

# ARM COAL

## Key features for F2020

Covid-19 contributed to the reduced global demand for coal

20% decline in API4 coal price

Decrease in domestic and export sales volumes

Impairment of ARM Coal assets

## Material matters



- Impairment on Goedgevonden Mine operation and PCB investment

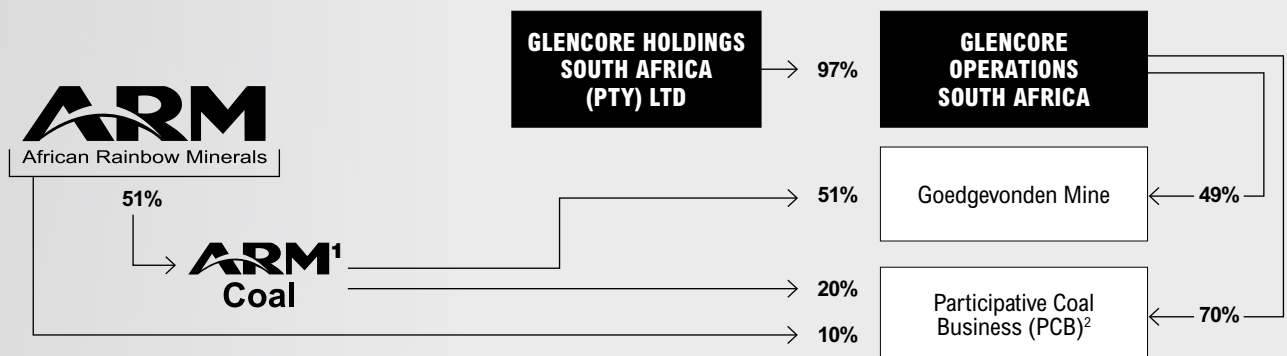


- Decrease in saleable production
- Above-inflationary unit cost increases



### Legend

Goedgevonden Mine PCB operations Undeveloped resources

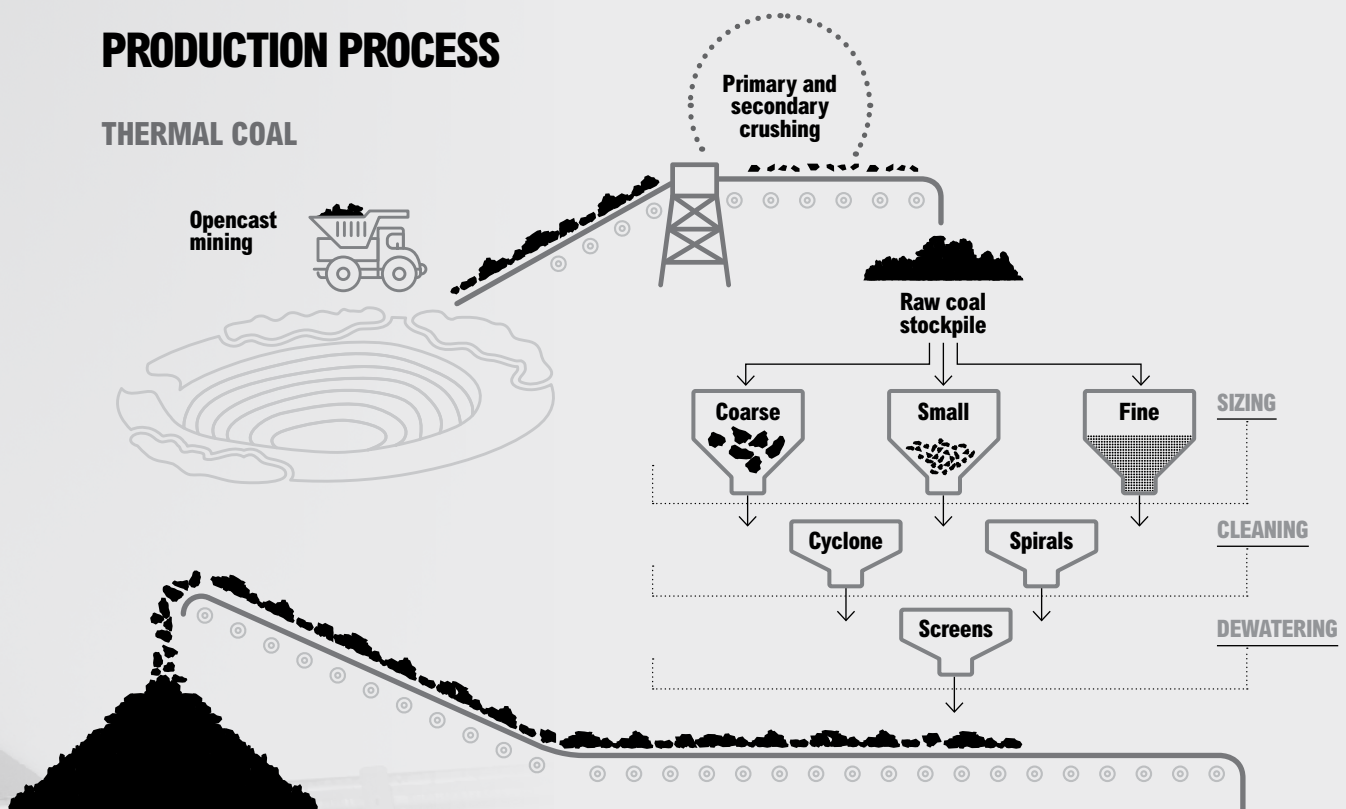


- 1 ARM Coal holds:
- Access to Glencore Operations South Africa's interest and entitlement in the Richards Bay Coal Terminal (RBCT).
  - An export entitlement of 3.2Mtpa in the phase V expansion at RBCT.
- 2 Participative coal business (PCB) refers to the Impunzi and Tweefontein operations.



## PRODUCTION PROCESS

### THERMAL COAL



ARM COAL continued

## SCORECARD

### GOEDGEVONDEN MINE

#### F2020 OBJECTIVES

Contain unit cost escalations below inflation

**NOT ACHIEVED** ✕

Up 13% on increased repairs and maintenance costs, and lower saleable production

#### F2021 OBJECTIVES

Continued focus on containing unit cost escalations below inflation

### PARTICIPATIVE COAL BUSINESS

#### F2020 OBJECTIVES

Contain unit cost escalations below inflation

**NOT ACHIEVED** ✕

Up 24% on lower saleable production

#### F2021 OBJECTIVES

Continued focus on containing unit cost escalations below inflation





## COMMODITY PRICES

Thermal coal prices declined sharply in 2H F2020, due to decreased demand for coal mainly driven by the Covid-19 pandemic. India and China reduced their thermal coal imports considerably on the back of reduced demand and a prioritisation of local coal produced.

