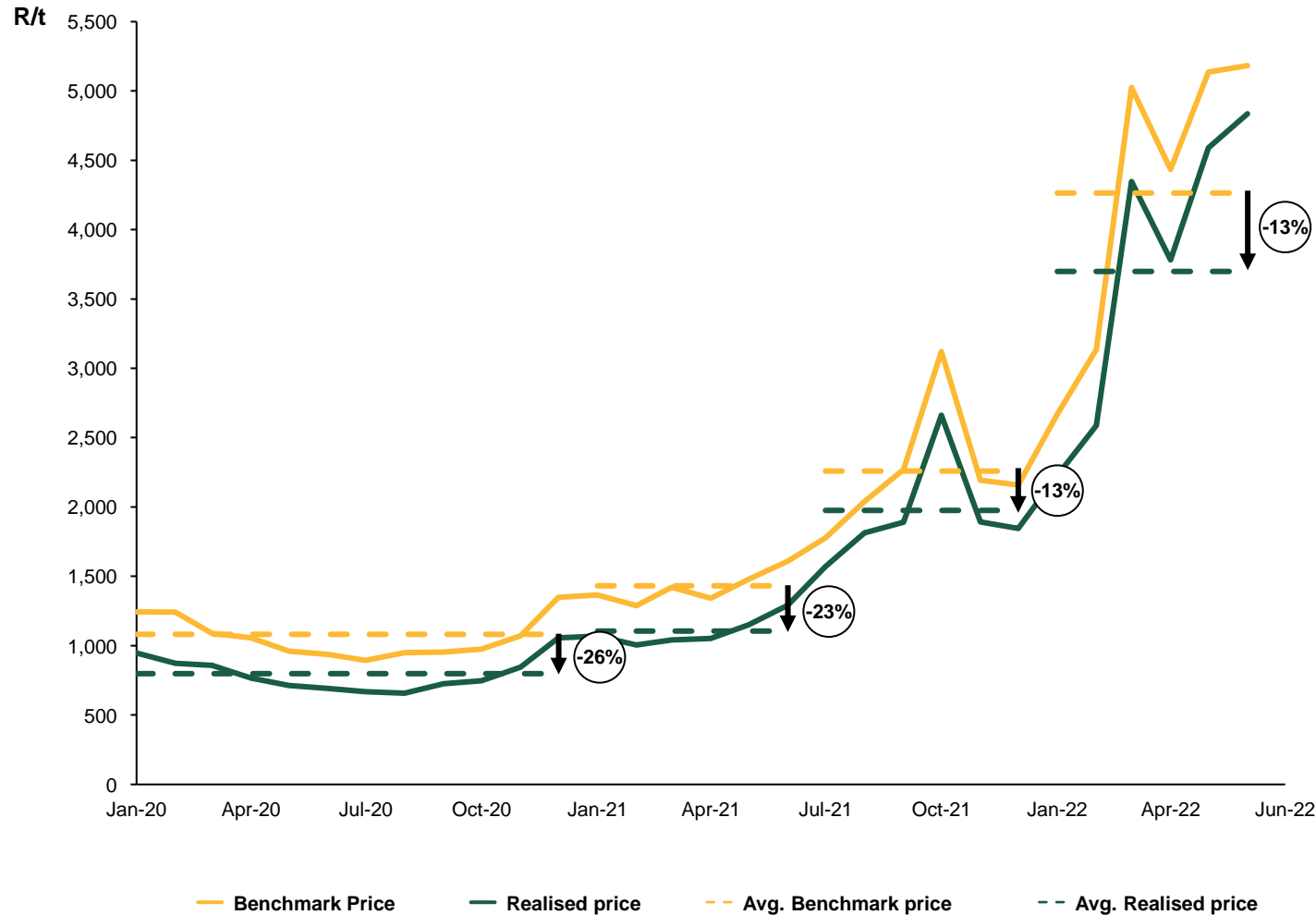
FOB COST/ EXPORT TONNE EXCLUDING ROYALTIES

R927/t

(H12021: R826/t)

STRONG FUNDAMENTALS RESULTED IN RECORD PRICES

BENCHMARK AND REALISED THERMAL COAL PRICES (R/t)



