



# H1 2023 results presentation

Thursday 27 July 2023

# Operating performance

Duncan Wanblad, Chief Executive Office

## Slide 1: Welcome

Welcome and good morning ladies and gentlemen. Thank you for joining us today.

## Slide 2: Cautionary statement

## Slide 3: H1 2023 results agenda

We will follow our usual presentation flow. I will give you an overview of our first half performance. Stephen will unpack the detail of the numbers. And then I will take you through the longer term outlook.

## Slide 4: Committed to delivering safe operations

Safety is our first priority. I am extremely disappointed and saddened by the loss of a colleague in a drilling incident at Kolomela back in February. We are also investigating a recent aviation fatality in Angola related to our exploration programme.

We have renewed our focus during this first half on three key safety levers:

1. Firstly, we are supporting operational leaders to increase the time they spend in the field - experiencing first-hand what is working well and where changes or improvements are required. Leadership is not a desktop or boardroom exercise - and in no area is that more true than in safety.
2. Secondly, at the heart of the Operating Model is a simple principle: plan, do, check, act. It applies to all our activities – including maintenance work, which has been a key focus this half. Planned maintenance work helps with the identification and control of risk, so that activities can be appropriately scheduled and safely executed.
3. And thirdly, implementation of our new Contractor Performance Management programme is under-way. This is a three-year initiative ensuring that the work our contractors undertake is well planned, aligned with our Operating Model, meaningfully risk assessed and resourced with the right skills.

I am pleased to see that these efforts have resulted in a much lower injury rate – our lowest ever. Now, clearly there is still much to do, but I am encouraged by the progress.

I'm equally pleased to report no new cases of occupational disease or environmental incidents.

## Slide 5: Healthy environment & thriving communities focus

We remain committed to delivering our products to customers as sustainably as possible and I am encouraged by the progress we continue to make across our operations.

Quellaveco is now on 100% renewable electricity, which means globally 60% of our grid supply will be renewably sourced by 2025, which is when our Australian operations switch over.

In South Africa, where a different approach is required, Envusa Energy – our joint venture with EDF Renewables – is developing a regional renewable ecosystem. The first projects are

heading to financial close with construction expected to start in the second half. This will be followed by two large solar sites at Sishen and Mogalakwena. These projects will not only remove up to 2Mtpa of carbon from our operations, but will also deliver a meaningful financial benefit to our South African businesses. And as you would expect, the team is working on a much larger pipeline of projects that will follow this first wave.

On water withdrawals, we are already around 26% lower than our 2015 baseline – more than halfway to our 2030 goal. The Los Bronces Integrated Solution will deliver the next step-change in 2025. In the meantime, we continue to focus on opportunities to drive increased re-use and recycling across our water scarce assets. We are also developing new technologies, such as coarse particle recovery and dry-stacking, with the potential to further reduce our water footprint.

Our livelihoods programmes focus on delivering lasting and meaningful positive impact on our host communities. This is about delivering economic value through inclusive procurement and local recruitment, as well as initiatives to support sustainable employment and economic diversification outside the mining value chain. We are targeting an ambitious five jobs offsite for every on-site job.

#### **Slide 6: H1 2023 results summary**

Stephen will cover the numbers in detail – but as a brief summary:

Production was up 10% on the first half of 2022 driven primarily by the ramp-up of Quellaveco.

EBITDA of \$5.1billion – a satisfactory performance given the 19% decrease in our price basket compared with this time last year – although FX, overall, did provide some support. Easing of the price response to the Russian-Ukraine invasion, the slower than expected re-opening of China's economy and ongoing inflationary pressure in key markets, has weighed on demand for our products as well as our costs. Cost inflation was largely offset by a maiden first half contribution from Quellaveco.

Overall, production is on track to meet our full year outlook and, as always, but especially in this macro context, operational performance and cost control represent our biggest levers.

#### **Slide 7: H1 2023 operating performance**

Looking at the first half operational performance by business:

In Copper & Nickel – Quellaveco has continued its successful ramp-up – and I will cover that on the next slide.

We were very pleased that the permit for the Los Bronces Integrated Project was approved. We are now working through the development options for both the open pit and underground project to try and best mitigate the impact of that licensing delay in opening up the higher grade, softer ore in the next phase of the open pit. As you know, we are currently going through some lower grade areas at most of our copper and nickel operations.

In PGMs – the team has managed through Eskom load-curtailment extremely well with limited impact on first half performance. We aren't out of the woods yet with a few more months of winter to go – but certainly our agility around planning has served us well thus far.

