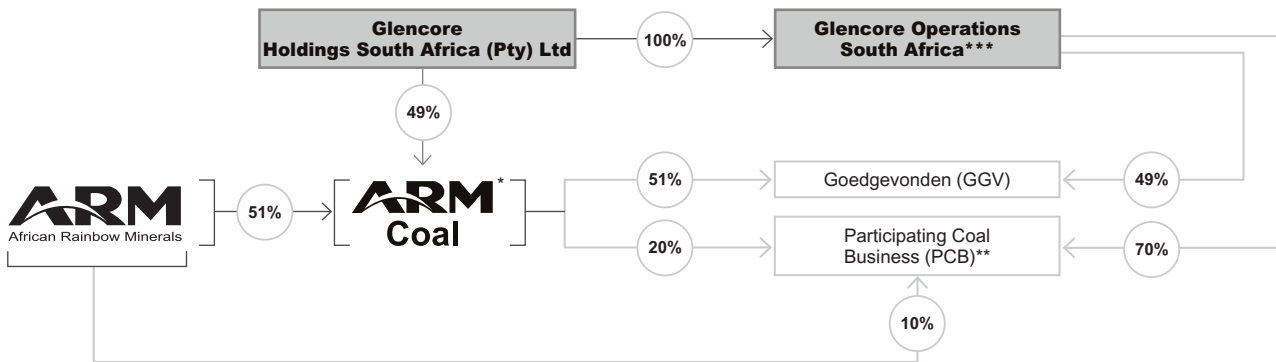


# Operational review

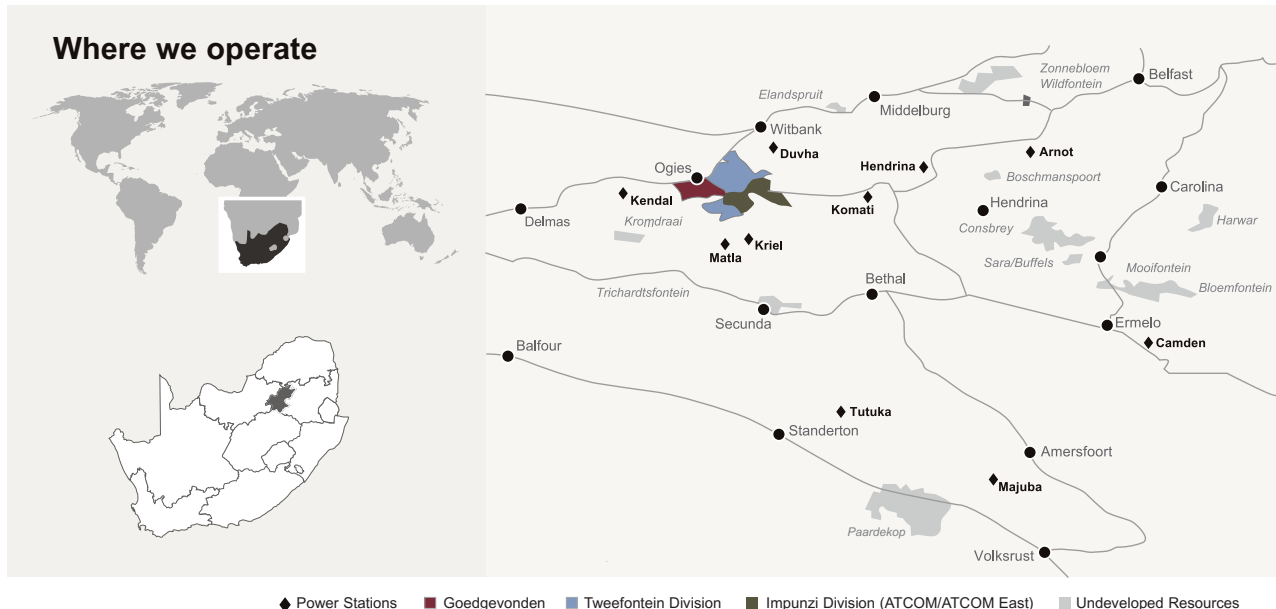


**Thando Mkatshana**  
Chief Executive: ARM Coal

## Divisional structure



\* ARM Coal holds the following:  
 – Access to Glencore Operations South Africa’s (previously Xstrata South Africa’s coal interests) interest and entitlement in the Richards Bay Coal Terminal (RBCT); and  
 – An export entitlement of 3.2 Mtpa in the Phase V expansion at the RBCT.  
 \*\* Participating Coal Business (PCB) refers to the Impunzi and Tweefontein operations.  
 \*\*\* Glencore Operations South Africa (Pty) Ltd was previously Xstrata South Africa (Pty) Ltd.