EXPORT MARKETS

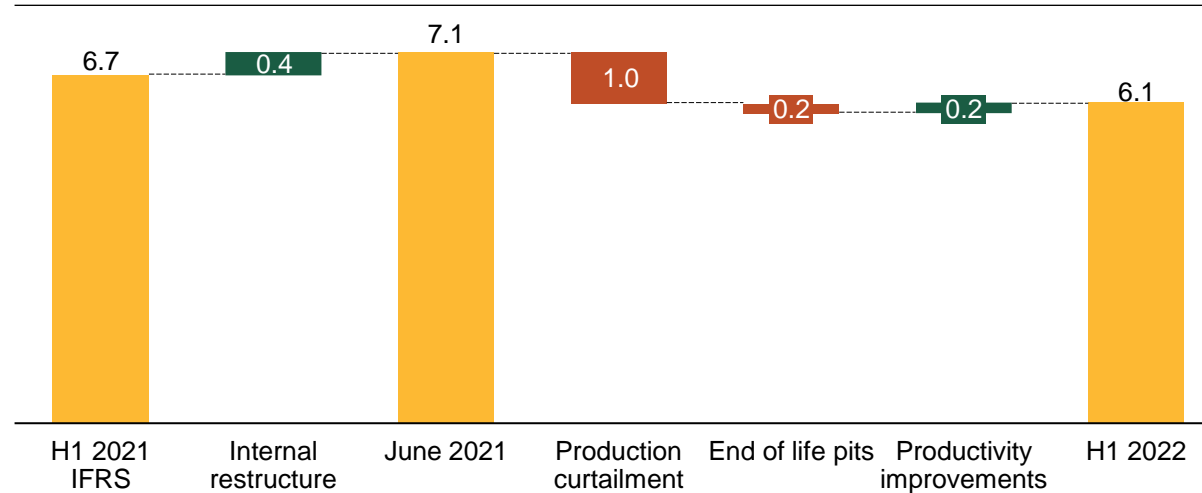
- **Strong demand** for seaborne thermal coal as **global economic growth** continued post Covid-19
- **Supply constraints** and ongoing geopolitical tensions remain price supportive
- **Energy security crisis** in Europe further exacerbating demand for gas and coal

BENCHMARK PRICES AND DISCOUNT

- **Benchmark coal prices remain volatile** with new record prices in H1 2022
- **Discount to Benchmark coal prices of 13% in H1 2022** compared to 16% in FY 2021, mainly due to certain products commanding a premium and as a result of actions taken to optimise the use of available rail capacity
- **Realised price of \$240/t for H1 2022** compared to \$75/t in H1 2021, and \$130/t in H2 2021

DECREASE IN EXPORT SALEABLE PRODUCTION DUE TO CURTAILMENT

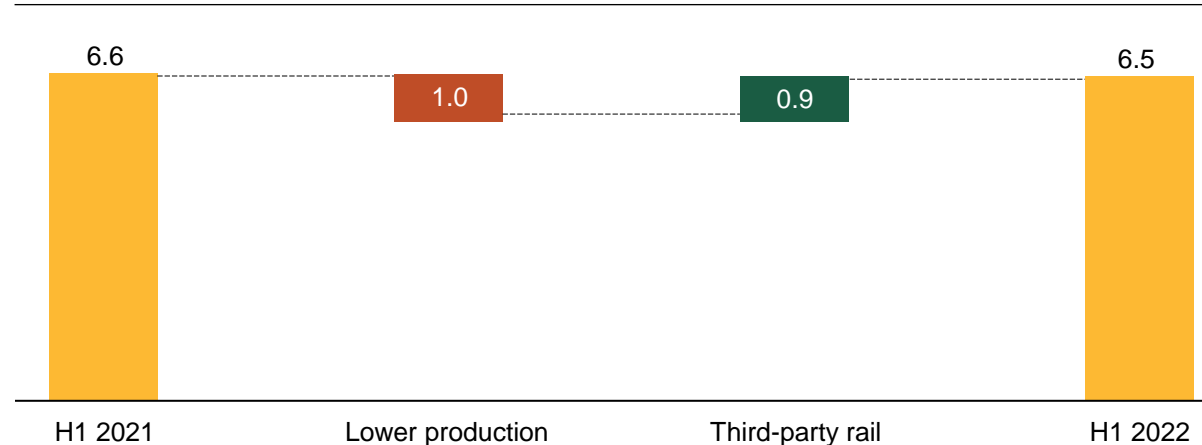
EXPORT SALEABLE PRODUCTION (Mt)



EXPORT SALEABLE PRODUCTION

- As a result of **poor and inconsistent rail performance**, stockpiles were full at the beginning of 2022
- Decision taken to **curtail production** at Zibulo (opencast), Greenside (5 seam plant) and Khwezela (Navigation pit)
- Umlalazi pit at Khwezela reached end of life in H1 2022

EXPORT EQUITY SALES (Mt)

