CHIEF EXECUTIVE OFFICER'S REPORT

MIKE SCHMIDT

INTRODUCTION

ARM is pleased to report a 204% increase in headline earnings for the year ended 30 June 2017. All the operational divisions reported an improvement in their headline earnings contribution as follows:

HEADLINE EARNINGS/(LOSS) BY OPERATION/DIVISION

	12 months ended 30 June		
	2017	Re-presented 2016	% change
ARM Platinum	**350**	(10)	>200
Two Rivers Mine	**325**	318	2
Modikwa Mine	**(66)**	(84)	21
Nkomati Mine	**91**	(244)	137
ARM Ferrous	**3 709**	1 441	157
Iron ore division	**2 187**	1 215	80
Manganese division	**1 161**	198	>200
Chrome division	**375**	55	>200
Consolidation adjustment	**(14)**	(27)	
ARM Coal	**82**	(297)	128
GGV Mine	**(99)**	(87)	(14)
PCB Operations	**181**	(210)	186
ARM Copper*	**(203)**	(361)	44
ARM Strategic Services and Exploration	**(28)**	(23)	(22)
Gold	**64**	–	
Corporate and other*	**(778)**	301	(>200)
Total headline earnings	**3 196**	1 051	>200

* *Following the announcement of the disposal of ARM's interest in Lubambe Mine, the operation has been classified as held for sale at 30 June 2017, in terms of IFRS. As such intercompany interest accrued to ARM Company from Lubambe Mine of R219 million (F2016: R194 million) has been eliminated from both the ARM Copper and Corporate and other segments.*

OPERATING IN A SAFE AND RESPONSIBLE MANNER

Our focus and commitment to safety remains resolute and uncompromising. We are pleased with the results yielded by our continuing efforts to improve our safety performance. In the year under review, both the Ferrous and Platinum divisions achieved their lowest LTIFR to date of 0.17 and 0.38 per 200 000 man-hours, respectively.

Other safety achievements in F2017 included:

> Beeshoek Mine completed 15 000 fatality-free production shifts in November 2016;
> Black Rock Mine completed five million fatality-free shifts in October 2016 and received an award from the DMR as the safest underground mine in the Northern Cape region;
> Khumani Mine achieved one million fatality-free shifts at the beginning of December 2016;
> Modikwa Mine achieved four million fatality-free shifts in July 2017; and
> Nkomati Mine achieved a full financial year without a lost time injury.

ARM PLATINUM

ARM Platinum headline earnings improved by R360 million as each operation in the division improved its contribution to earnings. The higher headline earnings were driven mainly by increased US Dollar PGM, nickel and most significantly chrome concentrate prices which were partially offset by a strengthening of the Rand against the US Dollar.

Production volumes at Modikwa Mine were 3% higher as an increase in head grade and concentrator recoveries negated the lower milled tonnes. Unit production costs per PGM ounce at Modikwa Mine were well controlled with the mine achieving below inflation unit cost increases for a second consecutive financial year.

Production volumes at Two Rivers and Nkomati mines were lower, impacted by various operational challenges.

PGM production at Two Rivers Mine was 3% lower at 390 214 ounces 6E PGMs as the complexity in the ore body resulted in lower mined grades. The ore body South of the main shaft historically indicated a decline in grades which have been intersected sooner than expected due to split reef.

As a result of the lower volumes, Two Rivers Mine's unit production costs on a Rand per 6E ounce increased by 10%. A number of initiatives are being implemented to improve the head grade including undercutting of the lower grade ore and scalping of waste rock on surface.

Two Rivers Mine has received consent from the DMR to transfer the Tamboti rights to it, and to have the Tamboti rights incorporated into its mining right. The addition of the Tamboti right to the Two Rivers mining area will result in the deepening of the main decline and is expected to contribute to an improved head grade.

Production at Nkomati Mine was negatively affected by poor mining efficiencies in the first half of the year and the construction of a second pile wall to achieve slope stability on the Western perimeter of the open pit. Consequently, Nkomati Mine's C1 unit cash costs increased by 15% to US$4.81/lb.

As discussed in the Executive Chairman's report, Nkomati Mine's production is expected to improve to 18 500 tonnes per annum from F2021 onwards.

