Chief executive officer's report

Mike Schmidt: Chief executive officer (CEO)

Operating safely and responsibly

In a year that presented multiple challenges, our operations delivered and improved safety performance reducing the group LTIFR by 24%. The total recordable injury frequency rate improved by 15% to 0.69 (F2021: 0.81). This performance was, however, marred by the loss of two colleagues in F2022.

As noted in the executive chairman's report, two colleagues were fatally injured in separate accidents in the financial year under review. At Two Rivers Mine, Mr Jacob Puleng Leshaba was fatally injured in a fall of ground accident on 1 September 2021. At Modikwa Platinum Mine, Ms Phasoana Rheina Malatji, was fatally injured after being struck by a run-away load haul dump (LHD) tyre on 10 June 2022. We continue to focus on initiatives across our operations to ensure ongoing safety training and that safety standards are strictly upheld.

Our commitment to zero harm is reflected in safety being a key performance indicator in executive remuneration. Safety achievements during the year included:

- Black Rock Mine completed 10 million fatality-free shifts over 13 years
- Beeshoek Mine achieved 5 million fatality-free shifts over 18 years
- Modikwa, Two Rivers and Black Rock mines improved their LTIFR by 30%, 40% and 60% respectively.

The health and wellbeing of our people remain a key priority. We continued to assist our host communities, suppliers and other stakeholders to the fullest extent possible through these uncertain times, as detailed in the ESG report.

Creating sustainable value

In F2022, ARM created total value of R27.5 billion (F2021: R30.6 billion). Of the value created, R6.3 billion was paid to shareholders as dividends and approximately R2.3 billion[1] to providers of capital. We also reinvested R8.2 billion in the group to support our continued growth.

The financial and operational reviews included on pages 44 to 61 of this report detail our performance for the year. My review therefore focuses on progress against strategic objectives more broadly and the significant infrastructure challenges facing our operations.

Scaling our PGM portfolio

As noted by the executive chairman, the acquisition of Bokoni Mine presents a significant value creating opportunity for ARM. Home to the second-largest PGM resource in South Africa, Bokoni Mine has operated since 1969 but was placed on care and maintenance in October 2017 due to adverse market conditions.

The higher-grade UG2 reef accounts for two-thirds of the mine's mineral resources of 153 million 4E PGM ounces (measured, indicated and inferred). With an average grade of 6.56g/t), the UG2 mineral resource has a favourable prill split for palladium (49%) and rhodium (8%), with platinum comprising 41% on a 4E basis.

Mining infrastructure includes two decline production shafts: Brakfontein for the extraction of Merensky ore and Middelpunt Hill for extracting UG2 ore. In addition, there are separate concentrator plants for processing UG2 and Merensky ore, a village, a clinic and ancillary assets in the mining right area.

We will consider using both existing shafts and plant infrastructure while investing in new infrastructure as part of our business plan to mechanise Bokoni. The new mine plan will focus on exploiting the UG2 resource with mechanised mining, where practical and sustainable, in new mining areas and target mainly on-reef development.

Central to this mine plan is improving efficiencies, reducing unit costs and providing early revenue. We will concurrently evaluate the opportunity of mining the Merensky Reef while developing the UG2 mine to capitalise on current strong PGM basket prices.

A definitive feasibility study will be completed in the second half of F2023, enabling mining operations to begin in the latter half of the 2023 calendar year, pending the required mining approvals.

We envisage development capital of around R5.3 billion (in real 2021 terms) over three years to ramp the mine up to steady-state production of some 300 000 ounces of 6E PGM and 255 000 tonnes of chromite concentrate per annum from 2028.

By comparison, for Bokoni Mine's last operational financial year (31 December 2016), the mine produced approximately 159 000 4E PGM ounces. At the time, both Merensky and UG2 were mined with annual production output of 593 000 tonnes of Merensky from Brakfontein and 572 000 tonnes of UG2 output from Middelpunt Hill.