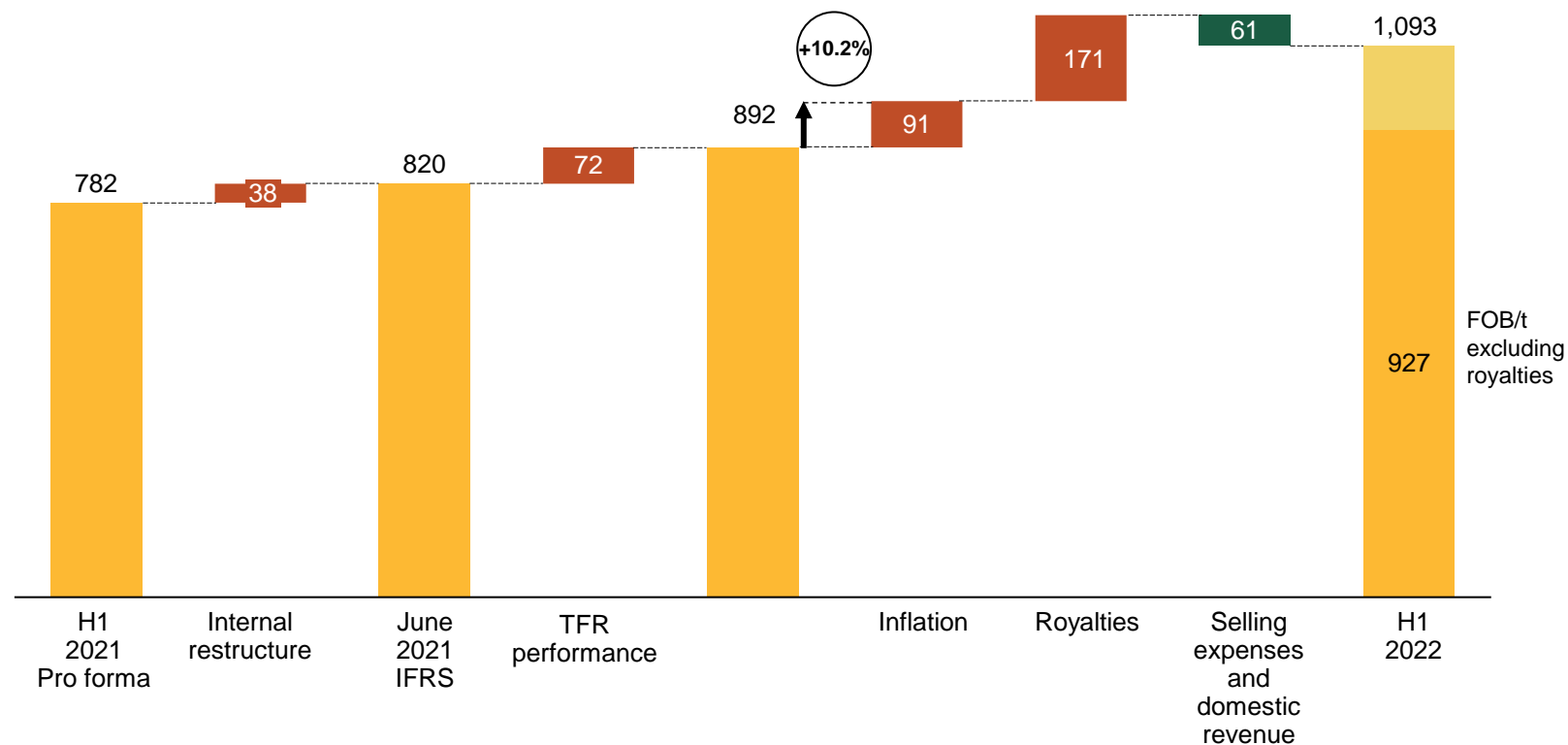


EXPORT EQUITY SALES

- **Export sales impacted by the lower production** at curtailed operations but was partially offset:
 - In H1 2021, 0.9Mt third-party coal was railed, however as a result of the rail challenges, **rail was allocated to export equity sales in H1 2022**
 - Higher margin production continues to be preferred where possible in order to **maximise cash margins**

