Independent auditor's report

TO THE SHAREHOLDERS OF AFRICAN RAINBOW MINERALS LIMITED

Report on the audit of the consolidated and separate annual financial statements

Opinion

We have audited the consolidated and separate annual financial statements of African Rainbow Minerals Limited and its subsidiaries ('the group') and company set out on pages 22 to 116 which comprise of the consolidated and separate statements of financial position as at 30 June 2020, and the consolidated and separate statements of profit or loss, the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate annual financial statements, including a summary of significant accounting policies and the directors' remuneration section in the Director's report on pages 12 to 20.

In our opinion, except for the effects of the matter described in the *Basis for qualified opinion* section of our report, the consolidated and separate annual financial statements present fairly, in all material respects, the consolidated and separate financial position of the group and company as at 30 June 2020, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for qualified opinion

As disclosed in note 7, ARM Coal (Pty) Ltd, an entity jointly controlled by African Rainbow Minerals Limited and Glencore Operations South Africa (Pty) Ltd ('GOSA'), has recorded an amount of R452 million as a long term receivable ('receivable') from GOSA. Both the group's and the company's attributable share of this receivable is R230 million which is included in the loans and long term receivables balance of R278 million and R812 million in the consolidated and separate statements of financial position, respectively.

We requested a confirmation for this receivable however, the counterparty did not confirm this balance in their response which has resulted in our identification of a discrepancy of R230 million between the amount recorded by the group and company and the amount confirmed by the counterparty. Management has been unable to provide sufficient appropriate audit evidence to substantiate the receivable and further has also been unable to provide sufficient appropriate audit evidence explaining the origin or cause of this difference as it remains unreconciled. As disclosed in note 7, management is investigating the matter internally and has appointed a forensic expert to perform a parallel investigation. However, this process is not yet complete.

We were therefore unable to obtain sufficient appropriate audit evidence to support the existence, valuation, and completeness of this receivable, including the identified counterparty, and the nature, amount, and accounting treatment of any adjustment which might be required. Owing to the nature of the accounting records and the absence of reconciliations or other support, we have been unable to perform alternative procedures or to satisfy ourselves by alternative means as to this balance at year end. We are therefore unable to conclude on whether any adjustments may be required to the consolidated and separate annual financial statements in respect of this receivable.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and separate annual financial statements* section of our report. We are independent of the group and company in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements of the group and company and in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits of the group and company and in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants* (including International Independence Standards). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate annual financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated and separate annual financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate annual financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and separate annual financial statements.

In addition to the matter described in the B*asis for qualified opinion* section of our report, we have determined the matters described below to be the key audit matters to be communicated in our report.

The Key audit matters applies equally to the audit of the consolidated and separate annual financial statements.

INDEPENDENT AUDITOR'S REPORT continued

KEY AUDIT MATTER

Impairment of property, plant and equipment and investments (assets)

The carrying values of property, plant and equipment and investments are as follows:

R million – 2020	Group	Company
Property, plant and equipment	**7 211**	**1 513**
Investment in associate	**795**	**260**
Investment in joint venture	**17 545**	**259**
Other investments	**5 635**	**9 459**

At the end of each reporting period, the group and company assess whether there are any indications that property, plant and equipment and investments may be impaired. If any such indications exist, the group and company estimates its recoverable amounts of those assets.

The carrying values of these assets, specifically those relating to the ARM Coal segment, have been impacted by the combination of a decline in saleable production and the above inflation increases in unit costs. During the current year the group and company recorded impairments relating to this segment of:

- R559 million (before tax) against Property, Plant and Equipment of group and company;
- R1,121 million (before tax) (Company: R581 million) investment in associate in group.

Management determines the recoverable amount and any impairment in reference to the discounted future cash flows of each cash generating unit ('CGU'). The discounted future cash flows use forward looking estimates, such as commodity prices, foreign exchange rates and inflation rates, as well as incorporating significant judgements made by management about the discount rate, capital expenditures, production volumes, and cost per ton.

We determined this to be a key audit matter in the current year due to the significant impact on the group and company results and the degree of audit effort involved, including the involvement of specialists in the audit of the discounted future cash flows.

The disclosure associated with impairment is set out in the consolidated and separate annual financial statements in Note 38.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

Our audit procedures involved, amongst others, the following:

- We obtained and read the assessment performed by management to identify indicators of impairment and have assessed this against our understanding of the business and the performance of the CGU's;
- With the assistance of our specialists, we:
  - » Evaluated the valuation methodology against acceptable industry methods and accounting standards
  - » Assessed the reasonability of the discount rate applied by comparing management's inputs to industry benchmarks within a given range
  - » Compared future commodity prices, inflation rates, and foreign exchange rates to external market data
  - » Compared capital expenditure made in the current year to what was forecast in the latest Life of Mine Plan
  - » Assessed the reasonability of the forecast production volumes and cost per ton with reference to historical performance and actual performance post year end
  - » Performed a scenario analysis by considering the impact on the recoverable amount of changes in model inputs to determine our own estimation of the recoverable amounts
  - » Assessed the forecast capital expenditure against our expectation about the timing and amount of capital expenditure over the life of mine
- We evaluated the adequacy of financial statement disclosures regarding assumptions applied and impairments recognised.

Other information

The directors are responsible for the other information. The other information comprises the information included in the 134-page document titled “ARM 2020 Integrated Annual Report”, the document titled “ARM 2020 Sustainability Report”, the 58-page document titled “ARM 2020 Mineral Resources and Mineral Reserves Report”, the 78-page document titled “ARM 2020 Corporate Governance Report”, the 9-page document titled “ARM 2020 King IV Application Register”, the 16-page document titled “ARM 2020 Notice of annual general meeting”, and in the 126-page document titled “African Rainbow Minerals 2020 Annual Financial Statements”, which includes the Directors’ Report (except the directors’ remuneration section on pages 12 to 20), the Report of the Audit and Risk Committee and the Certificate of the Company Secretary as required by the Companies Act of South Africa. The other information does not include the consolidated or the separate annual financial statements and our auditor’s report thereon.

Our opinion on the consolidated and separate annual financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate annual financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate annual financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate annual financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate annual financial statements, the directors are responsible for assessing the group and company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and company or to cease operations, or have no realistic alternative but to do so.

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Auditor’s responsibilities for the audit of the consolidated and separate annual financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate annual financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group and company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group and company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated and separate annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the group and/or the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate annual financial statements, including the disclosures, and whether the consolidated and separate annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated and separate annual financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Ernst & Young Inc., and its predecessor firms, have been the auditor of African Rainbow Minerals Limited for 47 years.

In 2004, Ernst & Young Inc. continued as the auditor of the African Rainbow Minerals Limited group, which was created following a range of indivisible transactions involving certain interests of Anglovaal Mining Limited, African Rainbow Minerals & Exploration Investments (Pty) Ltd and Harmony Gold Mining Company Limited. Ernst & Young Inc. has been the auditor of the group for 17 years.

Ernst & Young Inc.
Director – Philippus Dawid Grobbelaar
Registered Auditor
Chartered Accountant (SA)

8 October 2020

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