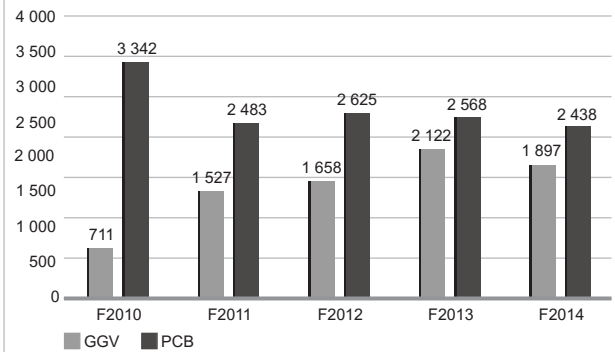
The ARM Coal headline earnings decreased from R148 million in F2013 to a headline loss of **R120 million** in F2014.

**Total attributable capital expenditure**  
R129 million

**Key projects invested in during the year**  
Tweefontein Optimisation Project

		F2014	F2013	% change
Headline (loss)/ earnings	Rm	(120)	148	-
EBITDA	Rm	375	414	(9)
EBITDA margin	%	39	45	

**ARM attributable coal saleable production**  
(000t)



Coal hauling operations at Goedgevonden Coal Mine



## Scorecard

F2014 objectives	F2014 performance	F2015 objectives
<b>Goedgevonden Coal Mine (GGV)</b>		
Progress feasibility study to expand GGV Mine output.	The feasibility study is in progress and is expected to be completed in F2015.	Complete the feasibility study.
<b>Participating Coal Business (PCB)</b>		
Continue with construction and implementation of the Tweefontein Optimisation Project (TOP) in accordance with the project schedule.	TOP construction is progressing according to plan with 83% of the capital expenditure spent or committed at 30 June 2014.	Finalise the construction and implementation, and commission TOP in accordance with the project schedule.
Review Addcar performance and commence with a conceptual study for additional Addcar units.	Addcar operations were suspended during 2H F2014 due to the continued decline in export thermal coal prices.	Addcar to stay in care and maintenance until global thermal coal prices recover.
Improve Eskom coal sales.	Sales to Eskom increased by 15%.	Rail more coal to Richards Bay Coal Terminal (RBCT) given the increased Transnet rail volumes performance and forecast.



Goedgevonden Coal Mine

## Overview

Operational overview – attributable to ARM		F2014	F2013	% change	Operational target F2015
<b>GGV sales</b>	million tonnes	<b>1.84</b>	2.08	(12)	↑
Export thermal coal sales	million tonnes	<b>1.02</b>	0.90	13	→
Eskom thermal coal sales	million tonnes	<b>0.82</b>	1.18	(31)	↑
<b>PCB sales</b>	million tonnes	<b>2.32</b>	2.40	(3)	↑
Export thermal coal sales	million tonnes	<b>1.80</b>	1.98	(9)	↑
Eskom thermal coal sales	million tonnes	<b>0.38</b>	0.33	15	↑
Other local thermal coal sales	million tonnes	<b>0.14</b>	0.09	56	→
<b>ARM total sales</b>	million tonnes	<b>4.16</b>	4.48	(7)	↑
Export thermal coal sales	million tonnes	<b>2.82</b>	2.88	(2)	↑
Eskom thermal coal sales	million tonnes	<b>1.20</b>	1.51	(21)	↑
Other local thermal coal sales	million tonnes	<b>0.14</b>	0.09	56	→
<b>ARM operating margin</b>	%	<b>27</b>	35	–	