FOB COST PER EXPORT TONNE

FOB COST PER EXPORT TONNE (R/t) RECONCILIATION

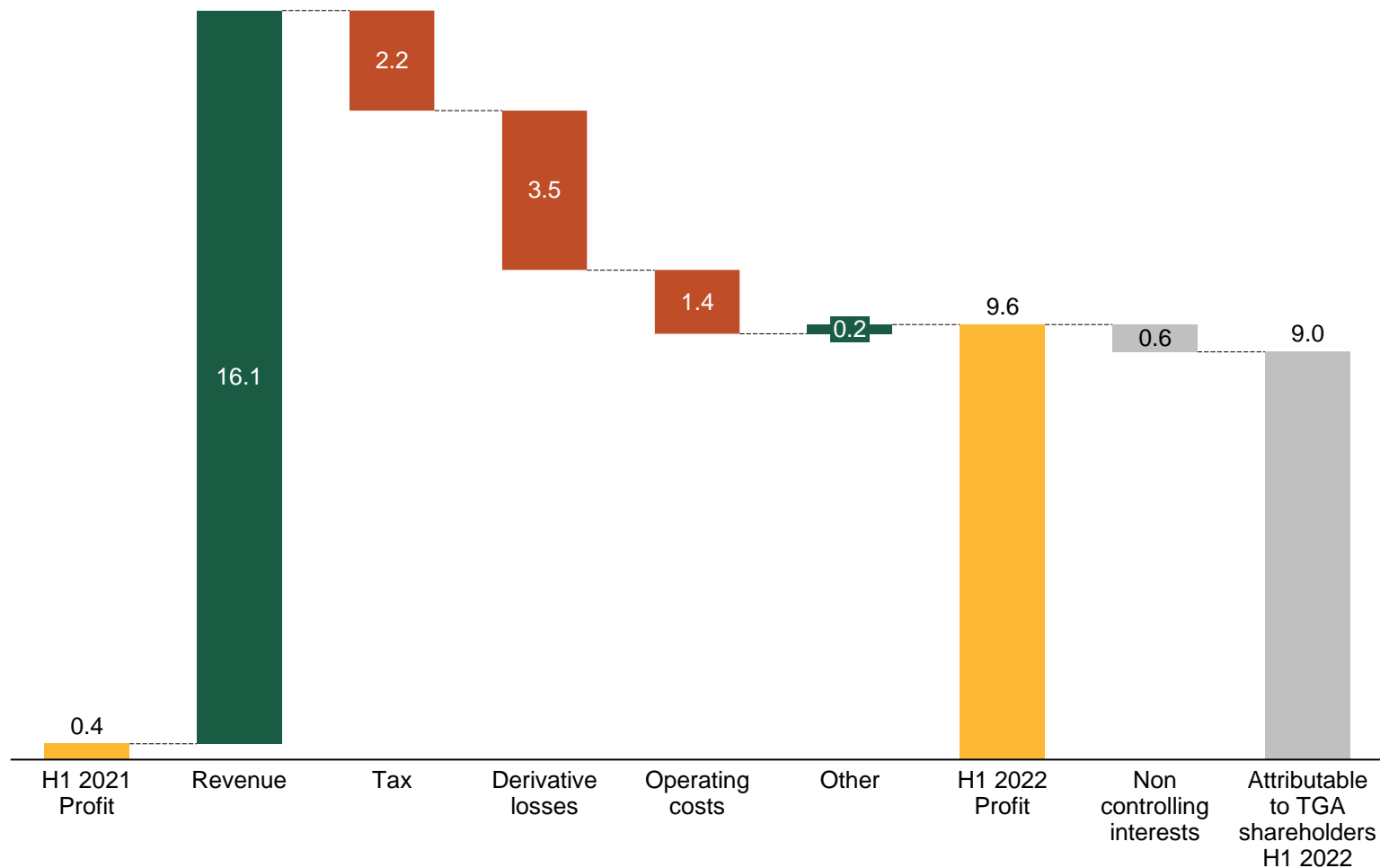


COST PERFORMANCE

- FOB cost per export tonne was **R1,093/t including royalty charges** in H1 2022
- **R927/t excluding royalty charges**
- **Royalty charges significantly impacted FOB costs** in H1 2022 as a result of higher realised prices (June 2021 FOB cost per tonne included R5/t royalty credit)
- **Inflation at ~10.2%** as energy input costs have impacted indirect costs through consumables, steel, etc. as well as directly on petroleum and explosives
- **Poor and inconsistent rail performance** resulted in lower production and a higher unit cost
- Lower **selling expenses** as a result of lower railings

PROFIT FOR THE PERIOD

PROFIT RECONCILIATION (R billion)

