

EXECUTIVE CHAIRMAN'S REPORT

Dr Patrice Motsepe
Executive chairman



Dear shareholder and stakeholder

I am pleased to report a 9% increase in headline earnings for the 2019 financial year ("F2019"). On an adjusted basis¹, headline earnings were up 35% driven mainly by an excellent performance from the iron ore operations.

We benefitted from the diversity of our portfolio as higher US dollar prices for iron ore, palladium and rhodium more than offset lower US dollar prices realised for manganese ore, manganese alloy, platinum, nickel and thermal coal.

We continued to focus on the activities that are under our control to maximise margins and ensure the long-term sustainability of our business. These include:

- » Maintaining a safe and healthy work environment;
- » Managing and reducing costs;
- » Optimising our portfolio of assets;
- » Implementing appropriate mechanisation and technology to improve productivity and efficiencies; and
- » Investing in our employees and host communities.

Allocating capital across our business remained a key focus as we aimed to balance investing in the existing business and in growth as well as paying competitive dividends while maintaining a robust and flexible financial position.

We are pleased to have paid our highest annual dividend to date which was R13.00 per share (F2018: R10.00 per share). We paid an interim dividend of R4.00 per share in April 2019 and a final dividend of R9.00 per share in September 2019. This underscores our commitment to pay competitive dividends.

We updated our dividend guiding principles and going forward will aim to pay 40% to 70% of annual dividends received from our group companies as ordinary dividends to ARM shareholders.

The capital allocation guiding principles are discussed in further detail in the financial review of this report.

MAINTAINING A SAFE AND HEALTHY WORK ENVIRONMENT

ARM is committed to maintaining a safe and healthy work environment for all employees. Regrettably two employees were fatally injured at our operations. Mr Thomas Maluleke, was injured in a fall-of-ground accident at Modikwa Mine in March 2019 and Mr Ishmael Malatji was injured in an accident involving trackless mobile machinery during loading operations at Two Rivers Mine in September 2019.

We again extend our sincere condolences to Mr Maluleke's and Mr Malatji's family, friends and colleagues.

¹ Adjusted headline earnings refer to reported headline earnings adjusted for a net fair value gain of R977 million on the ARM Coal loans in F2018 and net fair value and re-measurement gains on loans of R49 million in F2019.

Following the tragic loss of employee lives, we immediately reviewed safety procedures and standards and refreshed safety training at the PGM operations.

OPTIMISING OUR PORTFOLIO

In the review period, the following corporate actions were concluded which will add value to our portfolio:

» Decision to scale down Nkomati Mine

Nkomati Mine has reached the end of its economic life and the joint venture partners have agreed to scale down production at the open-pit mine and place it on care and maintenance from 30 September 2020 in preparation for closure. The underground mine was placed on care and maintenance in December 2015.

We recognise the impact that this decision has on employees, contactors, suppliers, government and host communities and have been managing the process of the scale down in a responsible manner. Engagements with the affected stakeholders are ongoing. Employees are being supported throughout the process with counselling, financial planning advice, outplacement services and reskilling as well as skills development.

The mine's environmental responsibilities will be executed in line with its environmental management programme and all relevant statutory requirements. R206 million (on a 100% basis) in restricted cash and guarantees has been provided for rehabilitation obligations. Final costs for rehabilitation will be assessed and finalised after completing a technical assessment.

» Acquisition of Machadodorp Works

ARM acquired Assore's 50% interest in Machadodorp Works for R113 million, effective from 28 February 2019. We will use its existing infrastructure to explore alternative smelting technology for manganese, chrome and other ores.

The focus of this alternative technology is to commercialise more efficient and cost-effective ways of smelting, particularly in terms of energy which is one of the most significant cost inputs in smelting.

INVESTING IN OUR EMPLOYEES

ARM has good relationships with our approximately 21 500 employees and contractors as well as their representative trade unions. Consistent with our commitment to ensure a healthy, diverse and appropriately skilled workforce we invested R239 million in F2019 in skills training across our operations. This equates to 8% of payroll. As in prior years, this training extended beyond our employees and included a range of initiatives supporting youth and women development in communities near our operations.

The skills training initiatives comprised 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 by increasing the pool of skills, especially among members of historically disadvantaged communities.

