

Conference call transcript

30 June 2026

THUNGELA CFO PRE-CLOSE STATEMENT

Operator

Good day, ladies and gentlemen, and welcome to the Thungela CFO pre-close statement for the six months ending 30 June 2026. All participants will be in a listen-only mode. There will be an opportunity to ask questions later during the call. If you should need assistance during the call, please signal an operator by pressing * then 0. Please note that this event is being recorded. I will now hand the conference over to Hugo Nunes, Head of Investor Relations at Thungela. Please go ahead, sir.

Hugo Nunes

Thank you. Good afternoon to all and welcome to this afternoon's investor call following the release of the CFO pre-close earlier today. I'm Hugo Nunes, Thungela's Head of Investor Relations, and I'm joined on the call by our Chief Financial Officer, Deon Smith. Today's call will be done through both an audio webinar as well as a conference call facility. Deon will present an overview of the CFO pre-close released earlier today, and thereafter, there will be a Q&A session until we close the call shortly before 13:00 South African time.

Turning to Q&A, for those wishing to ask questions, we ask that you join the session using the conference call facility provided, as we'll only be taking questions through this facility. In order to ask a question during the Q&A session, please dial * 1 on your keypad, and this will register your intention to ask a question. Once the Q&A session starts, the operator will then open your line and ask you to go ahead with your question.

To reiterate, we won't be taking typed questions submitted through the webinar platform today. It is possible to dial into the conference call facility only shortly before the Q&A session and directly from your computer. If you're planning to do this, I encourage you to register for the conference call in advance of the Q&A session, as you will need the link sent to you upon registration. Finally, a reminder that today's announcement is now available on Thungela's website and today's session will be recorded and the recording will be made available on the Thungela website from later this afternoon. With that out of the way, please allow me to hand over to Deon Smith.

Deon Smith

Thank you, Hugo. Good morning and good afternoon. Thank you for making the time to join us on this pre-close call for the six months ending 30 June 2026. So, starting with safety, we are pleased to report that we've remained fatality-free for the last 39 months. And at the outset, it's important to recognise the conflict in the

Middle East and note that we took additional steps to ensure the safety and well-being of our employees in that region, whilst also securing operational continuity. The situation, as you would have seen in the media, continues to be volatile. We are closely monitoring those developments, but we're pleased that we've not had any significant business interruptions or otherwise to date.

So, this conflict in the Middle East once again highlighted to us the security and energy security concerns globally, and as oil and gas flows through Strait of Hormuz were significantly disrupted during this period. So, during the peak conflict, you would have seen oil prices fluctuating between \$90 and even \$120 a barrel. However, with a fragile peace agreement now reportedly in place, both oil and gas prices have eased back and receded to pre-conflict levels, and currently trading in the low \$70s.

Coal prices showed a similar pattern. The Newcastle price in Australia rose well above \$140 a ton in the early stages of the conflict, whilst the South African Richard's Bay benchmark price peaked at around \$120 in May. South African price response lagged behind the Australian benchmark and that was largely due to a slowdown in the Indian demand and alongside increased inflows of lower cost coals into the Indian market.

In terms of our performance, In South Africa, the average API4 price for the first five months of the year is about \$104 a ton. That's up from \$92 a ton in the first half of 2025. You might recall \$89 a ton for the full year. Discounts in South Africa was about 16% for the first half of the year. And that's consistent with the levels we observed in 2025.

Our financial performance continues to be very sensitive to the volatility in the South African Rand. And in the period, the Rand averaged a very strong R16.40 to the US Dollar. Compare that to R18.39 in the first half of 2025 and R17.89 for the full year 2025. So, this has translated into an average realised price in South Africa of about R1,437 a ton, slightly up from R1,336 in the first half of 2025, but broadly in line with a full year 2025.

Turning to production, our export saleable production in South Africa benefited from improvements at Khwezela and consistently strong performance at Mafube compared to the prior comparable period. At Zibulo, however, our year on year production has declined as we continue to transition from the current shaft to the new normal. As a result, we expect our export saleable production for South Africa to be approximately 6.3 million tonnes for the first half.