At De Beers – delighted to have reached an agreement in principle on the Botswana mining licences concurrently with the sales agreement. Operational performance has been strong through the first half of the year – particularly at Orapa. We also recently reached a major milestone at the Venetia underground project, having achieved first production. Macro conditions have impacted rough diamond demand and are likely to remain challenging through the second half, with some build-up in midstream inventory levels.

In Iron Ore – Minas-Rio had a good first half, with a particularly strong second quarter, achieving a number of performance records, reflecting the benefit of operational improvements. This sets us up well for the second half.

At Kumba, operations have been relatively solid, with a good recovery from Kolomela, but constrained by Transnet. We continue to collaborate as part of the user group, but there is still a lot more wood to chop before we see a sustainable uptick in logistics performance.

And finally at Steelmaking coal – we saw a much improved contribution from the open pits following the very wet weather in the first half last year. The underground operations were impacted by longwall moves at Grosvenor and Aquila during this first half, coupled with some difficult strata conditions at Moranbah. Performance is now improving and we will also benefit from no longwall moves during the second half, which should drive the step-up in volumes half on half.

#### **Slide 8: Quellaveco successfully ramped up & delivering strong results**

This time last year we had just started up operations at Quellaveco, our new copper mine in Peru. The ramp-up since then has progressed very well with 240kt of copper produced in that time. It reached commercial production levels in June, with the moly plant also near to steady-state levels following a very quick and successful ramp-up. Quellaveco is on track to deliver the full year guidance at a very competitive unit cost. This strong performance is testament to the calibre of the operational team, building on the strong foundations laid by the project team. It is a great example of how projects should be planned and executed and then transitioned to operational delivery.

#### **Slide 9: De Beers agrees in principle renewal of longstanding partnership with Botswana**

At De Beers, we were very pleased to reach an agreement in principle with our longstanding partner – the Government of Botswana. As you know, the mining licences there were due to expire in 2029, so securing new 25-year licences to 2054 is critical to the investment pathway, underpinning the future development of the most valuable diamond mines in the world.

Under the new ten-year sales agreement, Botswana will have the option to directly market a larger share of production.

The licences also recognise the strength of the partnership between De Beers and Botswana through the creation of a Diamonds for Development Fund that is designed to help accelerate Botswana's economic diversification.

All parties are still working hard to reach final agreements. It will likely take some time from here before we've dotted all the I's and crossed the T's, given we also need to take this to a vote of our shareholders, as this constitutes a related party transaction.

#### **Slide 10: Established the platform for the next phase of value delivery**

As you know, one of my key priorities is restoring operational consistency across the portfolio – we have slightly slipped on the regular drumbeat we had before covid.

In support of that, we have steadily been refreshing the executive leadership over the last 12 months and have now re-organised how we manage our production businesses and the functional expertise that supports them. These, plus other changes to work prioritisation, will ensure that our operations are optimally supported to deliver safely, responsibly, and to their targets – thereby unlocking considerable commercial value.

We also expect material additional annual cost savings from across our full range of business support activities of approximately \$0.5 billion pa. We are already working on the implementation and should hit that run-rate by Q2 next year.

Stephen will give you a little bit more colour on our financial performance levers shortly but to be clear, this is our priority over the near term.

## The numbers

Stephen Pearce, Finance Director

### Slide 11: Thanks Duncan.

As usual, I will open with the key themes I want you to take away:

1. The weaker macro environment has weighed on our financial performance this half. We are poised to deliver a significant step-up in our production during the second half.
2. We remain committed to capital discipline, our 40% dividend payout and maintaining a strong balance sheet.
3. Despite the near-term uncertainty, the longer-term outlook for our products is highly attractive. We continue to invest in our value-adding growth options that have the potential to add to our volumes over the next decade or so.

### Slide 12: H1 2023 financial results

To summarise our first half performance:

EBITDA of \$5.1 billion. I'll break that down for you in bit – but weaker prices were the main driver.

That translated to an EPS of \$1.38

And an interim dividend of 55 cents a share, at our 40% dividend pay-out policy. That gives an annualised yield of about 4%.

Net debt increased to \$8.8 billion. I'll unpack the drivers shortly.

ROCE at a still healthy 18%

### Slide 13: Resilient 41% group margin

Breaking that EBITDA performance into the different production businesses:

#### Copper & Nickel

- \$1.6bn EBITDA.
- In Chile, the operational performance impacted by expected lower grades as well as significant cost pressure from stronger currencies and inflation.
- Quellaveco delivered a 65% margin while still in ramp-up. Looking forward to an even stronger contribution in H2.