Demand reduced in European markets on increased coal-to-gas fuel switching, rising renewable generation and weaker overall power demand due to Covid-19. Goedgevonden Mine average received export US dollar price decreased 32% to US\$48 per tonne in F2020 (F2019: US\$71 per tonne) due to lower market prices and increased export of low-grade quality (as domestic demand decreased).

PCB's average received export US dollar prices decreased by 22% from US\$64.88 per tonne in F2019 to US\$50.54 per tonne in F2020. Approximately 62% of export volumes at Goedgevonden Mine were high-quality coal while PCB exports of high-quality coal were 65%, hence PCB's average received export price was slightly higher than Goedgevonden Mine.

## FINANCIAL PERFORMANCE



**Delivering financial returns to shareholders and other providers of capital**

ARM Coal reported an attributable headline loss of R2 million (F2019: R411 million headline earnings) which includes re-measurement gains of R485 million (F2019: R245 million) on partner loans. Excluding the re-measurement gains, the ARM Coal headline loss was R487 million (F2019: R272 million headline earnings) as a result of the sharp decline in export thermal coal prices, lower sales volumes (owing to weather-related mining challenges) and above-inflation unit cost increases. An attributable impairment loss of R1 524 million after tax was recognised.



Refer to note 2 to the annual financial statements for the ARM Coal segmental information.

