



## 2019 INTEGRATED ANNUAL REPORT





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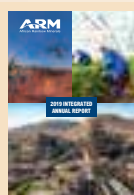
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### CONTACT DETAILS

IBC

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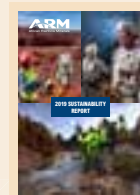
and additional material are available at [www.arm.co.za](http://www.arm.co.za)



2019 INTEGRATED ANNUAL REPORT



2019 ANNUAL FINANCIAL STATEMENTS



2019 SUSTAINABILITY REPORT



2019 CORPORATE GOVERNANCE REPORT



2019 KING IV™ 1 APPLICATION REGISTER



2019 MINERAL RESOURCES AND RESERVES REPORT

### REFERENCES TO 2019 SUITE OF REPORTS



2019 Integrated annual report



2019 Annual financial statements



2019 Sustainability report



2019 Mineral Resources and Mineral Reserves report



2019 Corporate governance report



King IV™ application register



[www.arm.co.za](http://www.arm.co.za)

All monetary values in this report are stated in South African Rand unless otherwise stated. Rounding may result in computational discrepancies on management and operational review tabulations.

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# ABOUT THIS REPORT



The integrated annual report is our primary communication with stakeholders. While the report is aimed at shareholders, potential investors and other providers of capital, financial information is balanced with non-financial information to give all stakeholders a better understanding of our business. Our broader stakeholders include employees, trade unions, host communities, customers, suppliers and the governments and regulators of countries in which we operate.

To present a complete view of the company, this report is published as part of a suite of reports and focuses on the most material matters affecting the sustainability of our business. This gives stakeholders the necessary information to properly assess ARM's strategy, performance, prospects risks and opportunities and value creation.

## Reporting scope and boundary

This report covers the period from 1 July 2018 to 30 June 2019, and follows a similar structure to the prior year Integrated annual reports. It provides an overview and discusses the performance of our operations in South Africa and Malaysia. Our sustainability objectives and performance are reported only for those operations where ARM has direct or joint management and exclude the ARM Coal, Sakura and Harmony operations.

The 2019 integrated annual report is supplemented by the 2019 annual financial statements, sustainability report, corporate governance report, King IV application register and mineral resources and mineral reserves report, all of which are available on our website: [www.arm.co.za](http://www.arm.co.za).

## Reporting principles and frameworks

We have considered the relevant statutory frameworks in preparing this report, including:

- » The Companies Act 71 of 2008 (as amended)
- » King Report™ on Governance for South Africa 2016 (King IV)
- » JSE Listings Requirements
- » All legislation, regulations and codes of practice applicable to the South African mining sector.

A comprehensive checklist of our application of the King IV principles is included on our website.

The financial information in this report and the annual financial statements have been prepared according to International Financial Reporting Standards (IFRS).

## Combined assurance

Certain material non-financial disclosures are included in the report. These have been externally assured for reliability and the assurance statement is included in our 2019 sustainability

report. For financial disclosure, the unqualified opinion of the independent external auditors appears on page 5 of the 2019 annual financial statements.

ARM's combined assurance model defines what constitutes appropriate assurance according to the six lines of assurance. A combined assurance report (see the 2019 corporate governance report) identifies potential gaps and duplication in assurance, and provides input on strengthening the control environment. The inter-relationship between ARM's enterprise risk management (ERM) processes, internal audit, external audit and related initiatives by specialists/subject-matter experts reinforces our comprehensive management assurance processes and reporting.

## Board approval

The ARM board of directors (the board) acknowledges its responsibility to ensure the integrity of this report. The audit and risk committee, which has oversight responsibility for the report, recommended it for approval to the board. The board confirms it has collectively assessed the report and believes it represents all material matters and presents fairly the company's integrated performance and ability to create value. The board has therefore approved the release of the 2019 integrated annual report.

**Dr Patrice Motsepe**  
Executive chairman

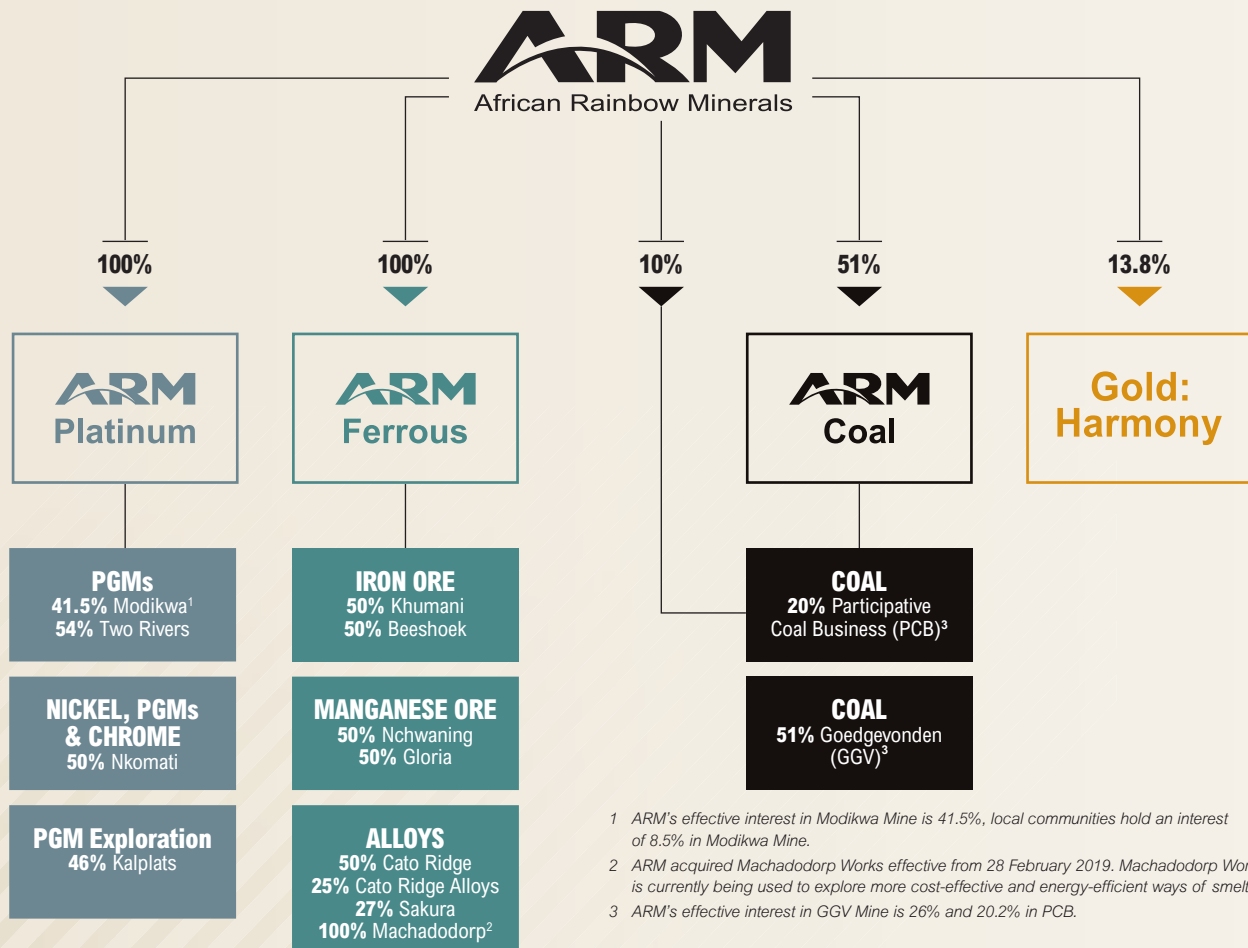
**Mike Schmidt**  
Chief executive officer

## We appreciate your feedback

In the interest of continuous improvement and fulfilling the information and engagement needs of our stakeholders, we welcome any feedback on the content and format of our reports. Please direct any feedback to the investor relations department (contact details on the inside back cover).

# STRUCTURE AND VALUE CONTRIBUTION

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## The metals and minerals ARM produces are essential to support many aspects of modern society

Iron ore, manganese and nickel are used in the production of steel. Crude steel is a key component in the infrastructure needed to sustain and support development of cities and communities. This includes hospitals and schools to improve health and education. Steel is not only essential in infrastructure development, but also in the production of machinery and equipment which is used in industries, which drive job creation and economic growth. Steel is also a critical part of water and energy distribution systems, agricultural irrigation, transport infrastructure, alternative energy systems and information and communication technology. Stainless steel too has many industrial and medical applications.

The metals and minerals ARM produces are also contributing to a reduction in carbon emissions. Platinum group metals (PGM) in vehicle catalytic converters reduce harmful emissions from motor vehicles supporting action to mitigate climate change. Hydrogen fuel cells are a promising source of clean energy that uses platinum to generate energy from hydrogen and oxygen, with water being the only emission.

Nickel and manganese are also used in certain types of lithium-ion energy storage technologies, which play a role in the growth in renewable energy and electromobility.