#### PGMs

- \$0.7bn EBITDA.
- Hard hit from lower palladium and rhodium prices. Price basket down 29%, reversing the Ukraine-invasion lift on prices that we saw in H1'22.

#### Diamonds

- \$0.3bn EBITDA
- Strong operational performance delivering a robust mining margin of 50%.
- Demand for rough diamonds has slowed from a particularly strong 2022.

#### Iron Ore

- \$1.8bn EBITDA.
- Strong operational performance at Minas-Rio – particularly during the second quarter. I am looking forward to more of the same through the second half.
- At Kumba, a decent performance in light of the challenges on the rail and port logistics.

#### Steelmaking Coal

- \$0.6bn EBITDA.
- A strong pick-up in volumes at the open cuts after the exceptional levels of rainfall they experienced last year.
- Price robust – but significantly down on the record highs of last year.

#### **Slide 14: EBITDA reflects weaker commodity prices**

In terms of the drivers of EBITDA:

Prices down 19% year-on-year. You might recall some prices were pretty elevated through the first half of last year. That price move is the single biggest contributor – and two-thirds of that driven by lower PGM and steelmaking coal prices.

Volumes and costs have benefited from the ramp-up of Quellaveco, as well as higher production from the Steelmaking Coal operations. As I said, we should see a further significant step-up in performance at those businesses during the second half.

But we also had some operational headwinds from lower grades and cost pressure at both PGMs and Copper Chile.

Excluding the impact from prices, a pretty decent performance.

### **Slide 15: Higher volumes mitigating cost pressure**

Unit costs up a net 1%.

Breaking that down:

- The combination of higher input costs and inflation totalled 7%, broadly as expected, with Chile and South Africa seeing the greatest pressure.
- Compared to the first half of 2022, we have seen some benefit from currencies, particularly the Rand, helping to offset inflation.
- Volumes were a further benefit of 3%. Quellaveco a key contributor.

Looking to the full year, you will have seen that we adjusted some cost guidance last week – largely reflecting currency movements since the beginning of the year. That latest guidance translates to a 3% unit cost increase on the full year 2022.

### **Slide 16: Transparent taxes & royalties in host countries**

Taxes and royalties paid for the half were \$2.5 billion.

Lower than last year, reflecting the weaker price environment – that's how it should work.

Our effective tax rate for the half was 37% - that is up on last year, reflecting the mix of profits and our increasing geographic diversification. South America, which includes some higher tax jurisdictions, was ~47% of our profit mix for this half, up from 24%.

Full year is expected to be about 1% higher than the previous ETR guidance. We expect the new Chile royalty regime to be enacted during the second half triggering remeasurement of our deferred tax positions. The new regime is then expected to impact our current tax expense from 1 January 2024. Reasonably happy with the outcome here – the government listened to industry feedback and has landed in a reasonably sensible place - something Queensland could learn from.

### **Slide 17: Sustaining capex underpins stable operations**

Turning to capex, \$2.7 billion for the half.

Guidance for 2023 is lower at around \$6.0bn – partly reflecting some re-scheduled spend at Woodsmith.

We have also tightened our sustaining capex guidance to around \$4.5bn – the middle of the previous range.

Sustaining spend will step-up in the second half of the year as activities ramp-up at some key projects, such as the Collahuasi desal plant and, on the processing side, at Minas-Rio and in PGMs. Despite the weaker price environment, it is critical that our assets receive the stay-in-business capex they need to deliver consistent performance through the cycle.

### **Slide 18: Committed to maintaining a flexible balance sheet**

As ever we remain committed to a strong and flexible balance sheet.

Net debt increased to \$8.8 billion.

Working capital increased by \$0.7bn.

- on the back of lower PGM prices led to a reduction in the value of the payables as well as the customer prepayment; and
- the softer market conditions led to a build-up in diamonds inventory.

We paid out \$0.9bn to shareholders, reflecting the 40% payout of H2 2022 underlying earnings.

And we continue to invest in our attractive growth projects.

Our net debt to annualised EBITDA of 0.9 times remains well within our bottom-of-the-cycle target of 1.5x.

### **Slide 19: Balanced capital allocation framework**

Recapping the first half performance against our capital allocation model:

\$0.2bn of cash generation after funding sustaining capital. Impacted by prices but we have plans under way to enhance our margin resilience over the longer term.

