CHIEF EXECUTIVE OFFICER'S REPORT

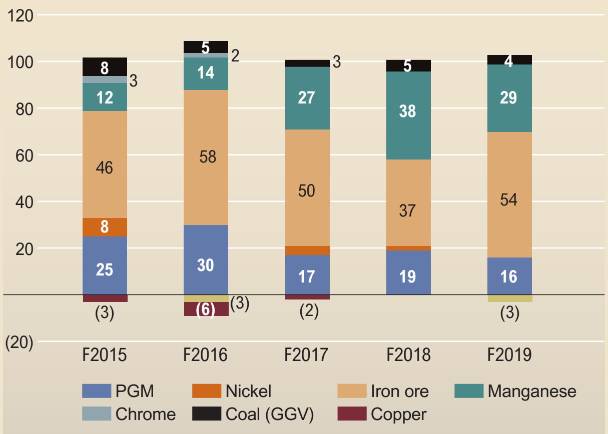
Mike Schmidt
Chief executive officer

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 50th 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