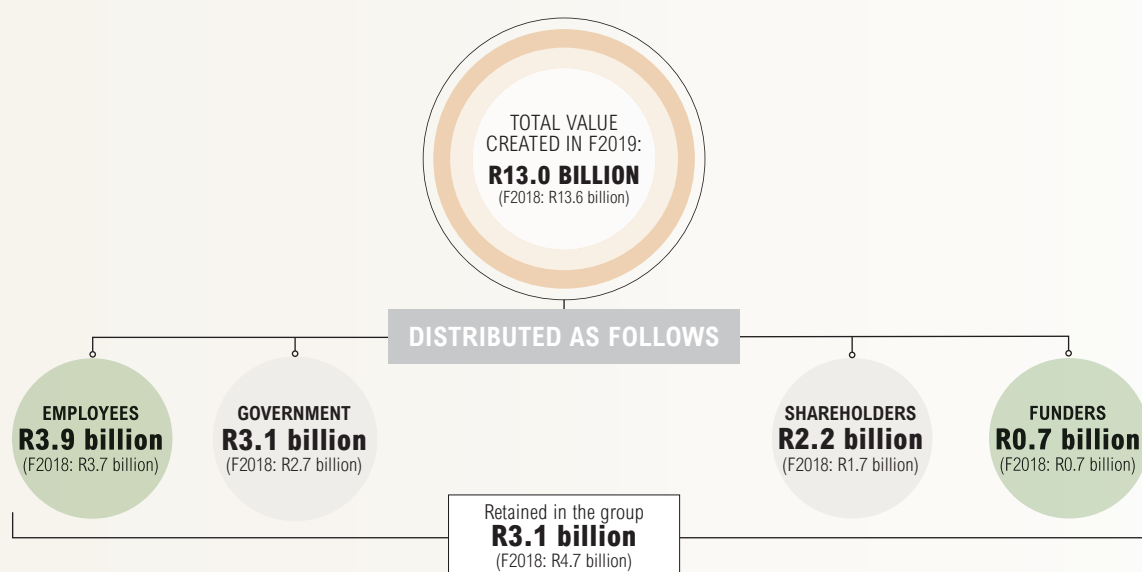
China's focus on addressing its pollution challenges through improved efficiencies in heavy industries has increased demand for higher quality ores, which produce lower emissions when processed. Our high-quality iron and manganese ores offer customers the ability to optimise production and reduce emissions. For example, use of lumpy iron ore in the steel making process reduces Scope 1 emissions associated with the sintering process.

## ARM's activities create value for our stakeholders in a variety of ways

ARM operations are located in some of the poorest and most remote parts of the country and provide employment opportunities, skills development and educational support in these areas. Infrastructure investments and support for social projects in local communities support socio-economic development and improve community sustainability.

## In F2019, ARM's activities created R13.0 billion in financial value (F2018: R13.6 billion)

Below is a summary of how the value we created was distributed to our various stakeholders.



## Contributions from ARM operations over the last five years (on a 100% basis) included:

**R9.6 billion**  
paid as taxes and royalties.

**R757 million**  
invested in community development.

Providing employment for  
**21 417**  
employees and contractors (as at 30 June 2019).

Improved HDSA representation in management from  
**51%** in F2015 to  
**62%** in F2019.

### R54 billion

paid in procurement. In the year to December 2018, 84% of services, 79% of capital equipment and 86% of consumables procured were allocated to HDSA suppliers.

Paid  
**R18.4 billion**  
to employees as salaries, wages and benefits.

Invested  
**R1.07 billion**  
in training initiatives to improve the skills of employees.

Provided  
**1 198**  
bursaries.

Provided adult education and training (AET) to  
**745** employees and **1 833** community members at ARM facilities since F2015, increasing their confidence and employability.

# WHERE WE OPERATE

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## Khumani

### Iron ore

- Open-pit mechanised mine

△ **14.5Mt iron ore**

**LOM** 21 years

**EMPL** 3 827

**LTIFR** 0.08

□ 60<sup>th</sup> percentile

**IAR** See page 64 for the ARM Ferrous operational review.

## Beeshoek

### Iron ore

- Open-pit mechanised mine

△ **3.5Mt iron ore**

**LOM** 7 years

**EMPL** 1 445

**LTIFR** 0.06

□ 60<sup>th</sup> percentile

**IAR** See page 64 for the ARM Ferrous operational review.

## Nchwaning and Gloria (collectively Black Rock)

### Manganese ore

- Underground mechanised mine

△ **3.4Mt manganese ore**

**LOM** >30 years

**EMPL** 5 528

**LTIFR** 0.33

□ 40<sup>th</sup> percentile

**IAR** See page 64 for the ARM Ferrous operational review.

## Cato Ridge Works

### Ferromanganese

- Smelter

△ **206 000t ferromanganese**

**EMPL** 552

**LTIFR** 0

□ 70<sup>th</sup> percentile

**IAR** See page 64 for the ARM Ferrous operational review.

## Sakura Ferroalloys

### Ferromanganese

- Smelter

△ **249 000t ferromanganese**

**LOM** >30 years

**EMPL** Not reported by ARM

**LTIFR** Not reported by ARM

□ 45<sup>th</sup> percentile

**IAR** See page 64 for the ARM Ferrous operational review.

## Two Rivers

### 6E PGM metals

- Underground mechanised mine

△ **313 000 6E PGM oz**

**LOM** >30 years

**EMPL** 3 261

**LTIFR** 0.47

□ 40<sup>th</sup> percentile

**IAR** See page 52 for the ARM Platinum operational review.





- ARM Platinum
- ARM Ferrous
- ARM Coal

#### Modikwa

##### 6E PGM metals

- ☐ Underground mine

△ **307 000 6E PGM oz**

**LOM** >30 years

**EMPL** 4 439

**LTIFR** 0.90

- ☐ 55<sup>th</sup> percentile

**IAR** See page 52 for the ARM Platinum operational review.

#### Nkomati

##### Nickel (by-products including PGM, chrome, copper and cobalt)

- ☐ Open-pit mechanised mine

△ **14 200t nickel, 110 000 oz PGM, 443 000t chrome, 7 000t copper, 820t cobalt**

**LOM** 1 year

**EMPL** 1 994

**LTIFR** 0.07

- ☐ 75<sup>th</sup> percentile

**IAR** See page 52 for the ARM Platinum operational review.

#### Goedevonden (GGV)

##### Thermal coal

- ☐ Open-pit mechanised mine

△ **7.0Mt saleable thermal coal**

**LOM** 21 years

**EMPL** Not reported by ARM

**LTIFR** Not reported by ARM

- ☐ 35<sup>th</sup> percentile

**IAR** See page 78 for the ARM Coal operational review.

#### Participative Coal Business (PCB)

##### Thermal coal

- ☐ Open-pit and underground mechanised mine

△ **15.3Mt saleable thermal coal**

**LOM** 20 years

**EMPL** Not reported by ARM

**LTIFR** Not reported by ARM

- ☐ 30<sup>th</sup> percentile

**IAR** See page 78 for the ARM Coal operational review.

- Mt** Million tonnes
- PGM** platinum group metals
- ☐ Mine/operation type
- △ F2019 approximate production volumes on a 100% basis
- LOM** Approximate life-of-mine
- EMPL** Number of employees at 30 June 2019 (full-time employees and contractors)
- LTIFR** F2019 lost-time injury-frequency rate (LTIFR) per 200 000 man-hours
- ☐ Position on the global commodity unit cost curve (F2019)



# HOW WE CREATE VALUE

(BUSINESS MODEL)

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## INPUTS

### FINANCIAL CAPITAL

Our assets, cash flow from operations and funding from shareholders and other providers of capital.

IAR  Refer to the financial review on pages 32 to 47.

### PEOPLE

Our people are crucial to our ability create value for all stakeholders. We aim to maintain a safe, healthy and non-discriminatory work environment for all employees and ensure our operations are adequately resourced with skilled, engaged and motivated employees.

IAR  SR  See section on ensuring a safe, healthy and appropriately skilled workforce in operational reviews and 2019 sustainability report.

### RELATIONSHIPS

Sound relationships with all stakeholders are key to the sustainability of our business. In particular, relationships with our employees, trade unions, host communities, regional and national governments and regulators support our social licence to operate.

IAR  SR  Refer to the section on maintaining our social licence to operate in the operational reviews and the 2019 sustainability report.

### NATURAL CAPITAL

The mineral resources and reserves in our portfolio are the largest part of our natural capital. Other natural resources we use to extract and process the minerals we mine include energy, water and land.

IAR  SR  Refer to the section on ensuring responsible stewardship of natural resources in the operational reviews and the 2019 sustainability report.

### INNOVATION

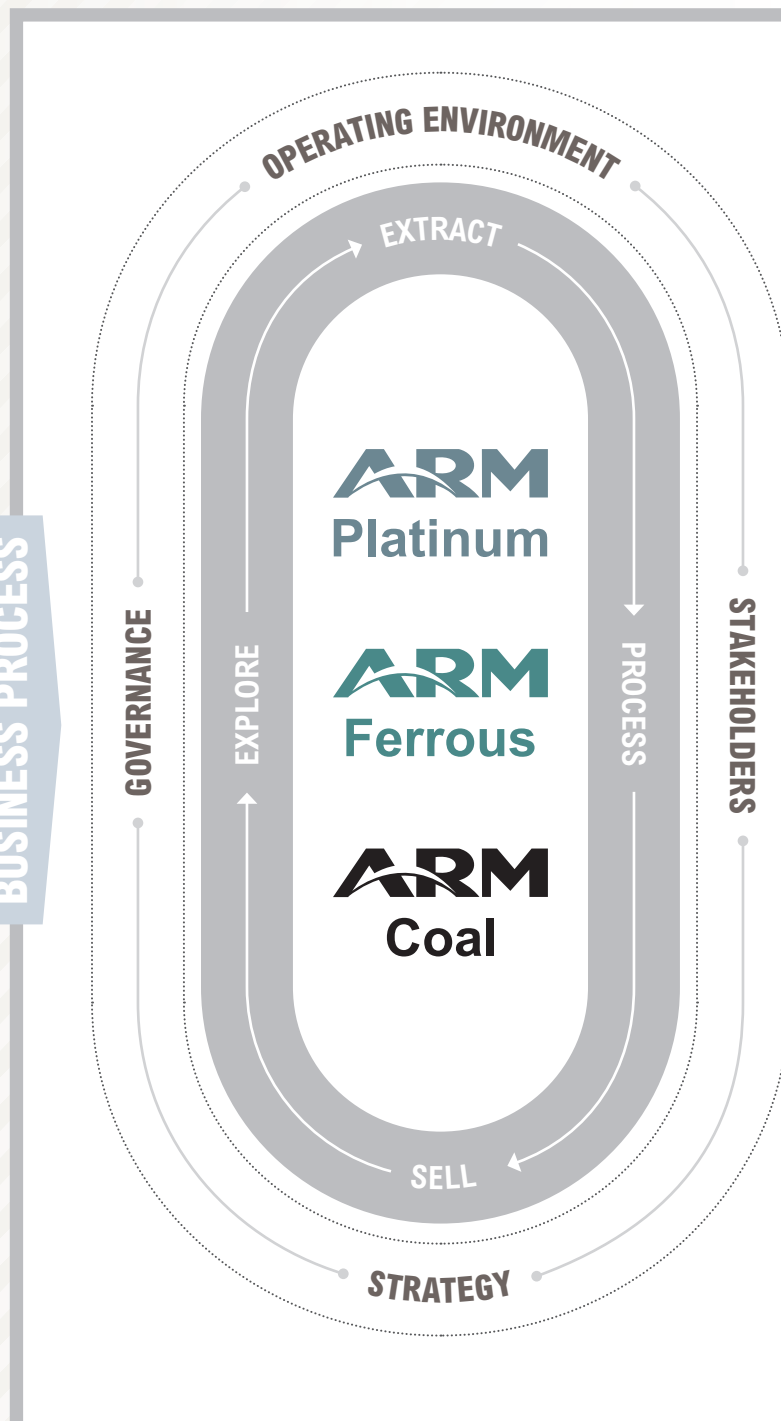
Access to and investment in innovation and technology allows ARM to continuously improve production processes. Mining is a technology intensive industry. The knowledge, experience and expertise that we have among our subject matter experts is key in differentiating ARM. Our innovation also includes information technology systems, risk management processes, and research and development.