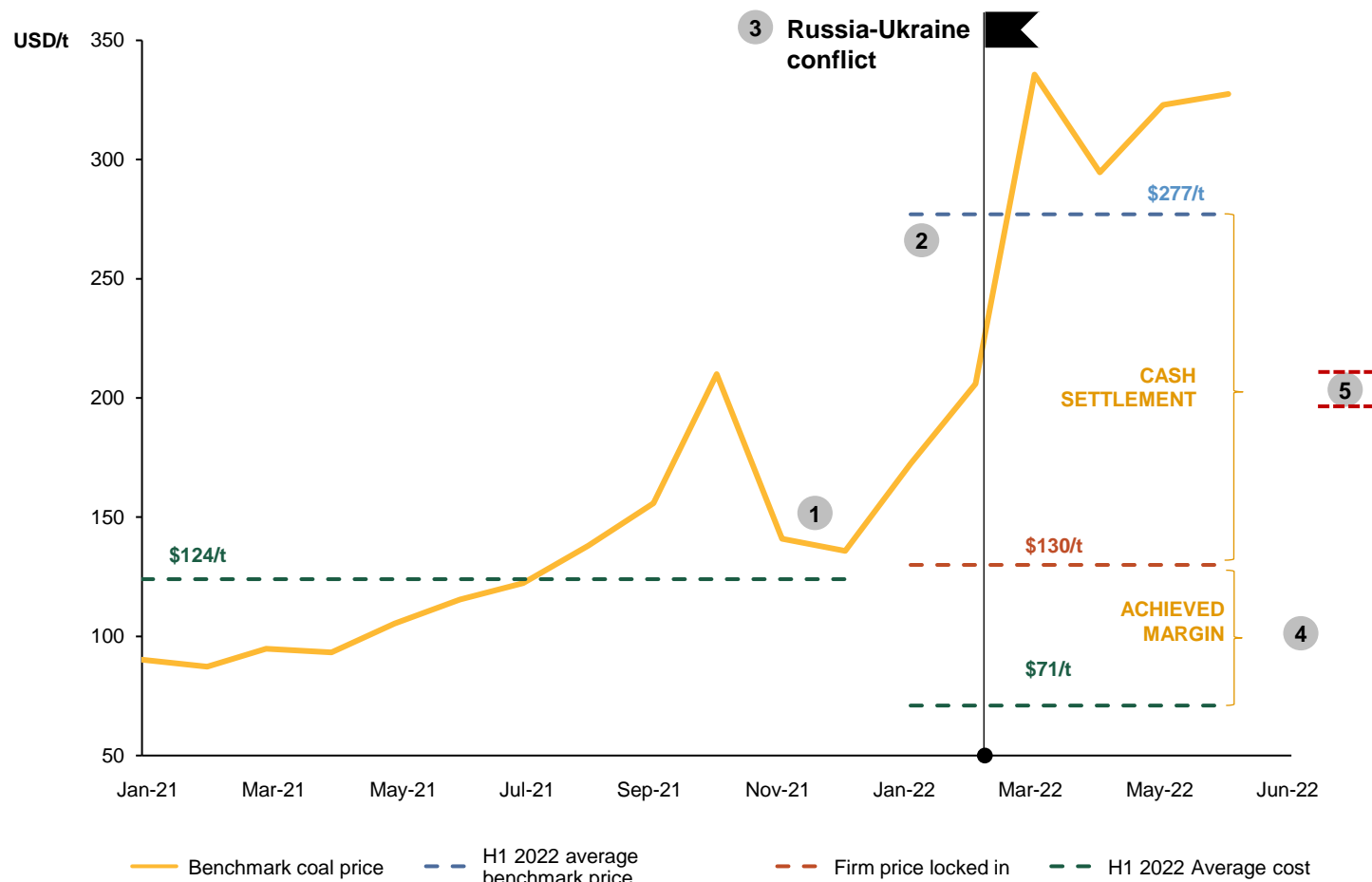


SUBSTANTIAL IMPROVEMENT IN PROFITABILITY

- Revenue movement driven by **record realised prices** (\$240/t), as well as a period-on-period foreign exchange benefit of R1.1 billion
- Volume impact muted as **sales broadly flat year on year** - 6.6Mt vs 6.5Mt
- **Effective tax rate of 18%**, with deferred tax asset of R1.2 billion recognised. Effective tax rate expected to increase to 27% from 2023.
- **R2.1 billion cash settlement of coal swaps**, balance relates to **mark to market fair value loss of ~R1.4 billion**
- Operating cost includes R1.1 billion **royalties headwind**