Export sales in South Africa was very robust and first half 2026 volumes is expected to reach approximately 7.5 million tonnes and that includes 700,000 tonnes of third-party volume. And this 7.5 compares to the 6.6 in the first half of 2025. So, the performance was supported by improved TFR operations, which averaged more than 60 million tonnes on an annualised run rate basis for the first five months of this year.

We were also able to use rail capacity from other coal exporters who did not have sufficient coal available to use their full allocation. Our FOB cost per ton in South Africa for the first half of the year is expected to be slightly above the full year guidance, and that's primarily due to the lower production denominator. However, our full year cost guidance and production guidance remains unchanged, and that's supported by the anticipation of a stronger output from Zibulo in the second half, as well as the normal seasonal nature of production in South Africa.

If we turn to Australia, Newcastle coal prices averaged about 125 by the end of May 2026, and that compares to \$102 per ton in the first half of 2025, and \$105 a ton for the full year. However, the average discount is expected to be approximately 13.5% for the half year, and this largely reflects a combination of contracts that we agreed prior to the onset of the Middle East conflict, that we invoiced thereafter, and also a bit of a timing delay on the higher prices coming through into our realisation.

Similarly, we've also had around 360,000 tonnes of invoiced coal, and that was invoiced to a Taiwanese customer basis the 2025 contract pricing. We typically negotiate with this coal utility. And once we finalise these negotiations in the coming months, we'll have to reissue invoices for the sales conducted in the first half at the revised price. And that would obviously increase our price realisation for the first half or for the full year and narrow that discount slightly.

So, as a result of all of the above, our average real estate price in Australia was about \$107 a ton, compared to \$109 a ton in the first half of 2025, and \$105 for the full year. At Ensham we expect export saleable production of approximately 2 million tonnes, and that's up from 1.6 million tonnes in the first half of 2025. But as previously said, last year's first half performance was affected by that temporary geological feature that we traversed in the first half. But we also anticipate sales of around 2 million to match that production of 2 million in the first half of 2026. And therefore, we're also very confident in our full-year guidance of about 3.9 to 4.2 million tonnes at Ensham.

Turning to cost, FOB cost per ton is expected to come in below the full-year guidance range at the half year, but that's primarily due to a stronger South African Rand, and therefore the translation and consolidation of the Ensham mine benefits from that. Our full year guidance ranges both on production and on cost remains unchanged.

If I turn back to the group and look at capital expenditure for the business, the first half of the year, it's expected at approximately R600 million in South Africa and R250 million in Ensham. Full year guidance remains unchanged. with South Africa expected to be between R700 million and R1 billion, and Ensham between R500 million and R700 million.

So, to summarise the group's performance for the first six months of 2026, our production remains on track, increasing to 8.3 million tonnes in the first half, and that's up from the 8 million tonnes in the comparable period in 2025. And our group export sales rose to 9.5 million tonnes. That includes the 700,000 tonnes third-party sales.

Wrapping up on operations, our full year guidance for both production cost and for capital across both regions remain in place and unchanged. From a portfolio perspective, you may recall that when we announced our year-end results, we also announced the sale of Goedehoop North, as well as the Kleinkoppie mining right, which is within the broad Khwezela complex.

Whilst we continue to make good progress on the Goedehoop North transaction, we're very pleased to confirm that we've completed the KK mining rights sale. This transaction will result in obviously an upfront cash consideration, modest cash consideration, but most importantly also a non-cash reduction in the group's environmental provisions of about R1 billion. And that will be a positive boost to our earnings in the first half of 2026. But we'll clarify all of that as we get closer to the interim results announcement.

In terms of capital allocation, at the end of June 2026, we expect net cash to be in the range of about R5.9 billion to R6.1 billion. I'm being told that it'll probably be towards the upper end of that range, so closer to the R6.1 billion mark. And the reason for that range was really just the timing of our VAT receipts in relation to June, which should be in by close of business today, and hence the upper end of that range.