CGR  Refer to the information technology report in the 2019 Corporate governance report.

### MANUFACTURED ASSETS

Our operations rely on above and below-ground infrastructure and specialised equipment to extract and process minerals. Efficient use of this infrastructure and equipment is crucial to cost-effective extraction and processing of our minerals.

## BUSINESS PROCESS





## OUTPUTS

### PRODUCTION

730 000 6E PGM ounces

17.8Mt iron ore

3.4Mt manganese alloys

455 000t ferromanganese

22.3Mt thermal coal

662 000t chrome concentrate

14 200t nickel

7 200t copper

820t cobalt

Consumption of energy  
generated from fossil fuels  
and hydro

CO<sub>2</sub> emitted

Water consumed

Waste generated

## OUTCOMES

### FINANCIAL CAPITAL

Headline earnings:

**R5 226 million**

(F2018: R4 814 million)

Segmental EBITDA: R9 336 million  
(F2018: R8 016 million)

Net cash to equity ratio: 9% (F2018: 4%)

Dividends paid: R2 206 million  
(F2018: R1 714 million)

Return on capital employed: 18%  
(F2018: 19%)

### PEOPLE

**One fatality**

at our managed operations in F2019<sup>1</sup>  
(F2018: 1)

LTIFR of **0.42** per 200 000 man-hours  
(F2018: 0.38 per 200 000 man-hours)

### RELATIONSHIPS

**R175 million** invested  
in host communities through corporate  
social responsibility initiatives  
(F2018: R156 million)

Jobs created through local economic  
development and enterprise supplier  
development investments

### NATURAL CAPITAL

**7% increase**

in scope 1 and 2 carbon emissions

Concurrent rehabilitation of land

Responsible waste disposal

Implementation of a

**detailed water  
accounting  
framework** completed.

19% increase in water withdrawals  
reported, with a 70% re-use efficiency

### INNOVATION

New patents registered for alternative  
smelting technology

### MANUFACTURED ASSETS

**R3 242 million**

in capital expenditure (segmental basis)  
(F2018: R2 464 million)

## TRADE-OFFS

Financial capital is prudently allocated to maintain the appropriate balance between corporate sustainability and stakeholder benefit.

Disciplined capital allocation ensures our continued growth, and supports our ability to add value to all our other capitals.

Safety/health and skills development underpin productivity, so while our top priorities are to keep our people safe, healthy and reaching their full potential, ARM benefits from higher productivity.

Our communities grant our social licence to operate. We invest significantly to address real community needs and contribute to improving the lives of those living in our host communities.

Our investment in natural capital utilises financial capital and is essential to protect resources for future generations.

Innovation and efficiency underpin the profitability/financial viability of modern mining operations, and attract investment that, in turn, ensures sustainability.

<sup>1</sup> An employee was fatally injured at the Two Rivers mine in September 2019, after the financial year end.

# OPERATING ENVIRONMENT

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## Macro environment

Global economic growth is forecast to weaken more than expected in 2019, reflecting rising trade tensions between the United States and China and rising government debt in various countries as well as deeper-than-expected slowdowns in several major economies. Sluggish global growth is having a knock-on effect on emerging economies, such as South Africa, manifesting in subdued investment growth in addition to structural constraints.

ARM's diverse products are sold into different markets:

- » Iron ore and manganese ore are marketed and sold on behalf of Assmang by Assore primarily to steel producers in **China, Japan, Malaysia, India** and **Europe**. A relatively smaller proportion is sold **locally**
- » Manganese alloys are mainly sold into the United States of America, India and Taiwan
- » PGMs are sold in concentrate form to local smelters and refineries
- » Coal is marketed and sold by our joint-venture partners, Glencore, to various markets, mainly **China and India**
- » Nickel produced at Nkomati Mine is sold in concentrate form to a subsidiary of Norilsk Nickel (Metal Trade Overseas)
- » Chrome concentrate, produced as a by-product at Nkomati and Two Rivers mines, is sold locally or exported.

This effectively spreads the risk of selling a single commodity to a single market, although it does expose us to various market and commodity dynamics. These are closely monitored to enable us to anticipate and respond effectively.

Regionally, for our key markets, the latest World Bank report (Global Economic Prospects June 2019) expects slowing growth in East Asia and Pacific, which includes China and South Korea to 5.9% this year – the first time in over 20 years that growth in this region is expected to dip below 6%. In contrast, the World Bank forecasts solid growth in South Asia, with India projected to accelerate to 7.5% in 2019 and 2020.

## South African operating environment

Escalating global trade and geopolitical tensions are exacerbating pressures on the South African economy, with GDP contracting 3.2% in the first quarter of calendar year 2019 (C2019) but rebounding by a similar percentage in the second quarter. The South African Reserve Bank believes the sharp decline was primarily caused by electricity shortages and strikes that led to broader weakness in investment, household consumption and employment growth. The Reserve Bank revised its GDP forecast for 2019 down to 0.6%, cautioning that investment prospects would remain limited in the absence of structural reforms, while any escalation in trade tensions could have further negative impacts. GDP expectations for South Africa according to the World Bank are more modest at 1.5% in 2020, and more at risk to external and internal factors.

## Rand versus US Dollar exchange rate

The Rand has weakened against the US Dollar along with other emerging market currencies. Much of the Rand's weakness has been as a result of thin, illiquid trading conditions amid continued trade talks between the US and China as well as developments in US monetary policy. In addition, domestic issues including uncertainty around government's reform plans and concerns about key government state-owned entities are contributing to Rand volatility.

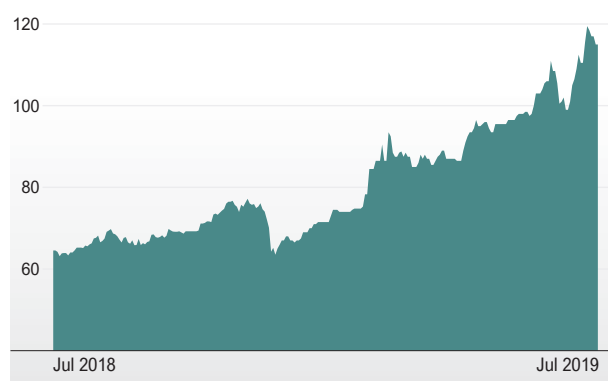


## Summary of key commodity markets

### Iron ore (ARM Ferrous)

Iron ore prices rallied strongly in F2019, fuelled by supply disruptions from major producers (mainly the tailings dam incident at Vale's Brazil operations). Chinese steel production has also surprised on the upside particularly in the second half of the financial year further supporting prices. Supply is expected to normalise into F2020 putting downward pressure on prices.

#### 62% IRON ORE FINES PRICE CIF CHINA (US\$/t)

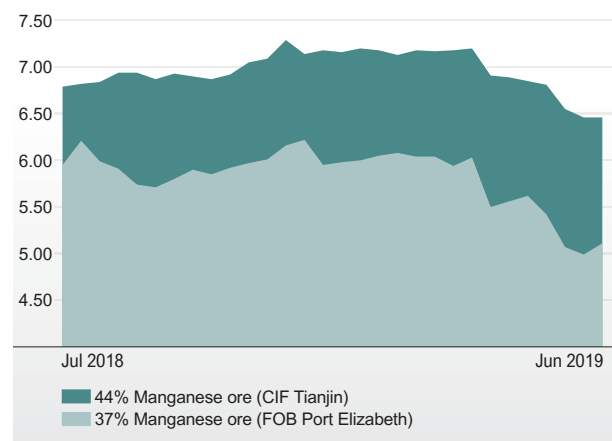


### Manganese ore (ARM Ferrous)

Manganese ore prices have trended downwards since the beginning of F2019, dropping 35% from their peak in F2018. Given the still healthy margins for most producers at current spot prices, some capacity expansions are planned, which could put pressure on prices.

With better-than-expected steel production in China (discussed above) and stricter steel production standards (which have resulted in increased intensity of use per tonne of steel), downside risk in the manganese ore market is on the supply side.

#### 44% MANGANESE ORE AND 37% MANGANESE ORE PRICES (US\$/mtu)



### PGM (ARM Platinum)

Given the numerous end uses for PGM, their price movements correlate to global manufacturing activity, which in turn shapes the dynamics of supply and demand.