## OPERATIONAL PERFORMANCE



**Continuously improve operational performance**

### Goedgevonden Mine

Total sales volumes declined by 4%, resulting in total attributable revenue decreasing to R1 056 million in F2020 compared to R1 162 million in F2019. The mine was impacted by inclement weather in the 1H F2020, resulting in some pits being flooded. Increased health and safety measures due to Covid-19 also impacted production volumes in 2H F2020.

Production in F2020 was further impacted by poor performance from the mining contractor who has since been replaced. The mine made up some of the contractor shortfall by using its own equipment in 2H F2020. The negative impact of the lockdown on volumes was partially mitigated by both the Goedgevonden and PCB operations being regarded as an essential service during lockdown.

The mines were therefore granted approval to operate to ensure supply of coal to Eskom. Coal exports were also permitted during lockdown, mitigating the impact on ARM Coal operations to approximately 10% of production being lost. ARM's attributable saleable production was 4.45 million tonnes in F2020, compared to 4.92 million tonnes in F2019.

On-mine unit production costs per saleable tonne rose by 13% to R431 per tonne (F2019: R380 per tonne). The above-inflationary increase in unit cost was due to an increase in repairs and maintenance expenditure and a decrease in saleable production. The increase in export sales resulted in higher expenditure on distribution costs.

### PCB

Export sales volumes were 29% lower than F2019 at 7.73 million tonnes (F2019: 10.95 million) and domestic sales volumes increased from 4.61 million tonnes to 5.74 million tonnes, largely due to increased sales to Eskom. In F2020, the PCB operations were impacted by the underperformance of a mining contractor. The contractor was replaced at the end of F2020 and the new contractor is ramping up to full production.

The PCB operations were affected by high rainfall and safety stoppages in the first half of F2020, which impacted run-of-mine production. PCB is commissioning a second dragline at its operations. This is expected to be fully commissioned and operational in 1H F2021, resulting in increased production. Saleable production decreased by 13% from F2019 due to additional safety measures put in place after a fatality at Tweefontein Mine in November 2019, challenges with the contractor.

Unit production costs per saleable tonne increased by 24% from R391 per tonne in F2019 to R484 per tonne in F2020, mainly due to lower saleable production.

## ARM COAL continued

## Summary operational and financial indicators – 100% basis continued

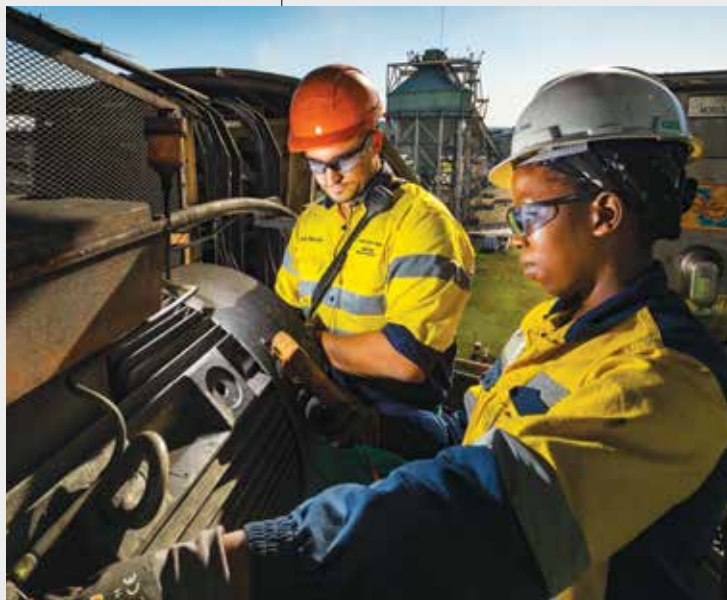
## Goedgevonden Mine

**OWNERSHIP**

ARM holds an effective 26% in Goedgevonden Mine, Glencore Operations South Africa (GOSA) owns the balance

**MANAGEMENT**

Governed by a management committee controlled by ARM Coal, with four ARM representatives and three from Glencore. Operational management contracted to Glencore



