CHIEF EXECUTIVE OFFICER'S REPORT

Mike Schmidt
Chief Executive Officer

ARM Ferrous' headline earnings **were R3 528 million** as the contribution from the manganese division increased by 64%.

INTRODUCTION

After approximately two years of extensive initiatives to address loss-making operations we are pleased that in the financial year under review all continuing operations reported positive headline earnings. Lubambe Mine, which was sold in December 2017, reported a headline loss of R6 million. Headline earnings by operation and division were as follows:

	12 months ended 30 June		
R million	2018	2017	% change
ARM Platinum	**420**	350	20
Two Rivers Mine	**306**	325	(6)
Modikwa Mine	**105**	(66)	
Nkomati Mine	**9**	91	(90)
ARM Ferrous	**3 528**	3 709	(5)
Iron ore division	**1 672**	2 187	(24)
Manganese division	**1 904**	1 161	64
Chrome division**	**(21)**	375	(106)
Consolidation adjustment	**(27)**	(14)	
ARM Coal*	**1 485**	82	>200
GGV Mine	**852**	(99)	>200
PCB Operations	**633**	181	>200
ARM Copper	**(6)**	(203)	97
Corporate and other*	**(613)**	(742)	18
Total headline earnings	**4 814**	3 196	51

* *F2018 includes a fair value gain of R1 210 million at ARM Coal and R233 million fair value loss at ARM Corporate resulting from the de-recognition of loans when the ARM Coal debt was restructured.*

** *The F2017 Chrome division headline earnings include R378 million relating to the sale of ARM's effective 50% stake in the Dwarsrivier Mine.*

IAR

The Operational reviews on pages 56 to 94 contain further information on the performance of each operation.

OPERATING IN A SAFE AND RESPONSIBLE MANNER

Our commitment to safety remains resolute. Despite our efforts to ensure a safe working environment we regrettably reported fatalities at the Modikwa, Sakura and Tweefontein operations. I join our Executive Chairman in extending our sincerest condolences to the families, friends and colleagues of those who lost their lives at our operations.

Safety highlights at ARM Ferrous were as follows:

- The LTIFR improved by 24% to 0.13 per 200 000 man-hours (F2017: 0.17 per 200 000 man-hours);
- Black Rock Mine achieved 6 million fatality-free shifts on 17 January 2018, an accomplishment which took nine years to achieve;
- On 18 October 2017, Beeshoek Mine recorded 16 000 fatality-free production shifts, an accomplishment which took approximately 15 years to achieve;
- Beeshoek Mine also received a certificate from the Department of Mineral Resources (DMR) for an outstanding safety achievement as the Most Consistent Surface Mine in the 2017 Northern Cape Mine Safety Competition. On 7 March 2018, the mine completed 365 consecutive days without a Lost Time Injury (LTI);
- Khumani Mine achieved 2 million fatality-free shifts on 12 April 2018;
- As at 30 June 2018, Cato Ridge Works completed 704 days without an LTI; and
- As at 30 June 2018, Machadodorp Works completed 875 days without an LTI.

ARM Platinum safety highlights were as follows:

- Prior to the fatal accident on 9 October 2017, Modikwa Mine had completed 4 million fatality-free shifts on 3 July 2017;
- Two Rivers Platinum Mine completed 4 million fatality-free shifts on 18 August 2017; and
- Nkomati Mine achieved 6 million fatality-free shifts on 7 November 2017.

ARM PLATINUM

Improved Rand palladium, rhodium, cobalt, nickel and copper prices contributed positively to the ARM Platinum revenue. These were further enhanced by renegotiation of the concentrate offtake agreements for both Modikwa and Nkomati mines with temporary improvement to the terms and conditions. Rand prices for platinum and chrome concentrate were lower than the corresponding period.

Modikwa and Nkomati mines increased tonnes milled by 20% and 7% respectively, while Two Rivers maintained tonnes milled. Total PGM and nickel volumes produced for ARM Platinum; however, decreased by 11% and 16% respectively, owing to grade challenges at the three operations. A number of interventions are being implemented to address upgrade declines. Modikwa Mine is introducing stope width control measures particularly in the South 1 and South 2 shafts to reduce dilution and improve the grade. The mine head grade is expected to return to normalised levels in the next financial year. At Two Rivers Mine, the levels of split reef being mined is expected to reduce from F2020 when mining in the Tamboti area commences, improving the mining flexibility. The Nkomati Mine grade is expected to improve from F2021 as more MMZ ore on the Western section of the open pit is mined.

Support and buttressing work done at Nkomati Mine to stabilise the pile wall in the Western section has been completed and the pile wall is now stable. Production is expected to remain below steady state until F2020 as work continues to bring the pit into balance. Production is expected to return to a steady state level of approximately 18 000 tonnes per annum from F2021 onwards.

Unit production costs were well controlled on a Rand per tonne milled basis with Two Rivers and Modikwa mines reporting flat unit production costs. Unit production costs per tonne milled at Nkomati Mine increased below inflation. On a Rand per PGM ounce basis, unit production cost increased above inflation at 10% and 9% for Two Rivers and Modikwa mines, respectively. Nkomati Mine's C1 unit cash costs net of by-products (which include capitalised waste stripping costs) were 22% higher at US$5.86 per pound (lb) of nickel produced (F2017: US$4.81/lb) as a result of a 16% decrease in nickel units produced.