\$0.7bn dividend declared at the base 40% payout.

We then allocated \$0.6bn to growth capex.

### **Slide 20: Enhancing resilience in an uncertain macro context**

As Duncan touched on earlier, we are focused on driving effectiveness across the organisation through optimisation of both our organisational structure and work prioritisation. To re-iterate, we are expecting to deliver a stronger second half off the back of improved volumes which will also help our unit costs. This is our biggest margin lever.

We will continue our investment in the full breadth of our stay-in-business capital projects; however, we are tightening our overall capital guidance to \$6.0bn – the lower end of our previous range. We are also expecting significant annual costs savings of ~\$0.5bn across the breadth of our business support activities, with the full savings run-rate expected from the second quarter of next year.

These organisational changes will enhance the resilience of our business over the longer term. We are committed to capital discipline and working capital remains a critical focus area.

With that – Duncan back to you.



## Long term outlook

Duncan Wanblad, Chief Executive Officer

### Slide 22: Unique portfolio supplying the world's needs & wants

Demand for our products is underpinned by 3 major global trends:

1. Decarbonisation through cleaner energy, industrial and transport systems.
2. Improving living standards expected by a growing and urbanising global population – I'll come back to this point shortly.
3. And food security – there is increasing recognition of the huge strain on global agriculture to feed this growing global population, and to do so in a way that does not continue to wreak havoc on the environment.

Our current product mix and future growth options play very strongly into these 3 themes.

### Slide 23: Economic development underpins demand outlook

Now of those themes, decarbonisation has dominated the agenda, and is pretty well understood.

But in addition to green transition, we mustn't ignore, the fundamental demand for improved living standards from a global population that will grow by 2 billion by 2050. And – the consuming middle classes will grow by 1.3bn by 2030. People have everyday needs such as homes, energy, infrastructure, appliances, mobility. It is the products of mining (together with energy and food) that enables the economic development that helps lift people out of poverty – it simply cannot happen without sustainably produced metals and minerals.

I don't think anyone needs much convincing that demand for our products is expected to grow, but to briefly bring a couple of examples to life:

Firstly, copper. Clearly a massive beneficiary of the decarbonisation theme, but to an even larger extent from economic development. Today, the global installed stock of copper is around 61 kilograms per person. A four-fold increase is needed to reach the levels seen in the developed world. Convergence towards western-like living standards – and achieving the first of the UN Sustainable Development Goals, that of ending global poverty – and doing so as sustainably as possible – will be massively metals and minerals intensive. And yet, it is becoming increasingly more difficult to bring new supply online.

Secondly, steel. The simple fact is that steel remains the fundamental building block of economic growth and development. And when we look at steel, we see almost the same situation as for copper in terms of the nearly fourfold increase in stock required to meet convergence between developing and developed countries.

This, of course, implies continued demand for iron ore but also for steelmaking coal and in particular for the higher quality varieties of both. While the steel industry is itself on a pathway towards decarbonisation, the simple fact remains that the majority of the world's steel demand will be met by integrated blast furnaces for some time to come.

It simply is not easy to add new units of supply in nearly any mined commodity.

The result has to be that the outlook for prices is very positive.

#### **Slide 24: Clear value creation model**

We are well positioned to deliver full value from our industry-leading portfolio, and strong operational and commercial capabilities.

Operational excellence is our most important lever to create sustainable value while meeting our customer's needs. We continue to focus on the safe, efficient and effective running of our operations day-to-day, to realise the full potential from the installed capital base of our existing assets.

Secondly - we are building on that stable platform to debottleneck the constraints in our value chain in a capital efficient manner.

Thirdly, FutureSmart Mining™ – our technology-led, integrated approach to sustainable mining – helps us unlock further opportunities to maximise the potential of our ore bodies and creates optionality for growth outside our portfolio.

And finally, our attractive organic growth options offer significant potential over the next decade. Quellaveco was the beginning of our project pipeline – representing roughly the first 10% of that growth. Its successful delivery and ramp-up acts as a blueprint for our high-margin development options that we will sequence appropriately.

Of course, we will always retain flexibility to review our portfolio and compare our organic options against inorganic opportunities that may arise, but always for value.

#### **Slide 25: Copper: quality organic options to grow to >1Mtpa**

The majority of that growth is from options within copper:

- Quellaveco will deliver 300kt a year – but there is also long-term potential from an expansion of the existing operation, as well as regional potential, such as from the Mamut ore body.
- Brownfield expansions at Collahuasi could add another 150ktpa – that's our 44% share.
- The Sakatti greenfield in Finland could deliver 100kt copper equivalent.
- And there is further growth potential from the underground option at Los Bronces, as you know.
- These are relatively scarce, attractive options in relatively stable and familiar jurisdictions.