Financial overview – attributable to ARM		F2014	F2013	% change
<b>Cash operating profit</b>	R million	<b>505</b>	822	(39)
GGV	R million	<b>373</b>	417	(11)
PCB	R million	<b>132</b>	405	(67)
<b>Headline earnings attributable to ARM</b>	R million	<b>(120)</b>	148	–
GGV	R million	<b>122</b>	162	(25)
PCB	R million	<b>(242)</b>	(14)	–

## Operational and financial review

ARM Coal's total attributable cash operating profit decreased by 39% from R822 million to R505 million in F2014. ARM Coal attributable headline earnings decreased from R148 million in F2013 to a headline loss of R120 million in F2014.

The decline in headline earnings was mainly due to a 2% decrease in export sales volumes as well a significant reduction in realised export US Dollar prices. The negative impact of lower prices was to an extent offset by the weaker Rand.

### Goedgevonden Mine

A mining excavator caught fire and was subsequently out of operation for two months. This, together with the impact of industrial action, resulted in ROM and saleable production volumes being respectively 2% and 11% lower than F2013.

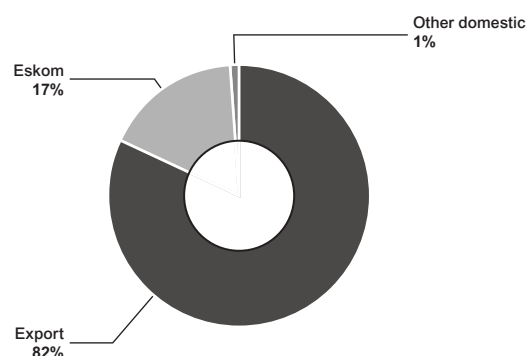
Export sales volumes increased by 13% driven by an improvement in the rail performance by Transnet Freight Rail (TFR). Eskom curtailed buying of additional coal, resulting in a reduction of 31% in Eskom sales.

GGV attributable cash operating profit decreased by 11% from R417 million to R373 million. Attributable export revenue was R76 million higher than F2013 as a combined result of increased export sales volumes, and a weaker Rand US Dollar exchange rate but was negatively impacted by lower US Dollar prices. Attributable Eskom revenue was R56 million lower than in F2013 following the reduction in coal purchases by Eskom.

On-mine unit cost increased to a steady state production level of R208 per tonne (R207 per tonne in 1H F2014) compared to R171 per tonne for F2013. In F2013, GGV processed significant ROM and in-pit inventory which was on stockpile from the previous year. The unit production costs in F2013 were therefore lower as they benefitted from processing these stockpiles.

The mine's headline earnings decreased by 25% to R122 million.

GGV sales split (100% basis)



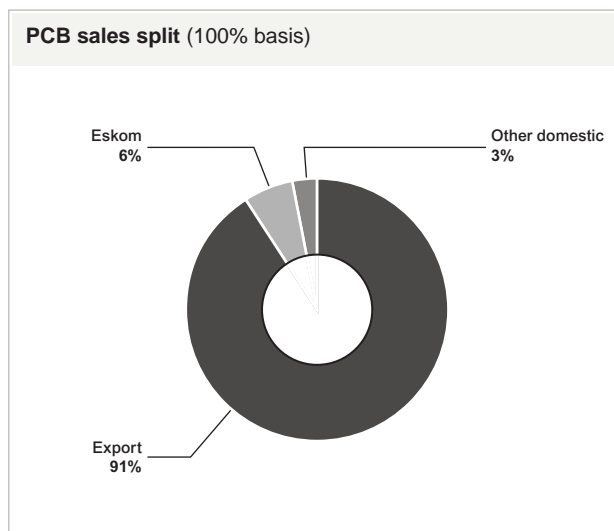
## Participating Coal Business

PCB attributable cash operating profit decreased from R405 million to R132 million and headline earnings decreased from a loss of R14 million to a headline loss of R242 million in F2014.

F2014 attributable revenue was R290 million lower than in F2013 due to a decrease of 9% in export sales volumes and a decrease in US Dollar export prices resulting from an overall decline in prices, and due to supplying lower quality in response to a change in demand in the market. A weaker Rand versus US Dollar exchange rate and increases in Eskom and domestic sales volumes and prices partially offset the negative impact of these decreases.