	Unit	F2020	F2019	F2018	F2017	F2016
<b>OPERATIONAL – 100% BASIS</b>						
<b>Production and sales</b>						
Total saleable production	Mt	6.77	6.99	6.05	6.47	6.53
Total thermal coal sales	Mt	6.53	6.84	6.11	6.21	6.9
Export thermal coal sales	Mt	4.29	3.27	2.85	3.18	3.91
Domestic thermal coal sales	Mt	2.25	3.57	3.26	3.03	2.99
<b>Realised prices</b>						
Export (FOT)	US\$/t	47.87	71.10	84.57	62.07	40.99
Domestic (FOT)	R/t	305	275	235	241	242
<b>Unit costs</b>						
On-mine saleable cost per tonne	R/t	431	380	351	323	239
<b>FINANCIAL – ATTRIBUTABLE</b>						
Sales revenue	R million	1 056	1 162	1 028	911	797
Total costs	R million	1 000	870	32	676	593
Operating profit/(loss)	R million	56	292	1 060	235	204
EBITDA	R million	264	326	335	235	204
Capital expenditure	R million	197	244	140	196	185
Cash operating profit	R million	56	292	335	235	204
Less:						
– Imputed interest expense <sup>1</sup>	R million	(160)	(144)	(157)	(215)	(183)
– Interest received	R million	–	–	3	–	–
– Amortisation	R million	(197)	(163)	(167)	(147)	(128)
– Fair value adjustment	R million	207	190	885	(12)	(15)
– Impairment loss	R million	(559)	–	–	–	–
(Loss)/profit before tax	R million	(653)	174	899	(137)	(122)
Tax	R million	56	(38)	(47)	38	35
<b>Headline (loss)/earnings attributable to ARM</b>	R million	<b>(38)</b>	136	852	(99)	(87)

<sup>1</sup> Post restructuring ARM Coal loans, all interest expense on these loans is imputed.



Refer to the notes to the annual financial statements for the ARM Coal segmental information.

## PCB operations

### OWNERSHIP

ARM holds an effective 20.2% in PCB, Glencore (GOSA) owns the remaining 79.8%

### MANAGEMENT

Governed by a supervisory committee with five Glencore representatives and three ARM representatives. Operational management contracted to Glencore



	Unit	F2020	F2019	F2018	F2017	F2016
<b>OPERATIONAL – 100% BASIS</b>						
<b>Production and sales</b>						
Total saleable production	Mt	13.34	15.49	16.64	16.55	14.63
Impunzi	Mt	6.1	6.7	6.77	7.2	6.53
South Stock	Mt	–	–	–	–	0.41
Tweefontein	Mt	7.24	8.79	10.04	9.35	7.69
Total thermal coal sales	Mt	13.46	15.56	15.78	16.06	16.98
Export thermal coal sales	Mt	7.73	10.95	13.44	13.42	14.76
Domestic thermal coal sales	Mt	5.74	4.61	2.34	2.64	2.22
<b>Realised prices</b>						
Export (FOB)	US\$/t	50.54	64.88	73.51	61.89	41.66
Domestic (FOT)	R/t	666	582	368	459	283
<b>Unit costs</b>						
On-mine saleable cost per tonne	R/t	484	391	330	278	273
<b>FINANCIAL – ATTRIBUTABLE</b>						
Sales revenue	R million	2 008	2 605	2 765	2 528	1 930
Total costs	R million	1 702	1 707	1 835	1 552	1 533
Operating profit/(loss)	R million	306	898	930	976	397
EBITDA	R million	304	898	1 030	976	397
Capital expenditure	R million	425	562	413	246	214
Cash operating profit	R million	304	898	1 030	976	397
Plus: Interest received	R million	–	–	5	–	–
Less:						
– Interest paid	R million	(118)	(138)	(164)	(320)	(308)
– Amortisation	R million	(479)	(424)	(425)	(355)	(321)
– Fair value adjustment <sup>1</sup>	R million	278	55	325	(50)	(59)
(Impairment loss)/reversal of impairment	R million	(1 121)	3			
(Loss)/profit before tax	R million	(1 138)	394	771	251	(291)
Tax	R million	51	(118)	(138)	(70)	81
<b>Headline earnings/(loss) attributable to ARM</b>	R million	<b>36</b>	274	633	181	(210)

## OUTLOOK



**ARM COAL SALES VOLUMES – ATTRIBUTABLE BASIS**  
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