



Dr Patrice Motsepe
Executive Chairman

EXECUTIVE CHAIRMAN'S REPORT

DEAR SHAREHOLDER AND STAKEHOLDER

I am pleased to report a 20% increase in adjusted headline earnings* for the 2018 financial year (F2018) driven mainly by an improvement in US Dollar prices for most of the commodities that we produce. Management also initiated successful interventions to maximise revenue, contain unit cost increases and address marginal assets.

ARM paid its highest final dividend to date which increased to R7.50 per share. ARM also paid its first interim dividend of R2.50 per share in April 2018. The cumulative dividend for F2018 was R10.00 per share (F2017: R6.50), reaffirming our commitment to pay competitive dividends as part of our overall focus to create value for our shareholders.

We continued to refine our capital allocation process including balancing investment in our business, growth and shareholder returns while maintaining a robust financial position.



Our capital allocation framework is discussed in greater detail in the Financial review on pages 16 to 36.

MAINTAINING A SAFE AND HEALTHY WORK ENVIRONMENT

We remain steadfast in our commitment to maintaining a safe and healthy work environment for all employees.

ARM's lost time injury frequency rate was 0.38 per 200 000 man-hours in F2018 (F2017: 0.28 per 200 000 man-hours). In a regrettable accident at Modikwa Mine, two employees were exposed to irrespirable atmosphere underground. Mr Fabian Majoro succumbed to his injuries while Mr Daniel Ntlangoe was hospitalised and has since recovered fully. We also regret to report accidents at Sakura Ferroalloys Works and Tweefontein Coal Mine where Mr Raymond Anak Edmund Samaie, a production shift manager and Mr Bonga Lingeni, a grader operator were fatally injured.

We extend our sincerest condolences to the families, friends and colleagues of those who lost their lives at our operations.

* Adjusted headline earnings refer to the F2018 headline earnings of R4 814 million adjusted for a R977 million net fair value gain as a result of the ARM Coal debt restructuring. Including the R977 million net fair value gain, the F2018 headline earnings increased by 51%.

CORPORATE TRANSACTIONS

We concluded the following corporate transactions which added value to ARM:

ARM Coal debt restructuring

Our restructuring of the ARM Coal debt was concluded on 25 June 2018, significantly improving ARM and ARM Coal's obligations in terms of this debt. Details of the restructuring are included in the Financial review.

Disposal of Lubambe Mine

All the conditions precedent for the disposal of Lubambe Mine were fulfilled on 22 December 2017 and the final proceeds were received in the same month.

Two Rivers Mine

ARM's interest in Two Rivers Mine increased from 51% to 54% after the Tamboti mineral rights were transferred from ARM to Two Rivers Mine. We remain confident in Two Rivers' ability to continue creating value for shareholders.

OPERATIONAL REVIEW

My review covers the performance of our operations in broad terms. More detailed information in this regard is included in the CEO's report and the Financial review.

ARM Ferrous increased headline earnings by 6% to R3 528 million (F2017: R3 331 million). Our investment in Black Rock Mine has started to yield financial and operational results with the manganese division delivering a 64% increase in headline earnings due to increased sales volumes and higher average realised Rand manganese ore and manganese alloy prices. We achieved record sales volumes in the iron ore division. However, headline earnings declined by 24% to R1 672 million (F2017: R2 187 million) mainly due to lower realised Rand iron ore prices.

ARM Platinum increased headline earnings by 20% to R420 million (F2017: R350 million). Modikwa Mine improved from a headline loss of R66 million last year to headline earnings of R105 million. A major contributor to this was the temporary improvement in the terms and conditions of the concentrate purchase agreement between ARM Mining Consortium and Anglo American Platinum which is effective for three years from 1 January 2017. Two Rivers Mine's headline earnings of R306 million (F2017: R325 million) were slightly lower mainly due to a decrease in the mine's head grade as higher proportions of split reef were mined. Access into the Tamboti area over the next two financial years is expected to increase mining flexibility and reduce the ratio of split reef mined. Nkomati Mine reported an R82 million decrease in headline earnings to R9 million. The milling of more very low grade stockpile material led to lower nickel and by-product production volumes and a decline in the mine's head grade. The mine's concentrate offtake agreement with



ARM Coal debt restructuring concluded.

Metals Trade Overseas AG was renegotiated to temporarily improve the terms and conditions of the agreement effective from 22 April 2018.

ARM Coal increased headline earnings to R1 485 million (F2017: R82 million) which includes R1 259 million from the restructuring of the ARM Coal debt. The headline loss from Goedgevonden (GGV) Mine, excluding results of the debt restructuring, was R30 million (F2017: R99 million). Participative Coal Business (PCB) operations contributed increased headline earnings of R256 million (F2017: R181 million), before the debt restructuring.

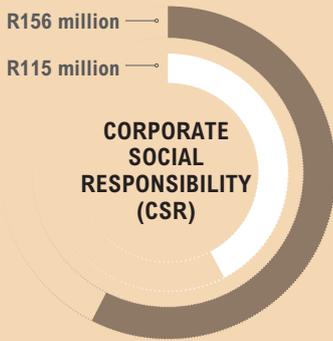
INVESTING IN OUR EMPLOYEES

We continued to build on the good relationships we have with our 21 900 employees and contractors as well as the trade unions that represent them. We invest in our workforce through, *inter alia*, skills training; particularly the skills that our employees need to be more efficient and competitive.