That cash balance also includes the benefit of about R1 billion of FX cash gains in the first half. And for those that typically follow our foreign exchange position, we've placed another \$390 million to the second half of the year at R18 to the Dollar. Our board remains, as always, committed to our dividend policy. That dividend policy is to distribute at least 30% of our adjusted operating free cash flow to shareholders by way of a cash dividend. And then clearly in determining this dividend, the board will also take into account an appropriate level of the cash buffer in light of the recent coal price volatility, but most importantly also the strengthening of the South African Rand.

In closing, we continue to remain focused on what's really important for our business. That's enhancing our safety performance and delivering on our operational commitments and our guidance that we've provided and reaffirmed today. And we'll provide you with obviously a fairly detailed update on our results for the first half when we announce these on the 17th of August 2026. And with that, I'm happy to pause and take any questions.

Hugo Nunes

Thank you, Deon. We will now turn to Q&A. A reminder for those wishing to ask questions, we ask that you please join the conference call facility, as we'll only take questions through this facility. In order to ask a question

during the Q&A session, please dial * 1 on your keypad. This will register your intention to ask a question. Operator, please open the line for the first question.

Operator

Thank you. The first question we have comes from Jandré Pieterse of Umthombo Wealth. Please go ahead.

Jandre Pieterse

Hi, Deon. Thanks for taking my call. First question, just to clarify on that fixed price contract from the Taiwanese customer. Can you just clarify there in terms of both timing and cash versus accounting here? It wasn't clear to me whether the discount benefit will come through in H2 or whether you'll be restating H1 and whether this is effectively a placeholder or you'll be topped up or it just improves going forward. Thanks.

Deon Smith

Thank you very much for your question. So, we invoiced the 360,000 tonnes at low \$100 a ton. So, similar to the levels we observed in 2025. Our negotiations typically complete by August, September. That's the latest we're able to complete those negotiations. Clearly, with the extreme volatility, our customers also not being keen to negotiate the conclusion of that 2026 pricing level whilst the war is ongoing.

To answer your question more explicitly, what will happen if we invoice these at \$120 a ton, our earnings would benefit clearly from an uplift between the low hundreds to the \$120 level. Our cash, we would also benefit in a cash adjustment. We would not be restating any results. It's not material enough. This is more just a continuation of a contract that we would then get the full benefit in the second half of the year. Earnings increase and a cash injection.

Jandre Pieterse

Okay. And that makes sense. Thank you. That's helpful. And then just in terms of the third party call, you sold this one to see any colour in terms of margin. Is that at a marginal margin or how much does that compare versus your own tonnes?

Deon Smith

Yes, so the third party purchase that we typically do, we make a narrow margin on that. So, not a very wide margin. It's clearly optimising our full logistics chain, optimising our blend and our product we're able to deliver to our end customer. But we don't do that at a very significant margin. It's a fairly narrow margin.

Jandre Pieterse

Thank you. Last one for me before I hand over. In terms of SIB capex going forward into the future and depreciation, especially after your disposal now, where do you see those landing versus current SIB capex numbers for this year? Is it roughly year plus inflation or entirely different? Thanks.

Deon Smith

Yes, thank you for those questions. The disposal has not had any impact on the SIB or our view of SIB because that was a closed operation that we exited. The SIB that we've guided before is around about the same type of levels we think it will remain for the next couple of years. There are opportunities to reduce that slightly as some of operations come closer to the end of its life. So, we're talking Greenside and Khwezela in particular. But for the next couple of years, the levels we are spending currently in sustaining capital is appropriate and remains appropriate.

Jandre Pieterse

Thank you so much.

Operator

Thank you. The next question we have comes from Tim Clarke of SBG Securities. Please go ahead.

Tim Clarke

Thanks. Hi there. Congrats on the results. Just a first question. Diesel prices are up a lot. I know there was a bit of inventory, obviously, that we worked through. But obviously, the diesel that's going to be moving into the second half will be quite high cost. I'm a little surprised that that it hasn't impacted your cost guidance. So, just maybe you can give us some thoughts on what diesel has done to costs across the business.