The platinum price has largely drifted sideways in F2019. Palladium ended the year around 60% higher despite the slowdown in global manufacturing. Because PGMs, particularly palladium and rhodium are essential elements in the autocatalysts that reduce vehicle emissions, tightening

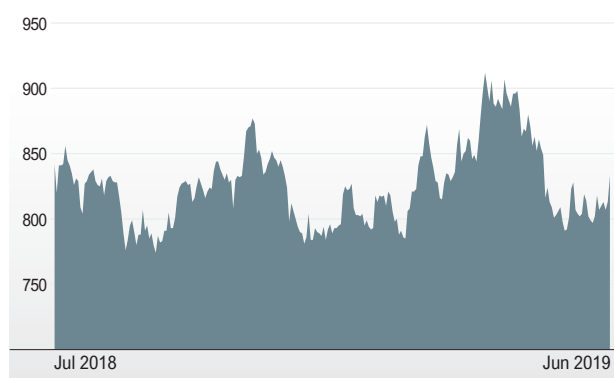


## OPERATING ENVIRONMENT continued

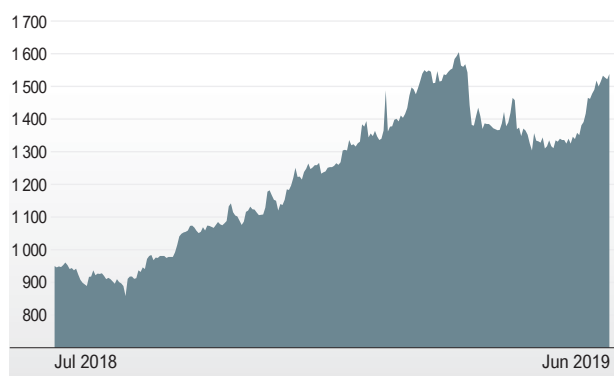
environmental regulations support demand. There is a limited basis for platinum prices to recover materially in the short term as diesel auto demand in Europe continues to fall and jewellery demand in China remains muted.

The longer-term outlook for PGM remains stable. In addition to autocatalytic converters, research continues into technologies supporting clean mobility, such as fuel cells.

#### PLATINUM SPOT PRICE (US\$/oz)



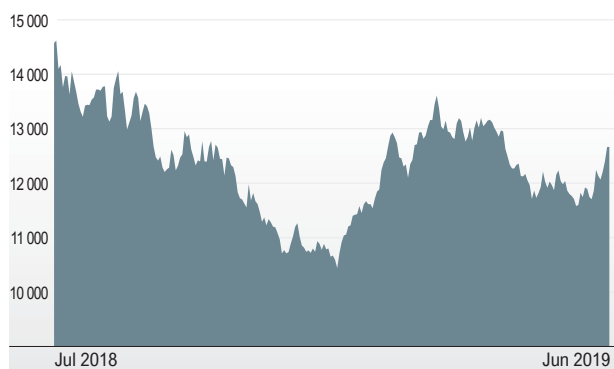
#### PALLADIUM SPOT PRICE (US\$/oz)



#### Nickel (ARM Platinum)

The 2019 rally in the nickel spot price reflects fundamental demand for the metal from electric vehicle battery producers, although concerns have been raised about the sustainability of higher prices in the short to medium term.

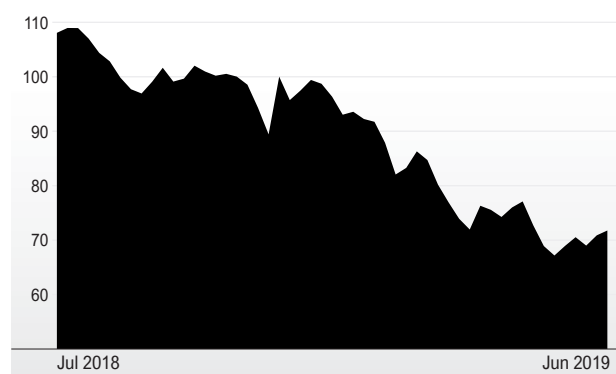
#### NICKEL SPOT PRICE (US\$/t)



#### Thermal coal (ARM Coal)

Thermal coal prices have declined rapidly in the past year. The magnitude and speed of the fall in seaborne thermal coal prices has focused the market's attention on demand, supply and price risks after a long period of complacency. With capacity in the seaborne thermal market currently exceeding demand, any impact of constrained supply, as a result of underinvestment in thermal coal expansions due to climate change concerns is not expected to be felt for at least the next two to three years.

#### API 4 THERMAL COAL PRICE FOB Richards Bay (US\$/t)



#### Outlook

Global GDP growth remains at risk as concerns about a slowdown in China's growth and uncertainty about the US-China trade negotiations persist. Other global events driving sentiment include uncertainty over Brexit negotiations, geopolitical tensions between the US and Iran and central bank monetary policy responses. These risks continue to impact commodity prices, currencies and equity markets globally, increasing volatility.

Trends in addressing pollution concerns, particularly in China and tightening emission regulations globally are expected to continue supporting demand for high-quality bulk commodities, positioning ARM's high-grade iron ore and manganese ore well. In the medium to long term, global emission reduction initiatives and the move to cleaner mobility and energy are expected to put pressure on demand for PGMs and thermal coal but create opportunities for other commodities in our portfolio, including bulk and base metals. PGM producers continue to conduct research that will enable PGMs to be part of the clean mobility solution including fuel cell technology.



# KEY STAKEHOLDERS

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We recognise the value of proactively engaging with key stakeholders. We have an interdependent relationship with our stakeholders and appreciate that our ability to create long-term sustainable value depends on our ability to create value for others.

Our success and the sustainability of the operations rely on balancing the needs, interests and expectations of stakeholders with those of the group in a dynamic and ongoing process. Interactions with our stakeholders provide a broader context, inform our most material matters, risks and opportunities and provide input into the strategy and long-term direction of ARM.

We define stakeholders as those individuals or groups that have a material interest in, or are affected by our operations. The board is responsible for identifying stakeholders and developing appropriate strategies, while the social and ethics committee is responsible for monitoring stakeholder relationships.

We engage with stakeholders through both formal and informal interactions, at the corporate, divisional and operational level as appropriate to the stakeholder. The stakeholder communication policy, contained in the code of conduct, includes measurable outcomes for all engagements. The content of engagements is recorded in operational engagement reports to ensure that learnings are documented and shared effectively. Stakeholder

and community engagement are agenda items at operational, divisional and group meetings.

Senior executives responsible for stakeholder engagement include the executive chairman, CEO, finance director, divisional chief executives, executive: corporate affairs and head of investor relations, executive: compliance and stakeholder relations, executive: sustainable development and divisional senior management.



## Key stakeholder concerns and ARM responses

### Shareholders, potential shareholders, analysts and other investors

HOW WE ENGAGE	ISSUES RAISED	RESPONSE
<ul style="list-style-type: none"> <li>» Annual general meeting. Decisions taken at shareholder meetings are disclosed on the company's website following the meetings</li> <li>» A comprehensive investor relations programme to communicate with domestic and international shareholders, fund managers and investment analysts. This includes one-on-one meetings with institutional investors in South Africa and internationally through roadshows after interim and provisional results</li> <li>» Conferences</li> <li>» ARM's website provides updates on the company's operations, financial performance and other information</li> <li>» Integrated annual report and the accompanying suite of reports.</li> </ul>	<ul style="list-style-type: none"> <li>» Growth</li> <li>» Unit cost performance</li> <li>» Capital allocation</li> <li>» Labour relations</li> <li>» Dividends</li> <li>» Share price performance</li> <li>» Environmental, social and governance (ESG) issues.</li> </ul>	<ul style="list-style-type: none"> <li>» Transparent, comprehensive and objective communications</li> <li>» Strategic focus on operating assets efficiently and disciplined allocation of capital</li> <li>» ARM's investor relations department communicates with institutional shareholders, the investment community and the media</li> <li>» Discussions with JV partners and management to raise awareness of the concerns and expectations of analysts and fund managers</li> <li>» Regular meetings, promoting open communication and transparency</li> <li>» Summaries of the decisions taken at shareholders' meetings are disclosed on the company's website following the meetings.</li> </ul>

### Bankers, insurers and funders

HOW WE ENGAGE	ISSUES RAISED	RESPONSE
<ul style="list-style-type: none"> <li>» Ongoing maintenance of relationships through meetings and general discussions with bankers and insurance managers</li> <li>» Annual ARM insurance market visit to international and local markets.</li> </ul>	<ul style="list-style-type: none"> <li>» Liquidity</li> <li>» Solvency</li> <li>» Funding</li> <li>» Insurance management.</li> </ul>	<ul style="list-style-type: none"> <li>» Responsible management of ARM's financial position to ensure that it continues to meet its financial needs</li> <li>» A comprehensive risk financing and transfer programme is in place.</li> </ul>

### Joint venture partners

HOW WE ENGAGE	ISSUES RAISED	RESPONSE
<ul style="list-style-type: none"> <li>» Ongoing management interaction during the ordinary course of business</li> <li>» Monthly executive management and quarterly board meetings.</li> </ul>	<ul style="list-style-type: none"> <li>» Sustainable development</li> <li>» Financial performance</li> <li>» Operational performance</li> <li>» Equitable treatment</li> <li>» Operational strategy.</li> </ul>	<ul style="list-style-type: none"> <li>» ARM holds itself to the highest ethical and governance standards in dealings with all stakeholders, including joint venture partners.</li> </ul>

### Employees and organised labour

HOW WE ENGAGE	ISSUES RAISED	RESPONSE
<ul style="list-style-type: none"> <li>» Regular performance reviews and feedback</li> <li>» Annual internal results presentation</li> <li>» Regular internal roadshows</li> <li>» Annual employee surveys</li> <li>» Company intranet and website</li> <li>» Monthly shop steward meetings</li> <li>» Other meetings with unions as required</li> <li>» Wage negotiations.</li> </ul>	<ul style="list-style-type: none"> <li>» Remuneration</li> <li>» Training</li> <li>» Health and safety</li> <li>» Transformation.</li> </ul>	<ul style="list-style-type: none"> <li>» Human resources strategies aim to make ARM an employer of choice, including maintaining good relationships with unions</li> <li>» Commitment to fair treatment and remuneration of employees</li> <li>» Focus on skills development and career-planning programmes to assist employees to develop to their full potential</li> <li>» Recognition agreements with one or more unions where the required representation levels are reached.</li> </ul>