Expenditure on skills training increased by 33% to R239 million (or 9% of payroll) in F2018 (F2017: R180 million or 6% of payroll). This training extended beyond our employees as our operations invested in a range of initiatives supporting youth and women development, particularly in the communities neighbouring our operations. They included, among others, community cadetship training, science, technology, engineering and mathematics (STEM) programmes, learnerships and graduate development programmes. Through these initiatives we have made a meaningful contribution to our host communities to increase the pool of future skills, especially among members of historically disadvantaged communities.

We are committed to ensuring that our workforce and management are representative of the country's demographics. We believe that an inclusive and representative workforce greatly benefits and enriches our company and our country. Our efforts towards an inclusive and transformed workforce have resulted in the number of historically disadvantaged South Africans in management increasing to 61% in F2018 from 55% in F2017.

EXECUTIVE CHAIRMAN'S REPORT
continued



Expenditure on CSR through Social Labour Plans, Local Economic Development, and Corporate Social Investment increased by **36%**



Skills training expenditure increased by **33%** to R239 million

■ 2018 ■ 2017

PARTNERING WITH KEY STAKEHOLDERS

Our operations impact a wide range of stakeholders including the communities living in the areas where we operate. As well as creating value for shareholders, ARM is committed to improving the living conditions of the people in our host communities. We focus on local employment, local business and supplier development, corporate social investment, local economic development and social and labour plan projects. In F2018, our operations invested R156 million in corporate social responsibility initiatives prioritising women, youth, historically disadvantaged persons and those living with disabilities, HIV and Aids.

We also contributed to the upliftment and development of poor and historically disadvantaged rural and urban communities throughout South Africa through the ARM Broad-Based Economic Empowerment Trust (ARM Trust) which works closely with traditional leaders and their communities, rural and urban development stakeholders, worker representative organisations, business leaders, NGOs, religious and faith-based organisations and other stakeholders.

Despite ongoing investment and open engagement, the relationship between mining companies and host communities continues to come under strain as communities become increasingly frustrated with countrywide unemployment, poverty and inequality. Community relations at Modikwa Mine have been particularly challenging. On 2 April 2018, unknown individuals set alight a bus transporting employees to Modikwa Mine, resulting in the deaths of six people. Five suspects were arrested and are facing various charges relating to the crime. We are deeply saddened by this incident and extend our heartfelt condolences to the families, friends and colleagues of the deceased. The mine provided counselling and support to all employees and their families who were affected by this tragic incident.

THE SOUTH AFRICAN MINING INDUSTRY

The mining industry remains a key contributor to the South African economy. In the 2017 calendar year, the industry contributed R335 billion (or 6.8%) to Gross Domestic Product (GDP) and exported R302 billion worth of products or 27% of the country's R1.1 trillion exports. The industry employs approximately 470 000 people and in 2017 paid R126 billion in employee wages, salaries and benefits. Those employed by the industry in turn support an estimated 4.5 million dependants**.

In addition to creating employment and contributing to GDP and the fiscus, the South African mining industry invested approximately R2 billion in community development initiatives and created opportunities for SMMEs (Small, Medium and Micro Enterprises) through preferential procurement, supplier development and enterprise development**.

Between 2007 and 2016 gross fixed investment by the South African mining industry slowed** mainly due to a downturn in the commodity cycle, rapidly rising mining costs, uncertainty relating to the regulatory dispensation and the discussions on the mining charter between the government and the mining industry.

It is important that the South African mining industry continues to be globally competitive and attractive to domestic and international investment.

The new mining dispensation including the mining charter must ensure that the South African mining industry maintains and enhances investor confidence.

The mining industry should continue to create broad public awareness of its developmental and upliftment role which benefits workers, neighbouring communities and other stakeholders.

** Statistics as per the Minerals Council South Africa Facts and Figures 2017, published in September 2018.



ENSURING THAT WE REMAIN RESPONSIBLE STEWARDS OF ENVIRONMENTAL RESOURCES

All our operations apply global good practice in managing scarce natural resources. This is done in line with the principles of the Sustainable Development Framework of the International Council on Mining and Metals (ICMM) of which we are a member. Our environmental initiatives focus on the waste-free and responsible use of water, energy efficiency and reducing carbon emissions. Further details on our environmental management programmes are included in the operational reviews and our 2018 Sustainability Report.

CONCLUSION AND RECOGNITION

I would like to extend my gratitude to our shareholders, employees and their representative organisations, host communities and all other stakeholders for their continued support and co-operation.

I am grateful to our staff and management for their hard work and sacrifices. My gratitude also goes to Mike Schmidt for the great leadership that he continues to provide and to all the employees for the good F2018 results.

On 10 December 2017, Mike Arnold retired as ARM's Financial Director (FD) and Abigail Mukhuba who was our Chief Financial Officer at the time became our FD. I would like to express my sincere gratitude to Mike for his good work as FD and wish Abigail a long and successful career at ARM. We are fortunate to retain Mike's knowledge and experience as a Non-executive Director on our Board.

In late 2017, David Noko and Jan Steenkamp were appointed to the board as Non-executive Directors. Our Board is committed to the highest standards of corporate governance and I would like to thank each of our directors for their continued commitment, invaluable guidance and contributions to the Board.

I am confident that ARM will continue to be a globally competitive company which creates value for its shareholders and benefits all stakeholders.

Dr Patrice Motsepe
Executive Chairman

29 October 2018