Saleable production was 5% lower compared to F2013 following the strategic decision to downsize high cost underground sections and shutting down a high cost Coal Handling Processing Plant (CHPP) as well as a reduction in average yield of 7% due to a change in the mix of the qualities of the coal being fed into the plant.

The decrease in saleable production impacted on on-mine costs which increased 21% to R396 per tonne. PCB has stockpiled approximately 2.1 million tonnes of ROM coal mainly for the commissioning of the new TOP CHPP which will commence in September 2014. This stockpile will benefit PCB unit costs in the next financial year. The transformation from underground mining to opencast mining is on schedule and is expected to result in an improvement in saleable production and unit costs.



## Capital expenditure

The ATCOM East project implementation and construction was successfully completed during F2014 and handed over to the production team. Implementation and construction of TOP is progressing well and as at 30 June 2014 83% of the estimated cost of R8.2 billion has been spent or committed. Work on the project commenced immediately after the project approval towards the end of F2012 and the project is expected to be completed in F2016.

Capital expenditure at PCB for the year amounted to R3.8 billion which was mainly spent for the TOP. Capital expenditure at GGV

was R496 million for F2014 mainly due to the mine acquiring a fleet of equipment to perform certain activities previously performed by contractors.

## Logistics

South Africa's coal railings to RBCT were at a record high of 70.8 Mt for the 2013 calendar year. In the 2014 calendar year railings are being impacted by a 10-day power outage at RBCT and 12-day maintenance shut during May.

Although the TFR maintenance shut of the coal line went according to plan, TFR have struggled to return to the pre-shut levels of performance of 83.0 Mt annualised which was achieved in the month prior to the shut.

In an attempt to further improve rail volumes TFR experimented using 200 wagon trains from the GGV mine to the port during 2H F2014 but this has been suspended temporarily as TFR attempts to rebalance the wagons and locomotives in the system.

## Sustainability review

Our sustainable development reporting is limited to those operations over which ARM has direct joint management control and therefore excludes the Goedgevonden and PCB operations.

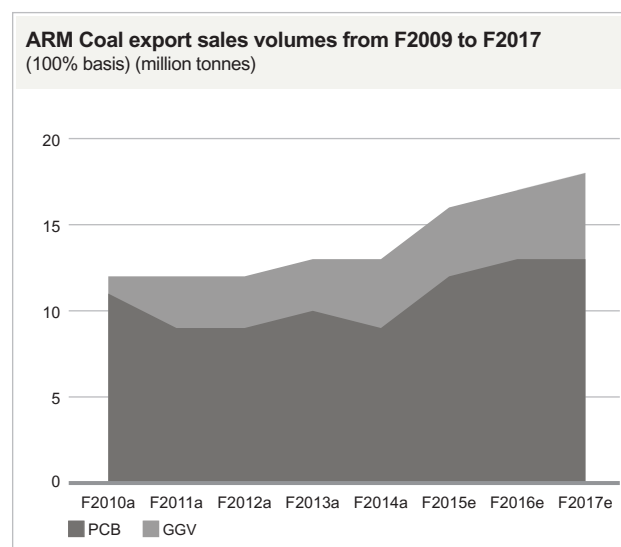
## Intellectual capital – mining rights status

As at 30 June 2014 all conversions from old mining rights to new mining rights for the operations in Glencore operations South Africa had been granted and only one still has to be registered by the mining titles office.

All applications for new order mining rights have been granted, executed and registered in the mining titles office.