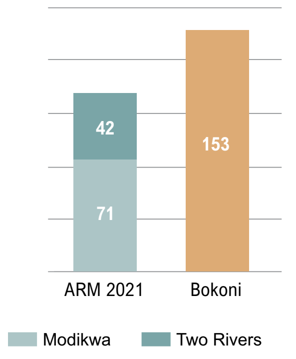
Bokoni – fast facts

- **Long-life ore body supporting medium-term production:**
  - Long-life operation (23 years) with significant opportunity for value-accretive growth
  - Increases our medium-term attributable production by some 300 000 ounces of 6E PGM and 255 000 tonnes of chrome concentrate per annum at steady state
  - Positions ARM as a significant global primary PGM producer.
- **Sector-leading UG2 resource base:**
  - Enhances the size and quality of our PGM resource base
  - Exposure to a high-grade UG2 resource with an attractive prill split – high concentration of palladium and rhodium, favourable iridium and ruthenium contributions
  - UG2 resource grade of 6.56 4E g/t, among the highest in South Africa, plus high nickel and copper grades.
- **Improve ARM's portfolio mix and competitiveness:**
  - Fully mechanised underground operation that is expected to lower our overall PGM cost-curve position
  - New mine plan expected to position Bokoni in the bottom half of the PGM cost curve.
- **Attractive financial metrics:**
  - New mine plan should position Bokoni for sustained earnings and cash-flow generation over the medium to long term.
- **Sharing the benefits:**
  - In total, 15% of Bokoni will be held by communities, employees and black industrialists. Through special purpose vehicles, each grouping will own 5% in Bokoni Mine.

[1] *This figure includes value attributable to non-controlling interests of R1.9 billion.*

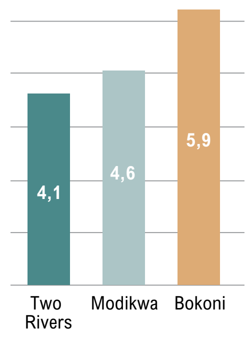
Chief executive officer’s report continued

Substantially increased resource base (100% basis)
(MOZ 4E)



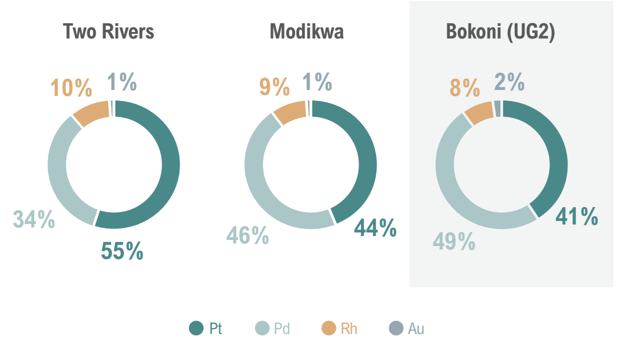
+135% to
266Moz (4E PGM) resource

Strong improvement to portfolio mineral resource grade
(g/t 4E)



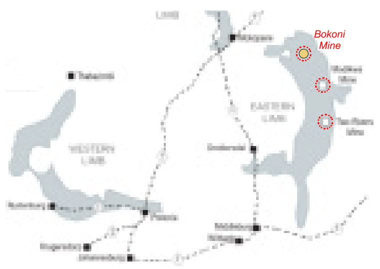
+0,8 g/t to
5,3 g/t 4E average grade

An attractive UG2 4E prill split
Provides greater exposure to palladium



Attractive Eastern Limb portfolio

Close proximity to existing ARM mining operations



Lowers ARM’s cost curve position

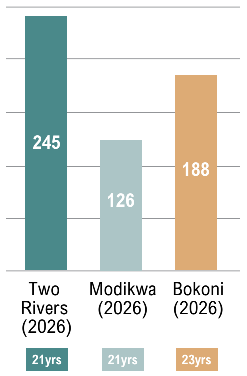
Moves portfolio down the cost curve

Two Rivers – 2nd quartile asset on cost curve

Modikwa – 3rd quartile asset on cost curve

Bokoni – bottom half asset on cost curve

Enhances ARM’s attributable production base and life-of-mine
(4E Koz)



+137% to
636Koz (4E PGM) production (2026)

Expected attributable production in 2025 terms.
Includes additional production ounces anticipate from growth projects.