FAIR VALUE MOVEMENTS ON DERIVATIVES

IMPACT OF HIGHER BENCHMARK COAL PRICES ON COAL SWAP AGREEMENTS



UNDERSTANDING THE COAL SWAPS

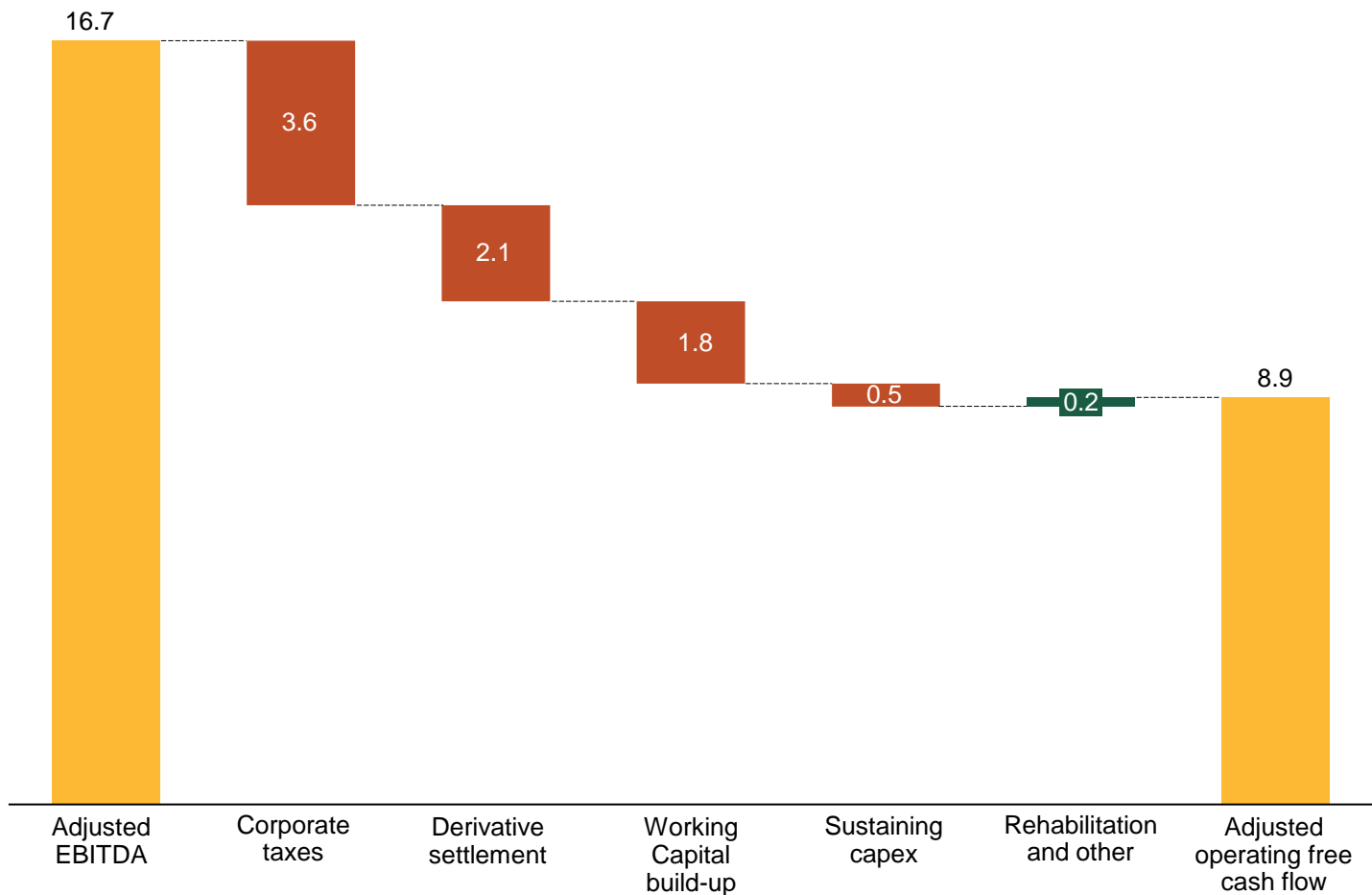
- 1 At 31 December 2021 ~900kt locked into coal swaps at average price of \$130/t. The forward curve at the time resulted in a fair value gain of R348 million
- 2 Realised price of \$240/t resulted in revenue of R26.2 billion for the period
- 3 The start of the **Russia-Ukraine conflict triggered a steep increase in Benchmark coal prices**. Higher prices in H1 2022 resulted in a cash settlement of R2.1 billion (funded from R26.2 billion revenue)
- 4 Achieved a reported **margin on these tons of ~R1.0 billion** in H1 2022
- 5 **Open positions at 30 June 2022 result in a fair value loss of R1.6 billion**
 - a. H2 2022 520kt at average locked in price of \$198/t
 - b. Q1 2023 105kt at average locked in price of \$211/t

CAPITAL SUPPORT AGREEMENT WITH ANGLO AMERICAN

- Fair value loss of R347 million on back of strong forward curve
- The agreement has not resulted in any cash inflow or outflow and will continue until 31 December 2022

ADJUSTED OPERATING FREE CASH FLOW

ADJUSTED EBITDA TO ADJUSTED OPERATING FREE CASH FLOW (R billion)