#### **Slide 26: Woodsmith: portfolio cornerstone asset for the future**

I talked about the food security theme – which takes us to Woodsmith, our polyhalite project in the UK. Food security for 10 billion people, and delivering that food sustainably, is a key challenge for the agricultural industry. POLY4 can increase crop yields by around 3-5%, it will have a carbon footprint significantly lower than MOP products; its natural physical and chemical properties improve soil health and structure; and it is an organic product that needs barely any processing. It is as close as you can get to applying ore straight onto the field.

It will be a cornerstone, long life, low cost asset, delivering strong cashflow for many, many decades.

### **Slide 27: Good progress at Woodsmith**

In terms of the project itself:

- We continue to make good progress on the core activities of shaft sinking and tunnel boring.
- The tunnel is now almost two-thirds complete and ahead of plan
- Sinking activities at the two deep shafts are also progressing ahead of our plans.
- We are very pleased with the progress being made on core infrastructure.
- Also, along the mineral transport tunnel we have the three shallower shafts for access and ventilation. Last year we completed excavation works on the first of these, and we have now completed the other two, ahead of schedule.
- As I set out earlier in the year, the confidence we have built in the asset and the product means that we are now planning for a larger operating footprint with a phased ramp-up to 13Mpta – that is a 30% increase on what was previously envisioned. We are now undertaking the studies to ensure we build that infrastructure in a way that provides optionality for the future and maximises long-term value. While we do that work, we are deferring some non-critical path activities, so capex for this year will be slightly lower than previously guided – at around \$0.7bn.
- Our market development activities are also continuing to focus on on-farm demonstrations, as well as the development and implementation of detailed regional strategies, including routes to market.

### **Slide 28: FutureSmart Mining™ integrates innovative technology & sustainability**

As we have talked about consistently, we must deliver production from both our existing assets and our growth options as sustainably as possible. This is where I believe we have a very different approach, with sustainability considerations embedded into our strategy and value creation model, from portfolio choices to everyday operational decisions.

Our FutureSmart Mining™ programme integrates innovative technology and our approach to sustainability and drives us to consider issues holistically and to see opportunities where others see challenges.

We see real value creation opportunities, in our portfolio, across the industry and the value chain.

On energy:

- Envusa Energy is our South African renewable energy joint venture with EDF Renewables. Once up and running this should increase the stability and security of our electricity usage, and reduce costs for our SA operations.
- Swapping to renewables contracts across our South American and Australian operations were all NPV positive outcomes.

On water:

- Our proposed water swap at Los Bronces will provide the water we need while securing fresh water supply for the local community – and for a lower unit cost than today.
- Our coarse particle recovery and hydraulic dry-stack pilots are also yielding some promising results, which we are now working to replicate at scale.

These examples demonstrate why we see sustainability as a key driver of commercial and stakeholder value, today and tomorrow. I believe this approach is key to demonstrating to our host communities, governments, customers and partners, as well as to current and potential shareholders and society more broadly, what responsible and sustainable mining looks like, guided by our clear purpose. We aim to be the partner of choice to those who, like us, focus on long term sustainable value creation.

### **Slide 29: Operational excellence & sustainability focus underpins value creation through the cycle**

So, in summary – a satisfactory first half performance that sets us up for a strong step-up in the second half.

While the longer term key fundamentals for our products remain strong, we are implementing decisive measures in the current challenging macro environment, to ensure that we are positioned to deliver on our operational and strategic priorities, and capture upside from market recovery. We are focused on driving safe, consistent, and competitive operational performance and we are optimising our organisational structure and work prioritisation in support of that. We are focused on our costs throughout the business – including our business support activities where we expect to deliver annual savings of \$0.5bn – in addition to focusing on the optimisation of working capital and capital expenditure.

These near-term priorities will improve the resilience of our business and enhance our margins through the cycle.

We are committed to maintaining a strong flexible balance sheet and an attractive base dividend payout while delivering sustainable long term value for all our stakeholders. We have a uniquely diversified portfolio with a range of attractive, organic growth options that continue to build our exposure to the three major global demand themes we see – and we will develop those options sustainably, profitably and at the right time.

### **Slide 30: To ask a question**

And now – we are very happy to take your questions. I'll start in the room before moving to the phone lines.

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