## KEY STAKEHOLDER CONCERNS AND ARM RESPONSES continued

**Communities, civil society and non-governmental organisations**

HOW WE ENGAGE	ISSUES RAISED	RESPONSE
<ul style="list-style-type: none"> <li>» Specialised community discussions/ meetings to understand their specific concerns</li> <li>» Social investment forums discuss investment in communities surrounding the operations</li> <li>» Monthly/quarterly meetings are held to discuss Local Economic Development (LED) and Corporate Social Investment (CSI) projects</li> <li>» Future Forums</li> <li>» Attendance registers and minutes of these meetings are kept</li> <li>» The ARM Trust</li> <li>» Consultations with interested and affected parties for changes or expansions to current operations in terms of the Regulations of the National Environmental Management Act (NEMA) and other relevant legislation</li> <li>» Community open days.</li> </ul>	<ul style="list-style-type: none"> <li>» Community needs, including socio-economic development, infrastructure development and employment</li> <li>» Status of social projects, operational changes and expansions</li> <li>» Environmental issues affecting communities</li> <li>» Employment from local communities</li> <li>» Service delivery challenges</li> <li>» Transformation.</li> </ul>	<ul style="list-style-type: none"> <li>» Engagement with communities at specialised discussions/meetings to understand their specific concerns</li> <li>» Attendance registers and minutes of engagement meetings</li> <li>» Community open days support information sharing and relationship building</li> <li>» ARM Trust invests in the upliftment of rural communities throughout South Africa by partnering with traditional and other community leaders</li> <li>» Changes or expansions to our current operations require engagement with interested and affected parties through stakeholder consultation processes as prescribed by NEMA and other relevant legislation.</li> </ul>

**Government**

HOW WE ENGAGE	ISSUES RAISED	RESPONSE
<ul style="list-style-type: none"> <li>» ARM engages local and provincial government with respect to local economic development (LED) projects, licences and compliance with the relevant safety and environmental legislation</li> <li>» ARM also engages with national government on matters of policy-making as required</li> <li>» Regular reports are submitted by the operations on socio-economic development (SED) projects</li> <li>» Annual Mining Charter Scorecard reports are submitted to the DMRE by each mine</li> <li>» dti annual audit for BEE verification</li> <li>» A workplace skills plan is submitted to the Mining Qualifications Authority (MQA) annually</li> <li>» Representation on various industry bodies that engage with government.</li> </ul>	<ul style="list-style-type: none"> <li>» Social investment</li> <li>» Health and safety</li> <li>» Environmental management</li> <li>» Transformation</li> <li>» Compliance with the dti Codes of Good Practice and Mining Charter</li> <li>» Regular progress reports and updates.</li> </ul>	<ul style="list-style-type: none"> <li>» Engagements with local and provincial government with respect to LED projects, licences and compliance with relevant safety and environmental legislation</li> <li>» Engagements with national government on matters of policy-making as required</li> <li>» Regular reports are submitted by the operations on SED projects</li> <li>» Annual Mining Charter Scorecard reports are submitted to the Department of Mineral Resources and Energy (DMRE) by each mine.</li> </ul>

**Industry associations\***

HOW WE ENGAGE	ISSUES RAISED	RESPONSE
<ul style="list-style-type: none"> <li>» Regular scheduled association meetings.</li> </ul>	<ul style="list-style-type: none"> <li>» Sustainable development</li> <li>» Labour issues</li> <li>» Financial sustainability</li> <li>» Implementation of best practice</li> <li>» Industry-specific issues</li> <li>» Changes in legislation.</li> </ul>	<ul style="list-style-type: none"> <li>» Representation in various executive and other roles in industry associations to engage and give input on various industry issues and communicate with industry and government stakeholders.</li> </ul>

\* Includes the Minerals Council South Africa, International Council on Mining and Metals, Ferro Alloy Producers' Association, Association of Mine Managers of South Africa, Association of Resident Engineers, Business Unity South Africa, Water User Associations and the Energy Intensive Users Group.

## Customers

HOW WE ENGAGE	ISSUES RAISED	RESPONSE
<ul style="list-style-type: none"> <li>» Continual interactions in the ordinary course of business</li> <li>» Annual contractual negotiations</li> <li>» Regular service level agreement renewals.</li> </ul>	<ul style="list-style-type: none"> <li>» Product quality</li> <li>» Timing of product delivery</li> <li>» Sustainability issues.</li> </ul>	<ul style="list-style-type: none"> <li>» Processes are in place to ensure consistency of product quality</li> <li>» ARM contracts with logistics and freight service providers, including Transnet.</li> </ul>

## Suppliers and local business

HOW WE ENGAGE	ISSUES RAISED	RESPONSE
<ul style="list-style-type: none"> <li>» Continual interactions in the ordinary course of business</li> <li>» Annual contractual negotiations</li> <li>» Regular service level agreement renewals</li> <li>» Scheduled meetings with local business.</li> </ul>	<ul style="list-style-type: none"> <li>» Local economic development</li> <li>» Industry issues</li> <li>» Fair payment terms</li> <li>» Fair treatment</li> <li>» Valid BEE certification</li> <li>» Ethics</li> <li>» Sustainability issues.</li> </ul>	<ul style="list-style-type: none"> <li>» Support for local enterprise development through our community social responsibility (CSR) initiatives</li> <li>» Payment terms align with industry standards</li> <li>» ARM operates ethically and does not tolerate unfair discrimination</li> <li>» ARM requires valid BEE certificates to support transformation in its supply chain.</li> </ul>

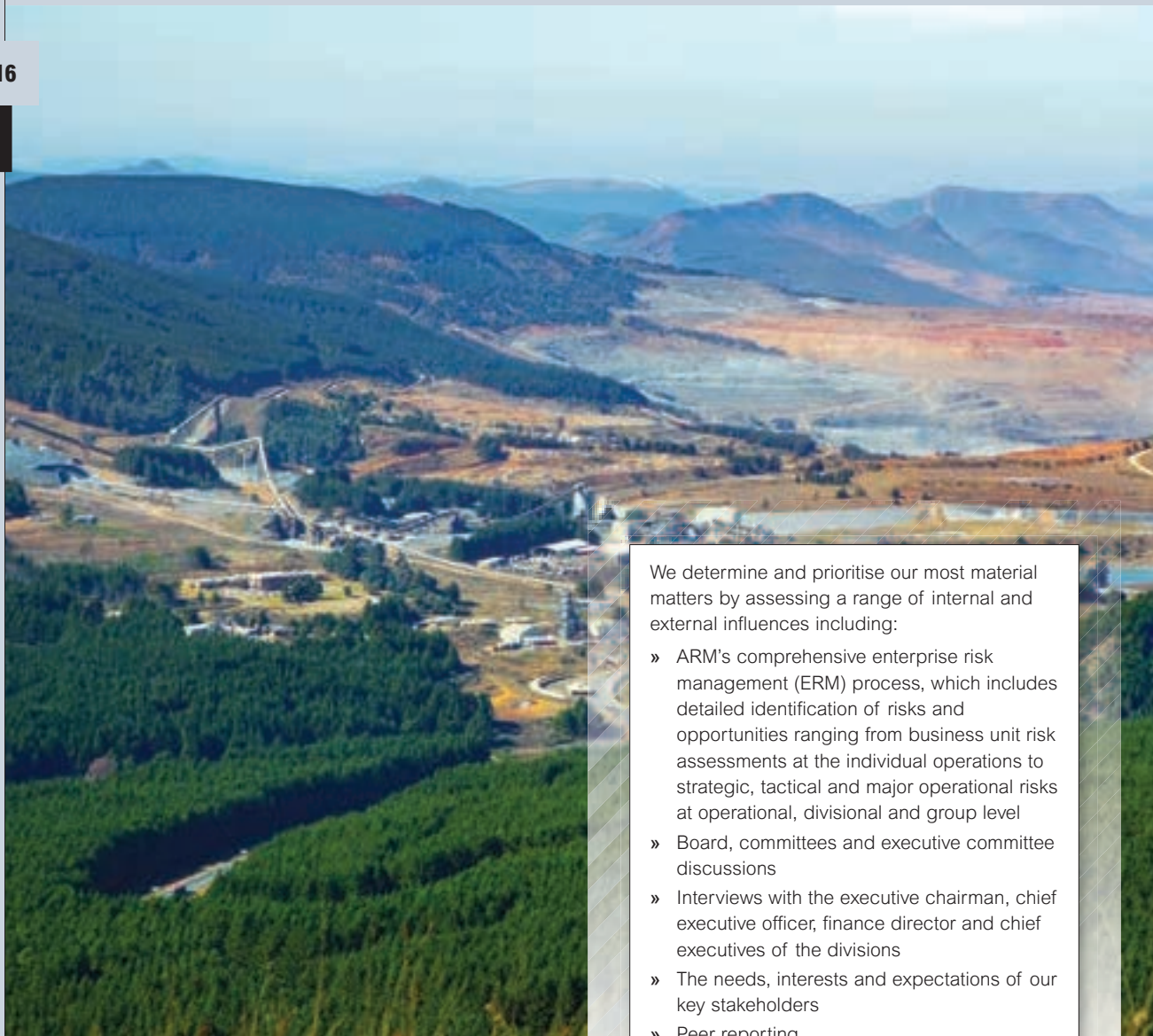
## Media

HOW WE ENGAGE	ISSUES RAISED	RESPONSE
<ul style="list-style-type: none"> <li>» One-on-one interviews</li> <li>» Press releases</li> <li>» Stock Exchange News Service (SENS) announcements</li> <li>» Media contact function on the company website</li> <li>» Publications on the ARM website.</li> </ul>	<ul style="list-style-type: none"> <li>» Topical issues as they arise.</li> </ul>	<ul style="list-style-type: none"> <li>» ARM's investor relations department communicates with the investment community and the media, and facilitates access to information and management where possible.</li> </ul>



# MATERIAL MATTERS

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ARM's material matters are determined at board, executive and operational levels by considering the financial and non-financial risks, opportunities and other factors that affect our strategy, performance, prospects, governance and value creation. These are matters with the greatest potential impact on stakeholders and our ability to create long-term sustainable value.