Deon Smith

Yes, Tim. It's a very good question. It's not only diesel, but as you can imagine, explosives or energy-related costs have definitely increased. There's some supply chain disruptions that have also caused increases in certain inputs into our process. As I might have mentioned before, our energy cost input or input cost is a fairly low percentage in the total cost picture. So, even if those costs go up at the levels that we've seen in the market and stay there, we're not expecting material impact on our economy. So, around 6% of our cost, input cost is diesel.

The reason it's so low is because we run mainly underground mines. So, the open cast operators would most certainly have other challenges. We've also had the benefit of offsetting some of the cost pressures we could not avoid by delivering on our internal cost savings programme. So, we continue to deliver on operational cost improvements, but clearly those have only but offset these cost pressures that you're referring to. We're

comfortable to keep our guidance at the level that it is currently. We believe there's enough headroom in that to compensate for the increase we've seen so far.

Tim Clarke

Thanks. And then just on Kleinkoppie, obviously it's a moderate cash consideration, but can you give us some indication of the run rate of costs that you were incurring on the area that you've sold on a monthly basis so we can maybe extrapolate or find some sense of the cost saving that we can build in?

Deon Smith

Yes, so the costs that we ran at KK whilst it was under care and maintenance was around R5 million a month, which will discontinue, or has now discontinued, around R5 million to R6 million a month.

Tim Clarke

Okay, super. And then my last one is just the outlook for the discounts on the Newcastle or Ensham sales for the second half of the year. Obviously, you've got the new contract coming in or you're negotiating that new contract for Taiwanese. That'll be a kind of off-score benefit for six months of whatever price difference it is. But should we be reverting back to more normalised discount ranges? Or do you see a wider range for the second half?

Deon Smith

Yeah, Tim, it's a very good question and difficult to answer at the moment. We'll update you in due course. It very much depends on where some of the volatility lands. I think that we will see a narrowing of the discount, certainly into the second half. But to guess the exact percentage at the moment is difficult given the volatility, but definitely a narrowing discount compared to what we saw in H1.

Tim Clarke

At the normalised levels, do you think, or will you give us some thoughts at results, maybe?

Deon Smith

I'll give you a bit more detail at results. It very much depends on where we land with Thai Power also, but certainly internally hopeful to pull that back to single digits rather than double digit percentage points.

Tim Clarke

Super. Thanks so much, Deon. Thanks, team.

Deon Smith

Thanks, Tim.

Operator

Thank you. The next question we have comes from Thobela Bixa of Nedbank. Please go ahead.

Thobela Bixa

Yeah thank you. Afternoon guys, just some few questions from me. The first one is just in terms of those geological challenges you had in Australia. Are you now past those or you still have some remaining into the second half?

Deon Smith

It's a definitely a pertinent question for all underground mines. The challenges we had in H1 2025 were unfortunate because we had two separate geological intrusions on two different sections of the mine, both arriving in our mining at this exact same moment. And therefore, we had to mine through some of those areas rather than redeploying continuous miner units to other parts of the mine, because clearly you don't have as much flexibility as to deploy both, but rather just one typically.

So, the issue at Ensham was very much pronounced in the first half of last year. It did not impact our production run rate in the first half of 2025. We still produced, but some of the coal we produced was lower quality, and hence we did not declare it as saleable production in the first half, mainly because we didn't have contracts for it. We resolved that, as you might recall, and crushed, screened that coal and also sold it in the second half of the year, so that was very much temporary.

In answering your question, looking forward at Ensham, Like every other mine, we will always face some level of geological intrusion and uncertainty from time to time. But the way that we have now responded to set up Ensham with a fault development crew, as well as increased flexibility, means that if we had to encounter a similar intrusion or two intrusions at the same time, we should have more flexibility in order to not have that impact on our saleable production. So, the answer is yes, we will always have geological features in our mines, but we are now better equipped at managing that at Ensham than what we were a year ago.

Thobela Bixa

Okay, thanks. And then just another question is just in terms of those third-party sales. There was a significant increase in the half. Just talk to us in terms of what drove that and perhaps are they mainly just from SA side or do you also do some third-party sales in Australia?