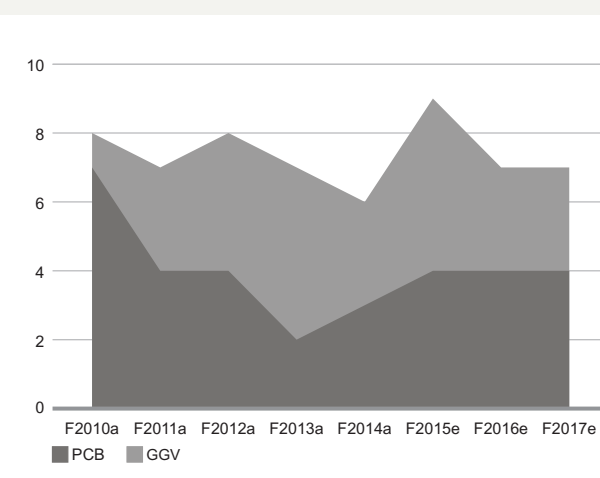
## Projects

Implementation of TOP is the last leg of the strategy to operate large scale tier 1 pre-dominantly opencast mines. GGV and Impunzi have already been completed and have delivered much better efficiencies and improved unit costs per saleable tonne produced. The commissioning of TOP will therefore result in further improvement and a highly competitive overall business performance.





**ARM Coal Eskom sales volumes from F2009 to F2017**  
(100% basis) (million tonnes)



## Market review

### Export coal market

International thermal coal demand remains strong. Prices however have stayed depressed at the back of the continued oversupply in the market. The lower prices have resulted in some suppliers exiting the market forcing mines to close or be put on care and maintenance, particularly in Australia and the USA. Coal consumption is still expected to grow and be the major source of electricity generation. Given the projected demand growth and squeeze of high-cost producers the market balance is expected to move to a shortage within the short to medium term.

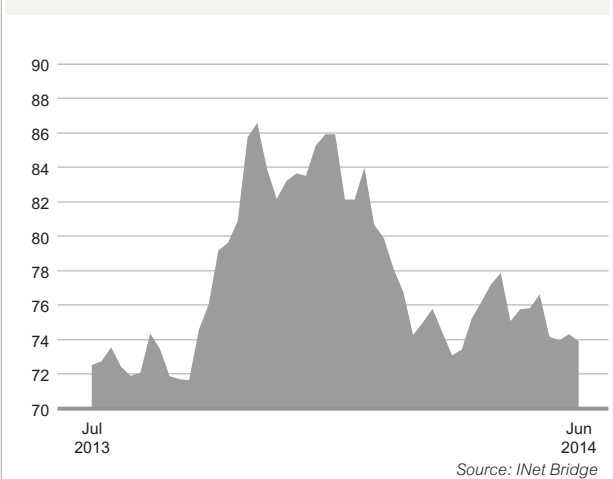
The export market out of South Africa continues to grow and remains profitable, India remains the main market for the South African coal which is mainly used as a high-quality blend to low quality coals either produced in India or imported.

### Domestic coal market

ARM Coal's total supply to Eskom during F2014 was 21% lower than F2013 as Eskom is burning significantly less coal than previously planned (120 million tonnes per annum versus a previously planned 130 million tonnes per annum). The lower offtake is as a result of a high backlog in maintenance, resulting in increased downtime on generation fleet. Eskom is also re-evaluating its financial position as a result of it being granted less than the electricity price increase it requested.

This lower coal demand is forecasted to remain until 2018 as Eskom withdraws generation units from production for both planned and unplanned maintenance. A large gap in Eskom's contracted coal supply from 2018 onwards remains, and ARM Coal together with its joint venture partner is positioned well to supply coal to fill this gap.

**Richard's Bay thermal coal prices (FOB)**  
(US\$/t)



Stacker reclaimer stockyard at Goedgevonden Coal Mine

## Goedgevonden Coal Mine (GGV)



**Management:** Governed by a management committee, controlled by ARM Coal, with four ARM representatives and three Glencore representatives.

<b>Proved and Probable Reserves (Saleable) (100% basis)</b>	223 Mt
<b>ARM's economic interest</b>	26.01%
<b>Total labour</b>	992 total number of employees (including 279 contractors)