ARM FERROUS

ARM Ferrous' headline earnings increased by 157% to R3 709 million as iron ore, manganese ore and manganese alloy prices recovered. The Ferrous operations were able to deliver into this improved price environment realising average US Dollar prices for export iron ore that were 45% better than F2016. Average realised US Dollar prices for export manganese ore were 93% higher than F2016.

In addition to improved realised prices, disciplined unit production cost containment and increased volumes at the iron ore and manganese alloy operations also contributed to higher earnings.

The high quality iron ore and manganese ore produced by ARM Ferrous was a key differentiating factor.

Index premiums for lumpy iron ore increased from a low of US$1 per tonne in January 2017 to approximately US$13 per tonne by the end of the F2017, while the premium for higher iron content iron ore (as measured by the index price differential between 62% iron ore fines and 58% iron ore fines delivered in China) increased by 96% in the period under review. 60% of Khumani Mine's export sales volumes were lumpy iron ore with an average iron content of 65%.

Premiums for higher manganese content also increased in F2017.

Fiscal and environmental policies in China, particularly those addressing pollution control, are expected to continue supporting premiums for high quality product as the Chinese government implements cuts to outdated and inefficient steel production capacity.

The Black Rock Project, which is expected to ramp up manganese ore production from the current 3 million tonnes to 4 million tonnes per annum by F2020 (subject to market conditions and the availability of rail capacity) positions ARM Ferrous well to deliver into this increased demand for high quality manganese ore. We are pleased too with the successful commissioning of the Sakura Ferroalloys Project. Both furnaces at Sakura are now producing high-carbon ferromanganese and are exceeding design capacity at 230 000 tonnes per annum.

CHIEF EXECUTIVE OFFICER'S REPORT continued

ARM COAL

ARM Coal headline earnings of R82 million in F2017 were a significant turnaround from the headline loss of R297 million reported in F2016. The improvement was mainly attributable to the PCB operations which contributed R181 million headline earnings (F2016: R210 million headline loss).

The Goedgevonden (GGV) Mine continued to be loss-making as additional expenditure to improve in-pit inventory levels and saleable production resulted in on-mine saleable production unit costs increasing by 35% as waste stripping was accelerated. Most of GGV Mine's operational issues have been addressed with the mine's unit production costs expected to improve going forward.

The ARM Coal operations are now in steady state and the objective of changing to large-scale, low-cost opencast mines has been successfully achieved. GGV Mine and the PCB operations are currently positioned well below the 50th percentile of the thermal coal global unit cost curve. Restructuring of ARM Coal's debt, as discussed in the Executive Chairman's report, is expected to improve ARM's debt obligations in terms of these loans.

ARM COPPER

The ARM Copper headline loss improved by 44% from R361 million to R203 million mainly due to improved realised copper prices which were offset by lower sales volumes. The decrease in volumes was in line with a decision taken in F2016 to reduce tonnes milled to 80 000 tonnes a month in order to minimise cash requirements and preserve Lubambe Mine's reserves. Despite the lower sales volumes, Lubambe Mine's C1 unit cash costs increased below inflation at only 2% from US2.41/lb in F2016 to US$2.45 per pound of copper produced.

The disposal of ARM's interest in Lubambe as discussed in the Executive Chairman's report is expected to be completed within six months from the signature date.

LOOKING AHEAD

While higher average realised US Dollar commodity prices certainly contributed positively to the F2017 results, commodity price and exchange rate volatility remains high. In this uncertain environment we continue to focus on restructuring the loss-making operations and those that require shareholder funding. Cost containment to ensure that all our operations are positioned below the 50th percentile of the respective cost commodity curves remains a key part of our strategy.

We remain prudent with capital to ensure that funding is only applied to projects that are expected to provide satisfactory returns.

ARM remains confident of the long-term outlook for our commodities. Supported by a robust financial position, ARM continues to assess quality growth opportunities both internally and through mergers and acquisitions and new joint venture partnerships.

CONCLUSION

As we navigate ever-changing global commodity markets, we continue to adhere to our "We do it better" management style to build a more efficient and resilient business that creates long-term value and benefit for all our stakeholders. The hard work and commitment of our employees is the very foundation of our ability to achieve this. I would therefore like to thank each and every employee for their contribution. I extend 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 guidance and support in the past year.

Mike Schmidt
Chief Executive Officer

10 October 2017