Overview of F2022

Our operations rely on the efficient provision of utilities and logistics infrastructure in South Africa. There have been numerous challenges in the reliable supply of power, water security and performance on logistics channels. In the review period, these had varying impacts across our operations:

- Export sales volumes in our ferrous division were lower due to logistical challenges as Transnet Freight Rail (TFR) faced derailments, excessive rain and other operational and maintenance issues, as well as Eskom challenges
- The unit cost increase in our iron ore and manganese segments was impacted by an approximate 60% increase in freight rates
- To mitigate lower volume capacity at Transnet, manganese export volumes were supplemented with more expensive road transport
- In our coal division, Goedgevonden Mine reduced the impact of TFR’s underperformance by trucking coal to other ports.

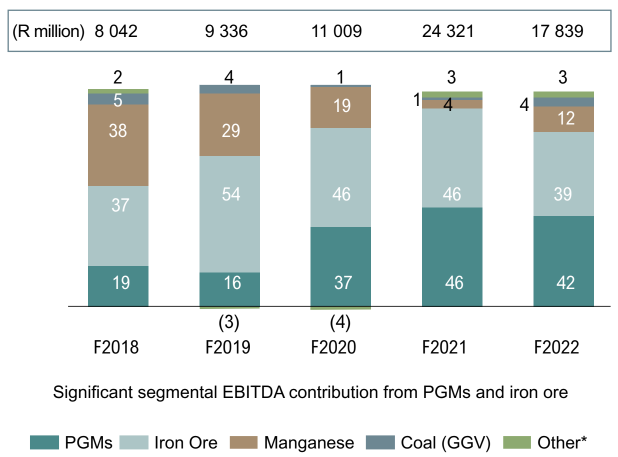
As detailed in the risk section on pages 35 to 37 of this report, infrastructure constraints in both rail and port, and unreliable water supply in the Northern Cape are our top two risks and have a direct bearing on our number three risk, increased unit costs.

Infrastructure constraints and input cost escalations are expected to continue putting pressure on unit costs across the South African mining industry. We remain fully committed to working with government and all stakeholders to find sustainable solutions to these challenges.

We are implementing efficiency-improvement and cost-containment initiatives at all operations to mitigate above-inflation unit cost increases. Extensive work is also underway to identify opportunities to sustainably reduce our carbon emissions. Refer to the executive chairman’s report for further details.

Our diversified portfolio of commodities again benefited the group in a year characterised by volatile commodity prices. As illustrated below, this diversification positions ARM well as we continue to focus on operating a world-class business in a challenging sector.

Segmental EBITDA split by commodity (%)



Significant segmental EBITDA contribution from PGMs and iron ore

* *Other is made up of chrome, nickel and ARM Corporate.*

In summary:

- ARM Ferrous headline earnings decreased by 16% to R6.7 billion (F2021: R7.9 billion) mainly on lower iron ore prices
- ARM Platinum headline earnings declined 34% to R3.1 billion (F2021: R4.7 billion), largely due to negative mark-to-market adjustments (discussed further on page 45 of this report)
- Higher export coal prices drove a R1.2 billion increase in ARM Coal headline earnings to R928 million (F2021: R250 million headline loss). Divisional loans owing to Glencore Operations South Africa (GOSA) were fully settled after the rally in thermal coal prices generated positive cash flows.

Looking ahead to F2023

Increasing global debt levels, a recovery in global supply chains after pandemic-related disruptions, intermittent Covid-19 lockdowns in China, rising global inflation, and a dislocation in energy markets following geopolitical turbulence from the conflict between Russia and Ukraine have all contributed to heightened levels of uncertainty in commodity and capital markets over the past year.

In addition, accelerated tightening of interest rates in developed markets and recession risks in the US and Europe have compounded volatility.

After starting F2022 at over US$200 per tonne, iron ore prices fell to below US$100 in December 2021. Prices recovered in the last quarter of the financial year under review, before declining subsequent to year end. The iron ore market is expected to be largely balanced for calendar year 2022, which supports current price stability.

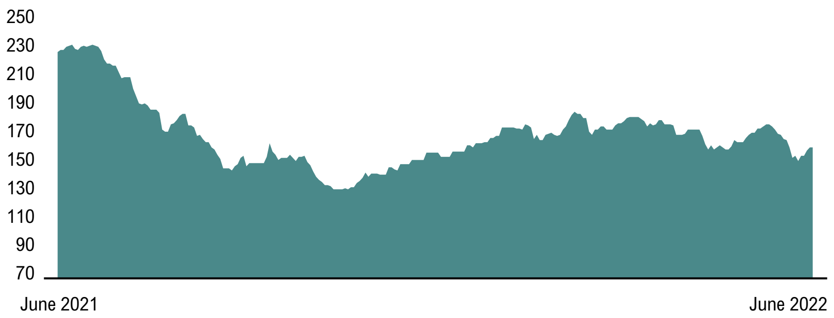
Chief executive officer's report continued

Concerns remain, however, that increased iron ore supply from major producers and pressure on China's crude steel production are likely to move the market into surplus from 2023, placing downward pressure on prices. Our focus remains on cost containment and improving our global cost position as well as ensuring our iron ore operations benefit from the move to reduce carbon emissions in the steel industry globally. This in turn is expected to increase demand for high-quality lumpy iron ore products.

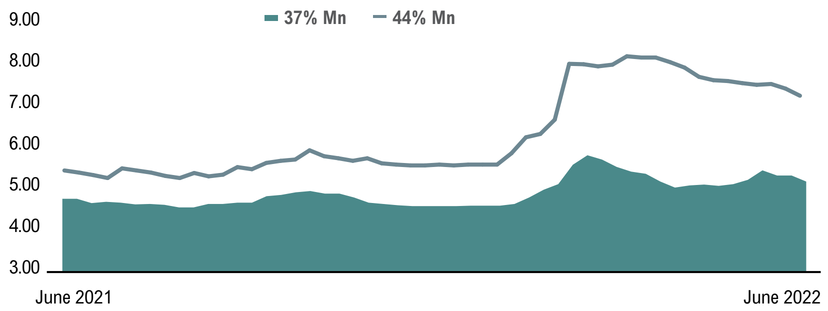
Similarly, in manganese ore, the significant investment over the last ten years in Black Rock Mine is expected to position the mine to deliver high-quality manganese ore into a seaborne market whose supply of the same is expected to be constrained.

In PGMs, a recovery in autocatalyst demand and tightening emission standards are expected to be positive for PGM demand in the short to medium term. While we are cognisant of the threat that battery electric vehicles may have on demand, PGMs – particularly platinum – are expected to play a significant role in clean mobility (through hydrogen technology) alongside battery electric vehicles. Constrained supply growth is also expected to underpin robust fundamentals for PGM markets and provide price support.

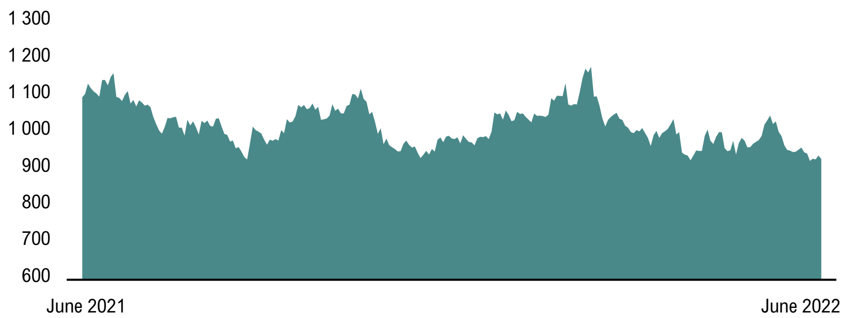
62% iron ore fines spot price (CIF) (US$/t)