ARM FERROUS

ARM Ferrous headline earnings from continuing operations increased by 6%. The Manganese division was the star performer delivering a 64% increase in headline earnings.

Average manganese ore prices were up 19% for 44% manganese ore (CIF Tianjin) from US$5.77 per manganese tonne unit (mtu) in F2017 to US$6.88/mtu in F2018. The index for 37% manganese ore (FOB Port Elizabeth) increased by 23% from US$4.56/mtu to US$5.59/mtu. Prices for manganese alloy were up 35% to US$1 553/t for F2018 while average iron ore prices (as referenced by 62% iron ore fines (CIF North China)), decreased by less than 1% to US$69.27/t (F2017: US$69.41/t).

CHIEF EXECUTIVE OFFICER'S REPORT continued

ARM Ferrous continued to focus on improving Black Rock Mine's flexibility in terms of product specifications and in the financial year under review approved capital of approximately R2.7 billion (on a 100% basis) for the modernisation and optimisation of Gloria Mine which is part of Black Rock Mine. This capital, which is expected to be spent over the next few years, will enable Black Rock Mine flexibility to produce different products (from high- to medium-grade) as the ability to deliver different specification products to customers becomes a key differentiator in the current manganese ore market. Production capacity at Gloria Mine will increase as part of the modernisation project to bring Black Rock Mine's production capacity to 5 million tonnes per annum.

The Manganese Export Capacity Allocation (MECA2) Agreement with Transnet was signed and is valid from 15 September 2015 until the later of 31 March 2023 or when the Port of Ngqura is fully operational. Rail and port capacity therefore has been secured through the ports of Port Elizabeth and Saldanha in line with the ramp-up of the Black Rock Project to 4 million tonnes per annum. Engagements with Transnet with regards to synchronising the planned production ramp-up of Black Rock Mine beyond 2023 and the rail and port capacity provisions in the longer-term (MECA3) are ongoing.

The iron ore operations delivered record sales volumes of 17.9 million tonnes as an opportunity to export 0.4 million tonnes of iron ore from Beeshoek Mine was created through the newly established rail loop to the Saldanha Export Channel. Ferromanganese sales volumes also increased as Sakura Works produced at higher than design capacity.

On-mine unit production costs were well controlled at the iron ore operations with both Khumani and Beeshoek mines delivering cost increases well below inflation. Unit production costs at the manganese ore operations increased by 16% as costs that were excluded from on-mine costs in F2017 due to the closure of Nchwaning II Shaft (as part of the Black Rock Project) were included in on-mine costs again in F2018. Unit costs at the ferroalloys operations came under pressure due to higher input costs for sinter and higher raw material costs (including manganese ore and reductants).

ARM COAL

Average realised US Dollar thermal coal prices were 22% higher in the year contributing positively to the ARM Coal headline earnings.

Production at the PCB operations was maintained at approximately 16.6 million tonnes while the GGV Mine production volumes declined by 7%, negatively affected by a rollover of low in-pit inventory levels from F2017. The mine is focused on improving the in-pit inventory levels which did improve marginally during F2018.

On-mine unit production cost increases at both GGV and PCB operations were higher than inflation at 9% and 19% respectively. PCB unit production costs in the corresponding period benefited from processing of stockpile ore built up during the Tweefontein Optimisation Project (TOP). The Tweefontein operation has since stabilised and is now operating at the planned unit production costs which was estimated at approximately R300 per tonne.

LOOKING AHEAD

Global GDP growth appears to be recovering steadily. China remains a significant consumer of the commodities we produce as its infrastructure and consumer demand supports the outlook for commodities.

Quality has become a key differentiator, particularly among the bulk metals as China seeks to address its pollution challenges through improved efficiencies in heavy industries. Premiums associated with high-grade bulk metals have increased in the year under review which we believe is a structural shift in these markets.

ARM is well positioned to deliver into this shift given the high-quality iron ore and manganese ore we produce. We continue to invest in the business to enable flexibility of product specifications to respond to changing customer needs.

We are closely monitoring global trends especially in the context of the Fourth Industrial Revolution and the potential challenges and opportunities these may create for our business. One such trend of interest has been the advancements made in mobility, particularly clean mobility.

Although an increase in electric vehicles as a percentage of total vehicle sales creates opportunities for some of the metals in our portfolio including nickel and manganese ore, it negatively impacts demand for platinum group metals (which are mostly used in internal combustion engines). We continue to research these potential impacts to ensure that we are well positioned in the future to capitalise on opportunities created by these trends.

We remain confident in the long-term outlook for the metals that we mine and continue to assess growth opportunities both internally and through mergers and acquisitions.

CONCLUSION

The operating environment is not without headwinds. As we navigate this dynamic environment, we continue to focus on those elements that are within our control. These include cost containment, operational efficiencies and adhering to capital allocation discipline.

I would like to extend my gratitude to our committed and hardworking employees who are the very foundation of our ability to create sustainable value. I also extend my heartfelt gratitude to our stakeholders and joint venture partners for their continued support during the year.

Finally, I would like to convey my sincere appreciation to our Executive Chairman and the Board for their ongoing guidance and support.

Mike Schmidt
Chief Executive Officer

29 October 2018