Deon Smith

So, they're mainly South African. It was slightly and continues to be slightly opportunistic. I downplayed the margin earlier because these are not material margins but they still add a couple of Dollars a ton to our business. So, where we have visibility that there is excess rail available that we can match with excess tonnage in the

market we certainly play our part to make a couple of Dollars, but it is it's definitely a South African feature currently more than Australian.

Thobela Bixa

Okay and then my final question which is a bit left field. We saw in the news or just saw some headlines that you are possibly interested in a met coal asset in Australia. Could you just talk to us in terms of your thinking around M&A at this stage? Thanks.

Deon Smith

Yeah. Thanks, Thobela. Not left field at all, but definitely in our field of play. We don't comment on specific situations or specific transactions, but what I can tell you is consistent with what we've said in the past, is when your neighbour's house goes on for sale, we walk around on a Sunday afternoon, we definitely go look at it. We're very keen to understand if there's any good practices we can pick up and whether we can learn from those. But as we've also said before, if we then do stumble across an operation that we believe we can operate materially better than the current operators and can unlock value, we would consider that acquisition. But clearly, the speculation in the market was nothing more but speculation.

Thobela Bixa

Yeah. And maybe just to follow up, Deon, in terms of looking at neighbours' houses and stuff, is it still around thermal coal or you're also sort of interested in other, let's say, met coal and other types of assets?

Deon Smith

So, we've never come out and said that we're interested in one type of house versus a different house. We've looked at mining methodologies and areas where we have a right to win, where we can operate well. And we wouldn't necessarily venture outside of areas that we do not have expertise and skills to operate better than somebody else. And the reason you wouldn't have seen a lot of acquisitions out of Thungela in the last five years is because we've only found, as you know, Ensham that we thought we could operate better. So, it's more asset-specific right to win than what it is necessarily picking a particular colour house to buy.

Thobela Bixa

Okay. Much clearer. Thank you.

Operator

Thank you. Ladies and gentlemen, just a final reminder. If you would like to ask a question, please press * and then 1 now. We have a follow-up question from Jandre. Please go ahead.

Jandre Pieterse

Thanks, Deon. Also just wanted to ask for discounts for SA going into the second half. You shipped some lower quality coal that you had inventories of. Do you expect that to continue into H2? And then just to follow up on Thobela's question, in terms of M&A, I see you did previously mention that there would be a little bit of a re-look at a board level on the M&A strategy and considering assets, including met coal and iron ore. Has that concluded? Can you say whether iron ore in particular is still on the table or is that been narrowed since? Has it really just come down to mining method? Thanks.

Deon Smith

Thanks, Jandre. For the second half in South Africa, as you may know, our Zibulo mine also produces really high quality coals. As we see Zibulo ramp up, we should see our discounts stay where they are compared to the first half or potentially even narrow slightly. Again, we're not looking at material shifts in that discount. So, probably back to the levels we saw for the full year last year. So, one or so percentage improvement.

In terms of M&A strategy, it's not a single point in time that the board has these debates or discussions. It's a continued process, but so far all the discussions have continued. consistently stayed on asset quality, specific mining methodology, right to win, rather than necessarily one commodity or another commodity. So no, there's no specific view on commodity or any other guidance I can give you on that.

But certainly, our main focus is actually mining what we have today. mining it safely and cost effectively and getting us back to giving the level of confidence in the market that we're able to meet or even exceed our guidance. So, our primary focus and the board's focus is certainly on operating what we have very well, not only having debates about M&A.

Jandre Pieterse

Okay. Thanks Deon.

Operator

Thank you. At this stage there are no further questions on the conference. I will now hand back over to Deon Smith for closing comments. Please go ahead sir.

Deon Smith

Thank you very much for that and thank you again to everyone that's dialled in today. I appreciate your time. And stay safe and warm. If you're in the Southern Hemisphere, we look forward to engaging you fairly soon and at the very latest, obviously, on the 17th of August as we announce our interim results. Thank you kindly to everyone and have a lovely afternoon.

Operator

Thank you, sir. Ladies and gentlemen, that then concludes today's conference. Thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT