Executive chairman's report

Dr Patrice Motsepe: Executive chairman

Dear shareholder and stakeholder

ARM's quality diversified portfolio enabled us to improve our financial position despite lower prices for iron ore and platinum group metals (PGMs).

Our net cash increased from R8.2 billion to R11.2 billion enabling ARM to continue investing in our existing business, pay dividends and pursue value-enhancing growth.

Headline earnings for the financial year under review were 13% lower at R11.3 billion (F2021: R13.1 billion) impacted mainly by lower commodity prices.

In line with our strategy to deliver competitive returns to our shareholders and create sustainable value for all stakeholders, we continued to focus on:

- Maintaining a safe and healthy work environment
- Managing costs and improving productivity and efficiencies through appropriate mechanisation and technology and other productivity and efficiency-enhancing measures
- Optimising our diversified portfolio of assets
- Pursuing and delivering on value-enhancing growth
- Implementing and adhering to our commitment to support the goals of the Paris Agreement to limit the increase in the global average temperature to 2°C and pursue efforts to limit the increase to 1.5°C
- Complying with our environmental, social and governance (ESG) framework and undertakings
- Investing in our employees
- Contributing to improving the living conditions and standards of living of the people in the communities neighbouring our mining operations
- Cooperating and partnering with all stakeholders.

We declared total dividends of R32.00 per share for F2022; up 7% from R30.00 per share in the prior year. This represented a 13% dividend yield and a pay-out ratio of 88% of the dividends received from the underlying operations.

Maintaining a safe and healthy work environment

Our continued focus and commitment to maintaining a safe and healthy work environment for all employees and contractors was reflected in the improvement of key safety metrics including the lost-time injury frequency rate (LTIFR) which improved by 24% to 0.31 per 200 000 man-hours in F2022 (F2021: 0.41 per 200 000 man-hours).

Regrettably, two of our colleagues were fatally injured in separate accidents at Modikwa and Two Rivers mines during the year. We extend our sincere condolences to the families, colleagues and friends of those who lost their lives at our operations and continue with initiatives and measures to ensure zero harm.

The roll-out of vaccinations against Covid-19 continued in F2022 at five accredited ARM sites. These sites are rolling out vaccinations for the benefit of employees, contractors and members of communities living near our mining operations. At the time of preparing this report, approximately 73% of our employees had been vaccinated.

Managing costs and improving productivity and efficiencies through appropriate mechanisation and technology and other productivity and efficiency-enhancing measures

Unit production costs were under immense pressure in F2022, with above-inflation increases across all operations except the Modikwa, Black Rock and Goedgevonden mines.

Subsequent to the year end, the R10.4 billion Black Rock Mine modernisation and expansion project was completed and handed over to the operations for production. As a result, unit production costs at Black Rock Mine are expected to reduce further in real terms over the next few years.

We are proactively managing unit costs across our portfolio of assets, which includes investing in volume growth at the Two Rivers and Modikwa mines.

Optimising our diversified portfolio of assets

In F2022, we invested R4.7 billion in attributable capital expenditure across our operations, R889 million of which was expansionary capital.

As part of our short to medium-term growth projects:

- We will ramp up production at the Black Rock Mine to 4.6 million tonnes per annum by F2025
- We increased milling capacity by 40 000 tonnes per month at Two Rivers Mine, enabling the mine to ramp up to 360 000 6E PGM ounces per annum by F2023. In addition, as part of the R5.7 billion Merensky Project at Two Rivers, which was approved last year, mining of the Merensky Reef will increase production volumes by 182 000 6E PGM ounces, 1 600 tonnes of nickel and 1 300 tonnes of copper, at Two Rivers by F2024
- We are investing in Modikwa Mine to enable the mine to increase production volumes to 380 000 6E PGM ounces per annum by F2026.

Pursuing and delivering on value-enhancing growth

Growth is core to our strategy. We are pleased to have concluded the acquisition of Bokoni Platinum Mine with the full purchase consideration of R3.5 billion settled on 1 September 2022.

We now own a significant South African PGM mine that complements our current PGM portfolio of assets based on the Eastern Limb of the Bushveld Complex in Limpopo province.

The strategic acquisition of this quality asset enables ARM to scale its PGM portfolio and improve our global competitiveness. The chief executive officer's report on pages 38 to 43 of this report details our plans and time frames for the development of Bokoni Mine. This mine is expected to more than double our attributable PGM ounces over the next five years.

Executive chairman's report continued

In addition to delivering competitive returns for shareholders, the development of Bokoni Mine allows ARM to create sustainable value for a broad range of stakeholders including local communities, employees and black industrialists who will together own 15% of the mine. As we build and operate the mine, we will create approximately 5 000 jobs, of which 2 500 will be permanent jobs.

Implementing and adhering to our commitment to support the goals of the Paris Agreement to limit the increase in the global average temperature to 2°C and pursue efforts to limit the increase to 1.5°C

In line with the International Council on Mining and Metals (ICMM) Sustainable Development Framework and climate change principles, our operations follow global good practice in managing scarce natural resources and protecting our environment.

Accordingly, our broader environmental initiatives are focused on reducing carbon emissions, as well as the responsible and efficient use of water and energy.

In recent years, the escalating pace of natural events globally, from floods to droughts and wildfires have brought to the fore the urgency of significant and effective global action to combat climate change.

We are participating in the global response to reduce carbon emissions and mitigate the impacts of climate change. ARM produces metals that are critical to creating a low-carbon future.

Across our operations, we continue to identify opportunities to reduce carbon emissions through improved energy and fuel efficiency.

We are actively developing technologies and processes to enhance energy efficiency and reduce our carbon footprint; aiming to achieve net-zero greenhouse gas emissions from mining before 2050.

In F2022, we focused on developing decarbonisation pathways that detail the short and medium-term steps needed to achieve this target. We are working to identify appropriate carbon reduction initiatives for each operation that are sustainable and financially responsible.

Post the financial year-end and pending board and regulatory approval, ARM Platinum signed an agreement to purchase solar power from Sola Group. In terms of the power purchase agreement, Sola will build a solar photovoltaic (PV) facility and wheel the renewable energy generated at this facility to our PGM operations in Limpopo and Mpumalanga. This project, which will be completed over the next three years, will deliver clean, low-cost energy, accounting for approximately one-third of the division's power consumption, while enabling these operations to reduce the impact of daytime loadshedding. Plans to generate approximately 80MW of solar energy in our ferrous division are well advanced.

We are also focusing on reducing the use of diesel across our operations in the next five years. There is currently a pilot project underway at Black Rock Mine, which uses battery electric haul trucks.

Investing in our employees

In F2022, the ARM workforce comprised approximately 22 000 employees and contractors.

We invested R198 million or 7.1% of payroll in F2022 for skills training across our operations (F2021: R239 million or 6.9% of payroll).

We are committed to ensuring that our workforce and management represent South Africa's demographics, as an inclusive and multiracial workforce enriches both our company and our country. At year end, 68% of management at all levels was represented by historically disadvantaged South Africans.

Contributing to improving the living conditions and standards of living of the people in the communities neighbouring our mining operations

Our commitment to creating sustainable value for all stakeholders, including the communities neighbouring our mines, remains resolute.

In the financial year under review, our operations invested R151 million in community projects with an emphasis on supporting women, youth, historically disadvantaged people and those living with disabilities. Focus areas included:
- Water provision and sanitation
- Building and upgrading roads
- Key community infrastructure
- Health
- Education.

We also contributed to increasing the pool of entrepreneurial and business-specific skills in the communities neighbouring our mines and supported the development of local small and medium businesses.

ESG Further details appear in the operational reviews in this report and in our 2022 ESG report.

We are pleased that the ARM Mining Consortium declared a dividend of R255 million (F2021: R71 million) to the seven communities with an effective 8.5% shareholding in Modikwa Mine. These dividends will be invested in sustainable community upliftment and development projects that will benefit the approximately 100 000 people residing in the communities neighbouring Modikwa Mine.

We continue to work with our community forums, municipalities, the Department of Mineral Resources and Energy (DMRE) and other stakeholders to introduce job creation and poverty alleviation projects.

The South African mining industry[1]

Mining remains an important contributor to South Africa's fiscus. In the calendar year 2021, the industry employed approximately 459 000 people, contributed R481 billion or 8.6% directly to gross domestic product (GDP) and exported R842 billion worth of commodities, almost one-quarter of the country's total exports. Collectively, the industry paid over R150 billion in wages, salaries and benefits to employees who, in turn, support an estimated 4.6 million dependants. Taxes paid by the South African mining industry included corporate income tax of R78 billion, R15 billion in value added taxes and R28 billion in mineral royalties.

Last year, the South African mining industry passed a notable milestone, when the total value of the minerals produced exceeded R1 trillion for the first time.

The success of our mining industry relies heavily on the efficient provision of utilities and logistics infrastructure. Although there have been numerous challenges in the performance of the logistics channels, the reliable supply of power and the security of water supply, ARM and other mining companies operating in South Africa are engaging and working with the government and other parties to find sustainable solutions for the benefit of the mining industry, the fiscus and all stakeholders.

We believe that the South African mining industry will continue to be a globally competitive investment destination for domestic and international investors.

Recognition

We are fortunate to have a skilled and experienced board which is committed to good governance practices. The collective contribution of our directors has been invaluable as we focus on achieving our strategic objectives for the sustainable benefit of our shareholders and all stakeholders.

My deepest gratitude to each of our directors for their ongoing guidance and commitment.

Subsequent to the financial year-end, we appointed and welcomed two experienced independent non-executive directors to the board.

Bongani Nqwababa brings extensive financial experience gained over three decades as chief financial officer in a number of large, listed companies in the mining and energy sectors.

Brian Kennedy has over 30 years' experience in financial services, much of which was spent in corporate and investment banking.

We believe that Bongani and Brian will enrich the skills and expertise of our board and look forward to their valuable contributions.

I would also like to thank our employees and world-class management for their continued hard work, dedication and commitment. Mike Schmidt has done great work as CEO of ARM.

We are grateful for the ongoing support and cooperation of our shareholders, employees, worker representative organisations, our host communities and all other stakeholders.

Conclusion

The global repercussions of the Covid-19 pandemic have been a stark reminder of the interconnectedness of today's world.

The current global, health, social, environmental and economic challenges require cooperation and partnerships, involving governments, the private sector, civil society and all stakeholders.

The mining industry is an important partner in confronting and solving these global challenges. ARM is committed to play its role and make the appropriate contributions for the long-term benefit of its shareholders and stakeholders.

Dr Patrice Motsepe
Executive chairman

7 October 2022

[1] *Minerals Council South Africa: Facts and figures 2021; published May 2022.*