We determine and prioritise our most material matters by assessing a range of internal and external influences including:

- » ARM's comprehensive enterprise risk management (ERM) process, which includes detailed identification of risks and opportunities ranging from business unit risk assessments at the individual operations to strategic, tactical and major operational risks at operational, divisional and group level
- » Board, committees and executive committee discussions
- » Interviews with the executive chairman, chief executive officer, finance director and chief executives of the divisions
- » The needs, interests and expectations of our key stakeholders
- » Peer reporting
- » Guidelines and frameworks
- » Legislation
- » Industry initiatives
- » Media monitoring.

In F2019, material matters were reviewed against board and executive committee deliberations, feedback from formal and informal engagements with stakeholders during the year, a review of media reports and peer analysis. The review concluded that the material matters reported in F2018 remained broadly relevant for the current reporting period although some of the components and descriptions have changed.





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



**Continuously improving operational performance**



**Ensuring a safe, healthy and appropriately skilled workforce**



**Maintaining our social licence to operate**



**Ensuring responsible stewardship of natural resources**

#### Components

- » Balancing growth and dividends within a robust and flexible financial position
- » Addressing loss-making and cash-negative operations.

#### F2019 responses

- » Capital allocation guiding principles were refined and a dividend formula was approved by the board
- » All operations were headline earnings positive except Nkomati Mine and Sakura Ferroalloys. A decision was taken to scale down Nkomati Mine and place it on care and maintenance
- » Sakura Ferroalloy is being negatively impacted by high input costs (particularly manganese ore and reductant prices). Various initiatives have been introduced to improve costs.

#### Components

- » High unit-cost production escalations across all operations
- » Consistency and security of water supply at the Northern Cape operations
- » Progressing the Black Rock Mine and Gloria modernisation projects on schedule and on time.

#### F2019 responses

- » Unit costs affected by production volume decreases and above-inflation diesel, electricity and labour cost increases
- » The Northern Cape operations continued to work with the Sedibeng Water Board and a capital user charge was agreed
- » Black Rock Mine and Gloria modernisation projects on schedule.

#### Components

- » Maintaining safety performance at all operations
- » Attracting and retaining key skills, particularly at Nkomati Mine.

#### F2019 responses

- » Initiatives implemented at all operations to improve safety
- » A decision was made to scale down Nkomati Mine; and retraining skills remains a challenge at this mine.

#### Components

- » Community unrest.

#### F2019 responses

- » Each operation continued to invest in host communities through social and labour plans, local economic development and corporate social investment. This investment spanned infrastructure, education, health, skills development and creating employment
- » ARM also continues to work with community forums, municipalities and government on community investment.

#### Components

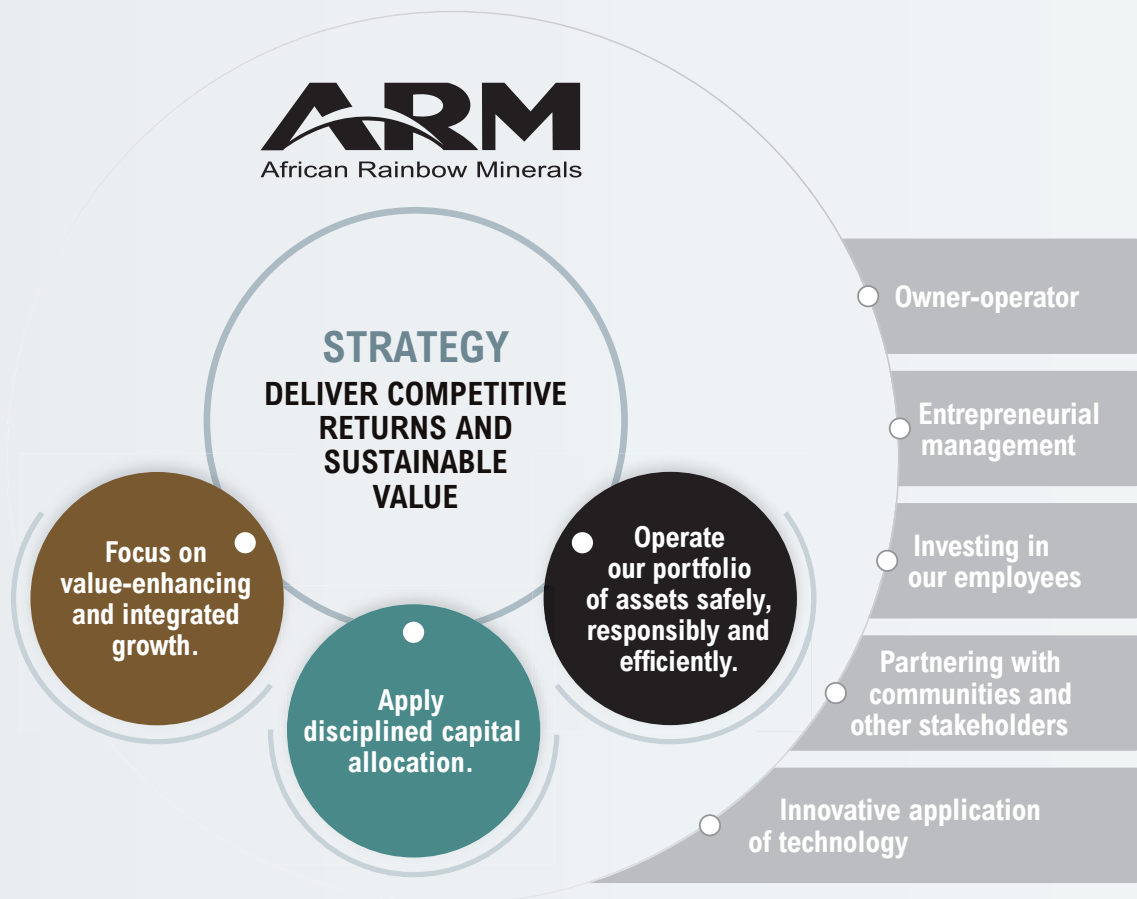
- » Climate change and reducing carbon emissions
- » Efficient energy use
- » Responsible water use
- » Safe and responsible management of tailings.

#### F2019 responses

- » Implementation of the water accounting framework finalised
- » External review and dam breach analysis of failings storage facilities have been commissioned.

# STRATEGY

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## Values

Our management style is supported by our values, which in turn guide the way we conduct our business.

Aim for **operational excellence**

Provide a **safe and healthy work environment for all our employees**

Maintain a **non-discriminatory workplace**

## Strategy: Deliver competitive returns and sustainable value

<b>Strategic pillars</b>	<ul style="list-style-type: none"> <li>» Operate our portfolio of assets safely, responsibly and efficiently.</li> </ul>	<ul style="list-style-type: none"> <li>» Apply disciplined capital allocation.</li> </ul>	<ul style="list-style-type: none"> <li>» Focus on value-enhancing and integrated growth.</li> </ul>
<b>Strategic objectives</b>	<ul style="list-style-type: none"> <li>» Target below-inflation unit cost increases at all operations</li> <li>» Target all operations to be positioned below 50<sup>th</sup> percentile of each commodity's global cost curve.</li> </ul>	<ul style="list-style-type: none"> <li>» Balance investment in our existing business, growth and dividends in line with the capital allocation guiding principles, shown in the financial review from page 32.</li> </ul>	<ul style="list-style-type: none"> <li>» Explore mergers and acquisition opportunities</li> <li>» Research integration opportunities in improved energy-efficient smelting technology.</li> </ul>
<b>How</b>	<ul style="list-style-type: none"> <li>» Continue to invest in sustaining our current operations</li> <li>» Invest in efficiency-improvement technologies</li> <li>» Explore improvements in plant efficiencies, grades and value-in-use to maximise prices realised for our commodities.</li> </ul>	<ul style="list-style-type: none"> <li>» Pay ordinary dividends to shareholders equal to approximately 40% – 70% of annual dividends received from our group of companies in line with our dividend guiding principles</li> <li>» Invest in growth opportunities that meet ARM's hurdle rates</li> <li>» Consider buying back our own shares if appropriate and benchmark investment opportunities under consideration to returns of a share buyback</li> <li>» Maintain a robust and flexible financial position.</li> </ul>	<ul style="list-style-type: none"> <li>» Pursuing merger and acquisition opportunities that meet hurdle rates</li> <li>» Pilot improved smelting technology and prove at commercial scale</li> <li>» Continue to assess the current portfolio for disposal opportunities or points of exit.</li> </ul>
<b>Measured by KPI</b>	<ul style="list-style-type: none"> <li>» Position on global margin curves</li> <li>» Unit cost increases at each operation relative to mining inflation.</li> </ul>	<ul style="list-style-type: none"> <li>» Dividend per share</li> <li>» Net debt to equity ratio</li> <li>» Internal rate of return for share buyback</li> <li>» Pre-defined minimum hurdle rates as described in the capital allocation guiding principles model.</li> </ul>	<ul style="list-style-type: none"> <li>» Internal rate of return</li> <li>» Production volumes from pilot to commercial scale of smelting technology</li> <li>» Energy consumption in smelting process.</li> </ul>

Improve the **lives of those in the communities where we operate**

Work responsibly to **achieve balance between the economic, social and environmental aspects of our business**

Maintain the **highest standards of corporate governance**

**We do it better**



# RISKS AND OPPORTUNITIES

Managing risks and opportunities is an important business driver for us and our stakeholders. It is an entrenched discipline and recognised business management tool to enable sustainable value creation.

Outputs from successful risk management include more informed decisions, a learning organisation that does not repeat mistakes, full compliance and effective assurance. These in turn provide benefits from improved efficiency of operations and effective tactics.

To continuously improve the risk management process, we initiated a review of the company's current risk management methodology, processes, maturity and culture in April 2018.