### GGV operational statistics

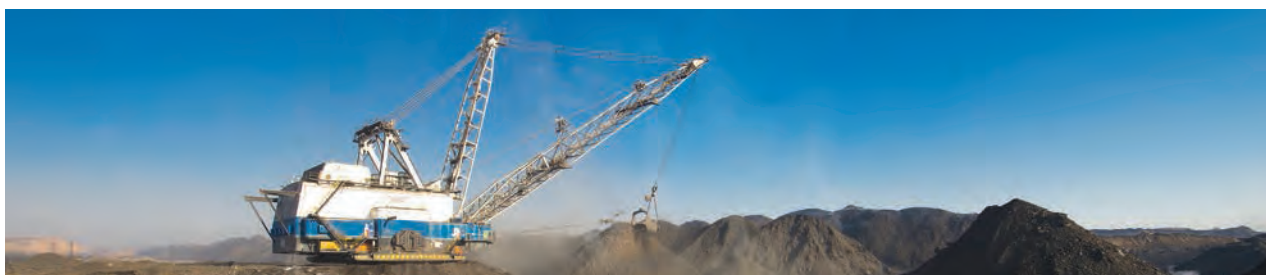
(100% basis)		<b>F2014</b>	F2013	% change
Total saleable production	million tonnes	<b>7.29</b>	8.16	(11)
Total sales	million tonnes	<b>7.10</b>	7.92	(10)
Export	million tonnes	<b>3.93</b>	3.40	16
Eskom	million tonnes	<b>3.17</b>	4.52	(30)
Average price received				
Export (FOB)	US\$/t	<b>73.83</b>	91.00	(19)
Eskom (FOR)	R/t	<b>198.92</b>	187.57	6
On-mine saleable cost per tonne	R/t	<b>208.10</b>	171.20	(22)
Cash operating profit	R million	<b>1 435</b>	1 603	(10)
Operating margin	%	<b>39</b>	45	-
Capital expenditure	R million	<b>496</b>	157	>100

<b>Attributable profit analysis</b>		<b>F2014</b>	F2013	% change
Cash operating profit attributable to ARM	R million	<b>373</b>	417	(11)
Less: Interest paid	R million	<b>(87)</b>	(86)	(1)
Amortisation	R million	<b>(103)</b>	(94)	(10)
Fair value adjustments	R million	<b>(14)</b>	(11)	(27)
Profit before tax	R million	<b>169</b>	226	(25)
Tax	R million	<b>(47)</b>	(64)	27
Headline earnings attributable to ARM	R million	<b>122</b>	162	(25)



Refer to pages 199 to 200 for the ARM Coal segmental information.

## Participating Coal Business (PCB)



**Management:** Governed by a supervisory committee with five Glencore representatives and three ARM representatives.

<b>ARM's economic interest</b>	20.2%
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### PCB operational statistics

(100% basis)		<b>F2014</b>	F2013	% change
Total saleable production	million tonnes	<b>12.10</b>	12.70	(5)
– Impunzi	million tonnes	<b>5.3</b>	5.7	(7)
– South Stock	million tonnes	<b>1.9</b>	1.6	19
– Tweefontein	million tonnes	<b>4.9</b>	5.4	(9)
Total sales	million tonnes	<b>11.49</b>	11.91	(4)
– Export	million tonnes	<b>8.90</b>	9.81	(9)
– Eskom	million tonnes	<b>1.90</b>	1.65	15
– Other local	million tonnes	<b>0.69</b>	0.45	53
Average price received				
– Export (FOB)	US\$/t	<b>65.71</b>	83.88	(22)
– Eskom (FOR)	R/t	<b>202.81</b>	157.70	29
– Domestic (FOR)	R/t	<b>330.93</b>	262.24	26
On-mine saleable cost per tonne	R/t	<b>395.64</b>	326.29	21
Cash operating profit	R million	<b>654</b>	2 005	(67)
Operating margin	%	<b>10</b>	25	–
Capital expenditure	R million	<b>3 790</b>	4 217	(10)

<b>Attributable profit analysis</b>	<b>F2014</b>	F2013	% change
Cash operating profit attributable to ARM	<b>132</b>	405	(67)
Less: Interest paid	<b>(189)</b>	(125)	(51)
Amortisation	<b>(265)</b>	(270)	2
Fair value adjustments	<b>(13)</b>	(29)	55
Loss before tax	<b>(335)</b>	(19)	–
Tax	<b>93</b>	5	>100
Headline loss attributable to ARM	<b>(242)</b>	(14)	–