We are committed to ensuring that our workforce and management represent the country's demographics because an inclusive workforce enriches both our company and our country.

Our focus on transforming our workforce continues and is evidenced by 62% representation of historically disadvantaged South Africans in management.

PARTNERING WITH KEY STAKEHOLDERS

As well as creating value for shareholders, we are committed to improving the living conditions and standards of livings 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 F2019, our operations invested R175 million in corporate social responsibility initiatives prioritising women, youth, historically disadvantaged people and those living with disabilities, HIV and Aids.

We also contributed to the upliftment of disadvantaged persons living in rural and urban communities across South Africa through the ARM Broad-Based Economic Empowerment Trust (the "ARM Trust"). The trust works with kings, traditional leaders, religious and faith based organisations, representatives from government, business, trade union, women, youth, NGOs and other rural and urban communities to contribute to uplifting the living conditions and standards of living of poor and marginalised South Africans.

Despite ongoing local investment and inclusive engagement, the relationship between mining companies and host communities continues to come under strain as poor and marginalised South Africans become frustrated with countrywide unemployment, poverty and inequality. ARM is a member of the International Council on Mining and Metals ("ICMM") and the increased pressure and expectations by local communities for employment, procurement and other benefits is a global phenomenon. Increasingly community unrest related to these frustrations is affecting some mining operations in South Africa and other mining countries. We continue to work with our community forums, municipalities, the Department of Mineral Resources and Energy and other local and national stakeholders to find solutions for the challenges facing our host communities.

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THE SOUTH AFRICAN MINING INDUSTRY²

South Africa is experiencing several challenges including low growth, high unemployment and concerns about the financial and operational sustainability of key state-owned enterprises. Despite these challenges, the South African mining industry remains a crucial contributor to the South African economy. In the 2018 calendar year, the mining sector contributed R356 billion (or 7.3%) to gross domestic product (GDP) and exported R312 billion or 25% of the country's R1.25 trillion export sales. The industry employs approximately 454 000 people and paid over R127 billion in wages, salaries and benefits in the 2018 calendar year. Those employed by the industry in turn support an estimated 4.5 million dependants. Importantly, the industry is a major contributor to South Africa's skills development agenda, with an annual investment of over R7.5 billion into education, training and development for employees, non-employees, youth, women and communities at both basic and higher education levels.

As well as creating employment and contributing to GDP and the fiscus, the South African mining sector invested around 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 the gross fixed investment made by the South African mining industry slowed mainly due to a downturn in the commodity cycle, rapidly rising mining costs, uncertainty about the regulatory dispensation and the discussions on the mining charter between the government and the mining industry. This has improved over the past two years, with the industry's direct contribution to fixed investment rising to R93 billion in 2018 from R81 billion in the prior year.

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

ENSURING WE REMAIN RESPONSIBLE STEWARDS OF ENVIRONMENTAL RESOURCES

All our operations apply global good practice in managing scarce natural resources, in line with the sustainable development framework of the ICMM.

Our environmental initiatives focus on the responsible use of water, energy efficiency and reducing carbon emissions. Further details on our environmental management programmes appear in the operational reviews and in our 2019 sustainability report.

GOVERNANCE

Our board, inter alia, approves our strategy and oversees the execution of our strategy. The board also formulates and ensures that there are robust governance standards and that we conduct and operate our business ethically and in line with good global practice.

The range and depth of skills and expertise on our board has been invaluable as we navigate the current social, political, economic and environmental challenges and opportunities.

I would like to thank each of our directors for their ongoing commitment and important contributions to board.

During the year, Mr Kobus Möller resigned from the board to pursue other interests. I would like to thank Kobus for his contribution during his tenure on the board and wish him everything of the best.

RECOGNITION

The continued support and cooperation of our shareholders, employees and their representative organisations, host communities and all other stakeholders are deeply appreciated.

I am grateful to our staff and management for their hard work and sacrifices and for their commitment to making ARM a globally competitive company. In particular, I would like to thank Mike Schmidt for his leadership and the good work that he continues to do as the CEO of our world class management team.

We are committed to ensuring that ARM continues to be a globally competitive company that creates value for its shareholders and benefits all stakeholders.

Dr Patrice Motsepe

Executive chairman

11 October 2019