Manganese ore spot price (US$/mtu)

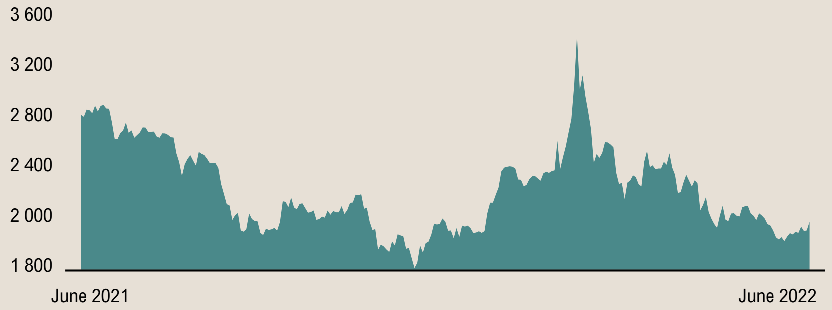


Platinum spot price (US$/ounces)

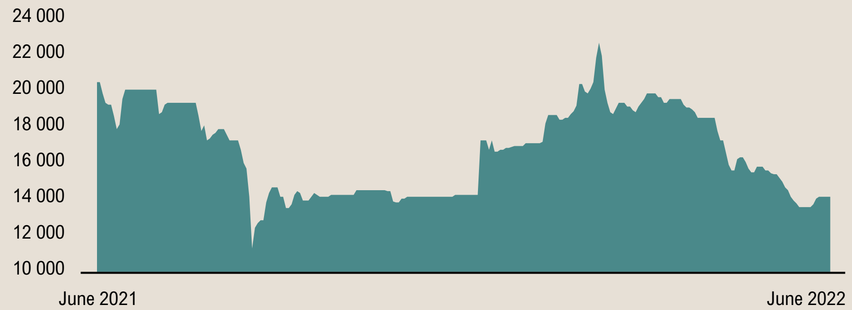


Our focus remains on cost containment and improving our global cost position as well as ensuring our iron ore operations benefit from the move to reduce carbon emissions in the steel industry globally.

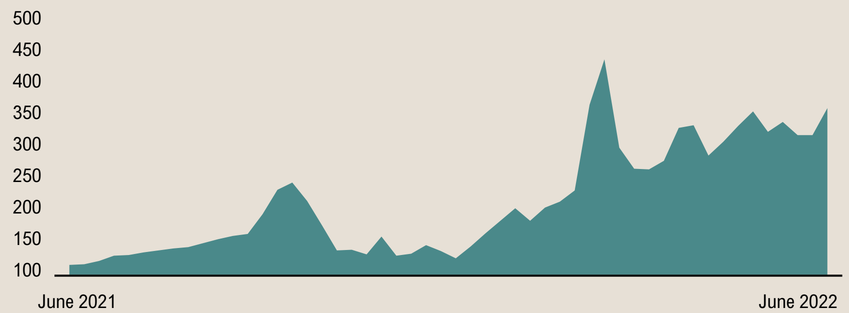
Palladium spot price (US$/ounces)



Rhodium spot price (US$/ounces)



API 4 thermal coal prices for Richards Bay (US$/t)



Source: All graphs Iress.

We are pleased with the progress made by Modikwa and Two Rivers mines to improve their position on the global PGM unit cost curve in recent years. Our confidence in the fundamentals of the PGM sector is evidenced through our acquisition of Bokoni Platinum Mine, discussed earlier.

Recognition

The commitment and dedication of our employees underpins our ability to create sustainable value. As we navigate the challenges of doing business in the prevailing global uncertainty, I thank each of my colleagues for their contributions, as well as our executive chairman and the board for their expert direction and counsel.

We remain fully committed to mutually beneficial relationships with all our stakeholders and joint-venture partners to ensure we build a resilient and enduring business that creates sustainable value for all.

Mike Schmidt
CEO

7 October 2022