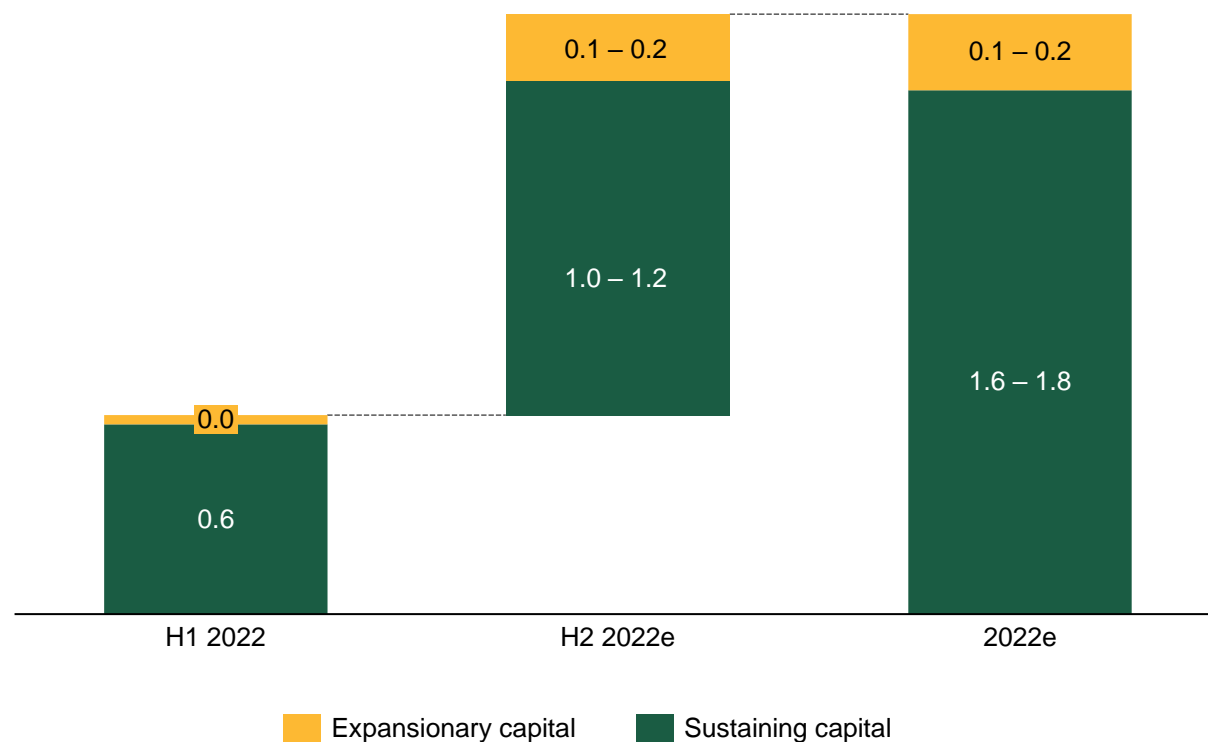


RECONCILING ADJUSTED EBITDA TO OPERATING FREE CASH FLOW

- **Corporate taxes of R3.6 billion** excludes royalty payments of R1.0 billion
- Derivative settlement relates to the **cash settlement of the swaps**
- **Working capital movement is primarily driven by the higher receivables** balance resulting from an increased average realised price

CAPITAL EXPENDITURE

CAPITAL EXPENDITURE (R billion)

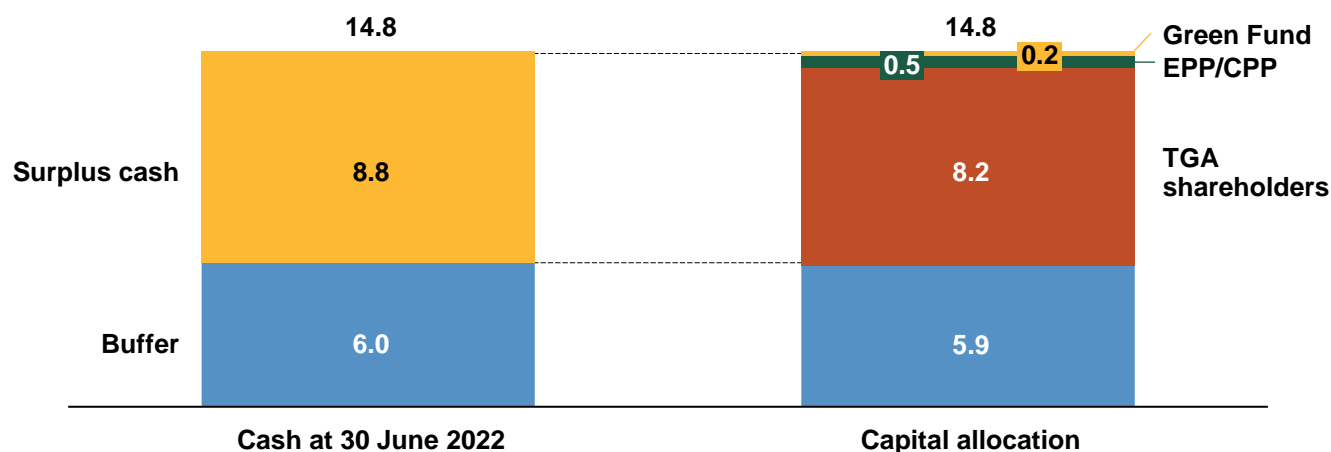


CAPITAL EXPENDITURE

- **Capex of R568 million** up to 30 June 2022
 - R327 million spent on stay-in-business and R213 million spent on stripping and development activities
 - R28 million expansory capital spent on feasibility studies for life extension projects
- **Capital expenditure skewed towards second half** of 2022, consistent with spend schedule in prior years
- **‘Thungela lens’** continues to be applied to all capital spend
- **Ramp-up of expansory capital** expected in H2 2022 aligned with approval of Elders project
- Full year 2022 sustaining capex expected to be at **the lower end of the guidance range**