A key output of this process has been the full alignment of the current risk methodology with ISO 31000, which is the International Standards Organization's standard for risk management. ISO 31000 is globally acknowledged as a leading risk management practice and is the most universally adopted risk management standard.

## Enhanced risk methodology

Developing an impact-rating scale required aligning ARM's strategy to the strategic factors through which we drive and measure business performance.

The risk-rating methodology links strategic factors to impact factors as follows:

### STRATEGIC INTENT FACTORS

Focus on the efficient allocation of capital

1 10

Improve our financial position

1 3 10

Maintain a safe and healthy work environment

10 2 5 6

Improve operational efficiencies and contain unit cost increases

10 1 4 5 6

Partner with and invest in our employees

7 8

Improve our relationships with key stakeholders

6 7 8

Remain responsible stewards of our environmental resources

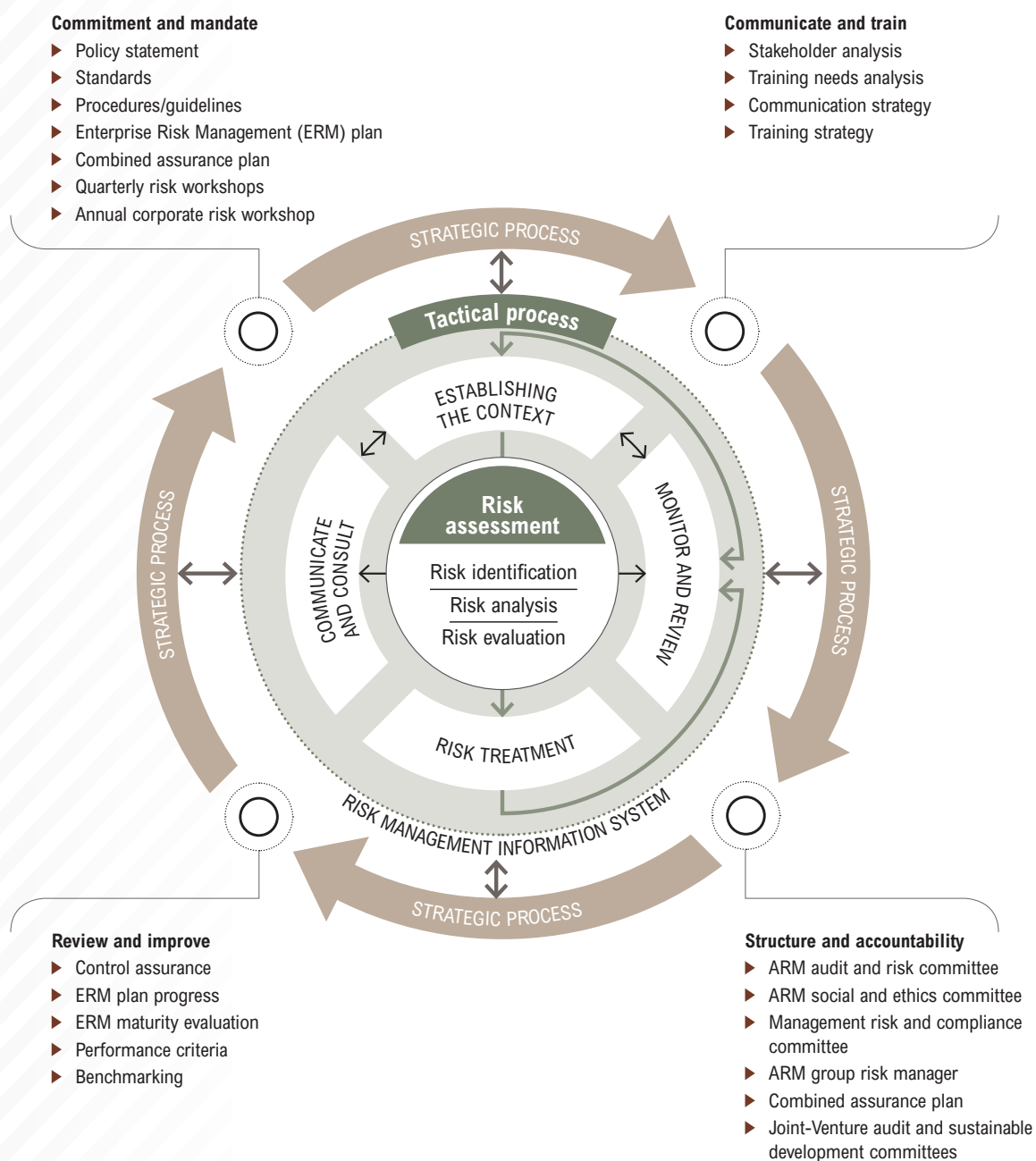
8 9

### IMPACT FACTORS

- |                      |                                    |
|----------------------|------------------------------------|
| 1 Financial          | 6 Industrial relations             |
| 2 Safety and health  | 7 Internal stakeholders            |
| 3 Project management | 8 External stakeholders/reputation |
| 4 Operations         | 9 Environment                      |
| 5 Compliance         | 10 Information technology (IT)     |



## A MATURE RISK MANAGEMENT UNIVERSE





# MANAGING OUR RISKS

Impact	Catastrophic					
	Critical			4 5	1	
	Moderate			9 10	2 3 6 7 8	
	Minor					
	Minimal					
		Rare	Unlikely	Possible	Likely	Almost certain
Likelihood						



RISK	STRATEGIC INTENT FACTOR	VALUE IMPACT	CONTROLS
<b>1 Non-achievement of operational efficiencies</b> Lack of delivery of productivity volume and unit cost targets which may include: <ul style="list-style-type: none"> <li>» Not achieving grade targets;</li> <li>» Mine planning with regard to changes in the ore body; and</li> <li>» High unit-cost increases.</li> </ul>	Improving operational efficiencies and containing unit-cost increases.	Affects our ability to produce efficiently.	<ul style="list-style-type: none"> <li>» Assessment of team productivity</li> <li>» Labour scheduling and miner requirement analysis</li> <li>» Operational optimisation</li> <li>» Supervision management, capability assessment and coaching programme.</li> </ul>
<b>2 Social unrest</b> There have been numerous incidents interrupting operations at both the platinum and Ferrous divisions but the impact is higher at the Eastern Limb operations.	Improving our relationship with key stakeholders.	Business interruption leads to a negative impact on profitability.	<ul style="list-style-type: none"> <li>» Community structures</li> <li>» Corporate social investment projects</li> <li>» Relationship building</li> <li>» Regular engagement with communities.</li> </ul>
<b>3 The security of supply of water in the Northern Cape</b> The key risk areas are water availability, uncertainty in the existing policy environment, the state of existing water infrastructure and the related socio-economic impacts.	Remain responsible stewards of our environmental resources.	Availability of water as well as socio-economic impact of water on surrounding communities.	<ul style="list-style-type: none"> <li>» Sedibeng water project</li> <li>» Water purification project</li> <li>» Water balance model.</li> </ul>
<b>4 Loss of social licence to operate</b> To maintain our social licence to operate, each operation invests and actively engages with host communities. Initiatives include: <ul style="list-style-type: none"> <li>» Social investment, enterprise development and preferential procurement;</li> <li>» Ensuring compliance with all transformational imperatives</li> <li>» Engaging with stakeholders to ensure responsiveness.</li> </ul> The key challenges are: <ul style="list-style-type: none"> <li>» High levels of unemployment</li> <li>» Socio-economic factors.</li> </ul>	Improving our relationship with key stakeholders.	Affects our ability to produce efficiently.	<ul style="list-style-type: none"> <li>» Adherence to legislative requirements</li> <li>» Proactive management of the B-BBEE scorecard</li> <li>» Social and labour planning compliance monitoring.</li> </ul>



RISK	STRATEGIC INTENT FACTOR	VALUE IMPACT	CONTROLS
<b>5 Deterioration in safety performance</b> Safety is a key imperative. Any fatality is unacceptable and safety incidents result in a business interruption that negatively affects the productivity and sustainability of the business.	Maintaining a safe and healthy work environment.	Both the direct and indirect cost of these stoppages in terms of business interruption and management time, start-up difficulties and general workplace turmoil is of a similar magnitude.	» Safety policy » Implementation of critical controls » Planned inspections and observations » Safety management systems.
<b>6 Security of supply of electricity in South Africa</b> This relates to the disruption of Eskom power supply due to infrastructure failure, load shedding or load curtailment.	Improving our financial position.	The uncertainty regarding the supply of electricity will place the sustainability of current operations, as well as the feasibility of future operations at risk.	» Emergency response plans » Diesel generators on site » Quarterly liaison meetings with Eskom.
<b>7 Inefficient allocation of the group's resources</b> Inefficient allocation of the group's resources, particularly capital in areas that do not generate returns, acceptable margins, maximise profit and create value for shareholders and stakeholders.  Where capital is allocated inefficiently, it has a negative impact on the company's overall value as measured by market capitalisation.	Focusing on the efficient allocation of capital.	Negatively impacts company's value and returns.	» Board-approved capital allocation within the delegation of authority framework » Capital allocation framework as guiding principles » Continuous monitoring of investment performance.
<b>8 Poor employee wellness resulting in a decline in productivity</b> Occupational and employee health is receiving a high level of focus in the mining industry. The Human Immunodeficiency Virus (HIV) and Pulmonary Tuberculosis (PTB) are the main health risks facing employees and are of epidemic proportions in southern Africa. The major occupational health impact is noise-induced hearing loss (NIHL).	Maintaining a safe and healthy work environment.	Poor employee wellness will affect productivity and operating costs.	» Antiretroviral treatment programme » Communicable disease management » Employee wellness programme » Fatigue management policy » Medical surveillance and chronic health management » Pre-employment screening » PTB and pneumoconiosis initiatives » Representation on the International Council on Mining and Metals.
<b>9 Exchange rate and commodity price volatility</b> The Rand versus US Dollar exchange rate materially impacts revenues for all our metals produced.  Of particular concern is sustained low US Dollar PGM prices and increased volatility in process and exchange rates influenced by global trade conflicts and other geo-political developments.	Improving our financial position.	A sustained depression of the price adversely affects revenue and capital allocation.	» Diversification of commodities » Market intelligence and research to inform decision-making » Monthly treasury committee meetings » Supply/demand studies.
<b>10 Preparedness for cyber breach</b> Cyber risk is any risk of financial loss, disruption or damage to the reputation of an organisation from some sort of failure of its information technology systems. This refers to both internal and external, or the entire technology ecosystem. The risk refers to ARM's ability to monitor for, detect, prevent and recover from a cyber breach.	Improving our financial position.	Negatively affects our ability to produce efficiently.	» Antivirus, malware and anti-spamming software » Deployment of security patches » Data recovery and hard copies of data » Effective infrastructure.