RETURNS TO SHAREHOLDERS IN EXCESS OF STATED DIVIDEND POLICY

LIQUIDITY (R billion)



LIQUIDITY CONSIDERATIONS AND DIVIDEND

- Dividend policy is to target a **minimum payout of 30% of adjusted operating free cash flow**
- If dividend policy minimum were applied the dividend would have been R2.7 billion
- **Actual dividend declaration of R60 per share** (92% of adjusted operating free cash flow)
- A further **R0.5 billion distributed to the EPP and CPP**
- **Discretionary additional contribution of R200 million to Green Fund** in H2 to increase quantum of cash set aside for future environmental obligations

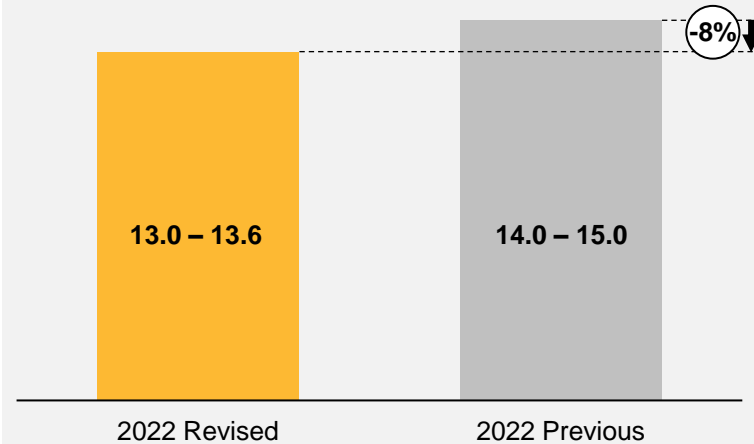
ACTUAL DIVIDEND PAYOUT RATIO OF 92% VS. POLICY (Minimum of 30%)



OUTLOOK FOR FY2022

EXPORT SALEABLE PRODUCTION (Mt)

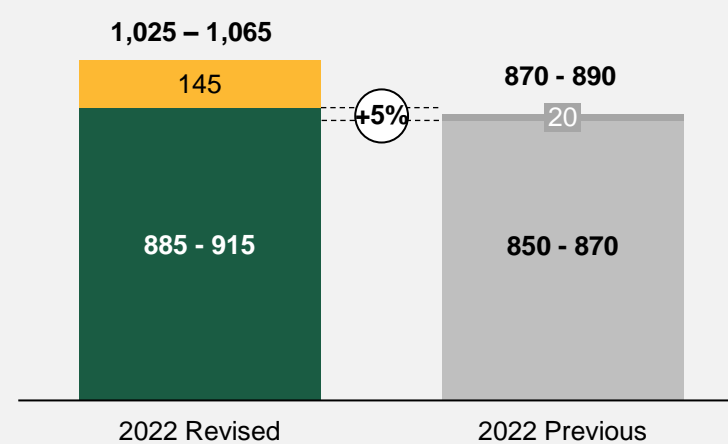
Guidance



- TFR performance **constrained production**
- **Rail performance has not improved sufficiently** to warrant confirmation of guidance
- **Revised guidance assumes potential stock build of between 0.4Mt and 1.0Mt in 2022** and a step-up in production of 13% to 23% in H2 2022

FOB COST PER EXPORT TONNE (R/t)

Guidance



- **Revised lower production** guidance results in a **measured increase in unit costs**
- **Cost inflation expected** to put pressure on costs
- Cost guidance including royalties¹ assumes a similar royalty charge in H2 as in H1 2022.

CAPITAL EXPENDITURE (R billion)

Guidance



- **Capital expenditure guidance remains unchanged**
- **Sustaining capital** expected to be at the **lower end** of the guidance range

Notes: (1) Royalty charge = Gross revenue, less transport and port costs, multiplied by the royalty rate (%).

CONCLUSION

Operating a fatality free business

Continue to work tirelessly to ensure that everyone returns home safely every day

Strong market, weak rail performance

Supportive price environment expected for balance of 2022, but rail remains a concern

Approval of Elders

Maximising value from existing assets and optimising capital allocation

Interim ordinary dividend

R60 per share
R8.2 billion to Thungela shareholders

Creating value for a shared future

Distribution of R500 million to EPP and CPP

Launch of Thuthukani

Driving ESG aspirations

Charting pathway to Net Zero by 2050 and alignment with TCFD



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Thank you