# BOARD OF DIRECTORS

Our success is founded on a clear strategy which delivers competitive returns and sustainable value. The board draws on the wealth of knowledge and experience of its members to guide the company in achieving its strategic priorities. With a deep understanding of our values, each director makes a valuable contribution to the responsible governance of the company.

The board has members of the appropriate calibre to provide the company with strategic direction. The breadth of specific and complementary skills of directors is summarised below.

Directors	Commercial and business acumen	Economics	Engineering	Executive leadership	Financial acumen	Financial experience	Financial expert (including CA(SA))	Governance	Government relations experience	Human resources best practice	
<b>Executive</b>											
Dr PT Motsepe (executive chairman)	●			●	●			●	●		
MP Schmidt (CEO)	●		●	●	●			●		●	
AM Mukhuba	●	●		●	●	●	●	●			
AJ Wilkens	●		●	●							
HL Mkatshana	●		●	●	●			●	●	●	
<b>Non-executive</b>											
AK Maditsi (lead independent)	●			●				●	●	●	
F Abbott (independent)	●			●	●	●	●	●			
M Arnold	●		●	●	●	●	●	●			
Dr MMM Bakane-Tuoane (independent)		●						●	●		
TA Boardman (independent)	●			●	●	●	●	●		●	
AD Botha (independent)	●	●		●	●	●	●	●	●		
JA Chissano (independent)								●	●	●	
WM Gule (independent)				●				●		●	
DC Noko (independent)	●		●	●				●	●	●	
Dr RV Simelane (independent)		●		●	●	●		●	●		
JC Steenkamp	●		●	●		●		●			
ZB Swanepoel (independent)	●		●	●	●	●		●		●	

## Key

- Top three areas in which a director has more than 10 years' experience
- Other skills and experience





# 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 basis<sup>1</sup>, 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.

<sup>1</sup> 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 living 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.

## EXECUTIVE CHAIRMAN'S REPORT continued

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**THE SOUTH AFRICAN MINING INDUSTRY<sup>2</sup>**

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

<sup>2</sup> Statistics as per the Minerals Council South Africa Facts and Figures 2018, published in February 2019.



# CHIEF EXECUTIVE OFFICER'S REPORT

**Mike Schmidt**  
Chief executive officer

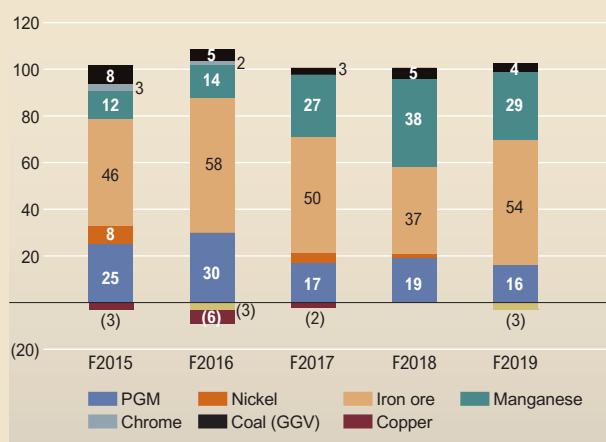


## Introduction

The benefit of initiatives to address loss-making operations in recent years is reflected in most of our operations delivering positive headline earnings. Only Nkomati Mine and Sakura Ferroalloy reported a headline earnings loss. As discussed in the Executive chairman's report, a decision has been made to scale down Nkomati Mine while Sakura Ferroalloy has been impacted by high manganese ore and reductant prices.

Our diverse portfolio has proven its worth in a protracted period of commodity volatility.

### EBITDA SPLIT BY COMMODITY (%)



## Operating safely and responsibly

Our commitment to safety remains resolute. As noted by the executive chairman in his report, two colleagues were fatally injured at our operations. On behalf of the management team, I extend condolences to Mr Maluleke and Mr Malatji's family, friends and colleagues.

We remain optimistic about the steady progress in entrenching safe behaviour. Notably, our operations are building safety records that are arguably among the best in our industry:

- » Black Rock Mine: 7 million fatality-free shifts (last fatality 2009)
- » Nkomati Mine: 7 million fatality-free shifts (last fatality 2008)
- » Beeshoek Mine: 4 million fatality-free shifts (last fatality 2005)
- » Khumani Mine: 3 million fatality-free shifts (last fatality 2015) and an LTIFR of 0.08, which is the lowest in mine's history.

## ARM Platinum

Disappointing returns from this division mainly reflect the loss from Nkomati Mine, although there were also some underlying issues at an operational level.

Two Rivers Mine continues to be affected by split reef which has resulted in lower head grades. While lower grades are expected to stabilise at around 3.6 grams per tonne for the foreseeable future, initiatives being considered to improve PGM volumes include installation of additional milling capacity. Approximately 40 000 tonnes a month of milling capacity is expected to be added to the plant which will increase annual PGM production volumes to some 380 000 6E PGMs. Two Rivers Mine remains a world class mine with more than 30 years of life and is expected to be positioned below the 50<sup>th</sup> percentile of the global PGM cost curve.

Despite benefitting from higher PGM prices, Modikwa Mine lost two weeks of production after the tragic fatality in March, resulting in flat headline earnings. We are injecting capital to enhance flexibility and mechanisation, which will ramp up production over three years to around 240 000 tonnes per month.

Nkomati Mine's headline loss reflects an increase in unit production costs and a negative mark-to-market adjustment as the nickel price reduced to US\$12 675/t at 30 June 2019. Given

## ARM Ferrous' headline earnings were **R4 960 million** as the contribution from the iron ore division increased **by 103%**

the volatility in nickel prices in the past three years and limited economic life-of-mine, the joint-venture partners have agreed to scale down production at this loss-making mine and place the open-pit operation on care and maintenance from September 2020 in preparation for closure.

Unit production costs were relatively well controlled, with all mines reporting increases below the mining producer price index of almost 15% but above inflation.

### ARM Ferrous

The strong increase in ARM Ferrous headline earnings reflects a strong performance from the iron ore division on higher prices and a weaker average rand versus the US dollar exchange rate, which was partially offset by a 2% drop in sales volumes. Margins at the iron ore operations were positively impacted by an increase in the lump-fines ratio to 60:40. On-mine unit production costs rose 8%, mainly due to lower production volumes. The 4% drop in production volumes is primarily because of water-supply challenges at Khumani Mine in the Northern Cape. ARM is part of a collaborative effort to recapitalise and upgrade the water system to ensure the sustainability of this 70-year-old system and sufficient capacity for local producers.

Conversely, headline earnings for the manganese division were down 15% on lower manganese alloy prices and higher production costs.

Management continued to focus on the modernisation and expansion of Black Rock Mine. A large portion of the 80% increase in this division's capital expenditure to R2.3 billion reflects approved costs for the Gloria Mine, as part of the modernisation of Black Rock Mine. The Gloria Mine decline shaft shut-down began in November 2018 and was commissioned in April 2019. The capital invested in Black Rock Mine will improve costs and give the operation flexibility to produce different product specifications (from high to medium grade) as this has become a key differentiator for customers. In addition, production capacity at Black Rock Mine will increase to some 5 million tonnes per annum, and ramp-up will be closely synchronised with Transnet rail availability. On-mine unit production costs rose 15% mainly due to lower volumes as well as higher electricity, diesel and labour costs, and Transnet's logistical challenges.

### ARM Coal

The 72% drop in headline earnings from ARM Coal reflects the 13% to 16% decline in US dollar prices for seaborne thermal coal and 13% decrease in export sales volumes which was offset to some extent by a substantial increase in domestic sales volumes. Importantly, R362 million of ARM Coal's debt was repaid in the review period.

Goedgevonden Mine's production was impacted in the first half by port closures at the Richards Bay Coal Terminal and underperformance by Transnet Freight Rail, although both situations improved in the second half. The mine also lost one

week of production in the first half to an illegal community protest. Despite these challenges, total saleable production rose 16% and sales volumes by 12%. On-mine unit production costs were well controlled with higher production volumes offsetting the increases in diesel costs.

Production at the PCB operations was affected by sinkholes and spontaneous combustion at Tweefontein Mine, reducing feed rates to the plant that in turn affected saleable production. These technical issues and the impact on production of community unrest pushed up unit production costs 18%.

### Looking ahead into F2020

Global and local markets are expected to remain uncertain for at least the foreseeable future. As we navigate our dynamic operating environment and its headwinds, we continue to focus on

- » Improving operational efficiencies and containing unit costs below inflation
- » Addressing the remaining marginal or loss-making operations and reduce shareholder funding dependency by any operation
- » Pursuing value-enhancing growth opportunities
- » Practicing strict discipline in capital allocation.

The robust statement of financial position, which is relatively ungeared, will enable us to withstand macroeconomic uncertainties and volatile markets and pursue value accretive growth opportunities, allowing us to deliver on sustainable returns for all stakeholders.

We remain committed to building mutually beneficial relationships with all our stakeholders to ensure we continue to scale a sustainable business that delivers competitive returns for shareholders.

### Conclusion

I am grateful to our committed and hard-working employees who are the cornerstone of our ability to create sustainable value. I also thank our stakeholders and joint-venture partners for their continued support during the year.

Finally, my sincere appreciation goes to our executive chairman and the board for their ongoing guidance and support.

**Mike Schmidt**

Chief executive officer

11 October 2019