

EXECUTIVE CHAIRMAN'S REPORT

PATRICE MOTSEPE



OVERVIEW

After a few years of persistent headwinds in the global mining industry, the 2017 financial year (F2017) was characterised by an improved outlook as US Dollar prices for the commodities that ARM produces increased relative to the previous financial year.

The higher US Dollar prices contributed significantly to the 204% increase in headline earnings reported for F2017 despite being partially offset by a 6% strengthening of the South African Rand against the US Dollar. Headline earnings were R3.2 billion compared to R1.1 billion in F2016.

Throughout the commodity markets downturn over the past few years, ARM continued to pay dividends. In the year under review, an eleventh annual consecutive dividend of R6.50 per share was declared. This is an increase of 189% compared to the previous financial year's dividend and is the highest dividend to date.

Despite improved commodity prices, we continued to focus on proactively managing those factors which are within management's control. These include:

- > maintaining a safe and healthy work environment;
- > restructuring loss-making operations;
- > improving operational efficiencies and containing unit cost increases;
- > focussing on the efficient allocation of capital;
- > improving our financial position;
- > partnering and investing in our employees;
- > improving our relationship with key stakeholders; and
- > ensuring that we remain responsible stewards of our environmental resources.

MAINTAINING A SAFE AND HEALTHY WORK ENVIRONMENT

We are proud to report that there were no fatalities at any of our operations in F2017, resulting in ARM being fatality-free for two consecutive financial years.

The Company's Lost Time Injury Frequency Rate (LTIFR) improved by 14% from 0.32 per 200 000 man-hours in F2016 to 0.28 per 200 000 man-hours in F2017.

Safety-related stoppages (i.e. section 54 Notices) reduced to 21 from 28 in F2016. This improvement was achieved through increased discipline at all our operations and collaboration with the Department of Mineral Resources (DMR) to improve our adherence to safety standards.

OPERATIONAL REVIEW

The CEO's Report deals with ARM's operational performances in greater detail and I will therefore review our operations in broad terms.

RESTRUCTURING LOSS-MAKING OPERATIONS

During F2017 the businesses that we primarily focussed on for restructuring included the Lubambe, Nkomati and Modikwa mines as well as ARM Coal.

Lubambe Mine

On 15 August 2017, ARM announced that an agreement had been concluded for the disposal of ARM and Vale's 80% interest in Lubambe Mine to EMR Capital for a consideration of US\$97 million. The disposal included the equity holding and loans to Lubambe Mine. Completion of the sale is subject to the fulfilment of conditions precedent which are expected to be concluded within six months of the signature date.

Nkomati Mine

Nkomati Mine contributed headline earnings of R91 million mainly due to improved chrome prices. Waste stripping was curtailed because of the low nickel price and is currently being accelerated in order to open up ore reserves to gain increased mining flexibility. Work is also being done to stabilise the pile wall on the Western Section of the mine. The Eastern Section of the pit has lower grade ore resulting in a reduction in the forecasted production volumes for the next three years.

Nkomati Mine is expected to return to production volumes of 18 500 tonnes per annum from the 2021 financial year.

We are concerned about the outlook for nickel prices in the short-term, but remain positive on the medium- to long-term outlook. The mine is implementing a number of initiatives to minimise funding requirements from partners in this low nickel price environment.

Modikwa Mine

Modikwa Mine's headline loss reduced by 21% to R66 million (F2016: R84 million). PGMs produced at the mine increased by 3% as the head grade and plant recoveries improved. Unit costs per PGM ounce increased at a rate below the inflation rate of 3%. Despite these improvements, Modikwa Mine is likely to continue requiring funding support from the partners for a portion of its sustaining capital expenditure.

Interventions are under way to improve the mine's profitability and cash flow generation. These include the cessation of mining in areas that are producing at a loss.

In the fourth quarter of F2017 Modikwa Mine reported improvements in tonnes milled, production volumes and unit costs. This positions the mine well for the coming financial year. Unit production costs for the quarter were R1 174 per tonne milled, compared to an average of R1 265 per tonne milled reported for F2017.

ARM and Anglo Platinum are committed to ensuring that the expenditure on capital is efficient and to return the operation to profitability.

ARM Coal

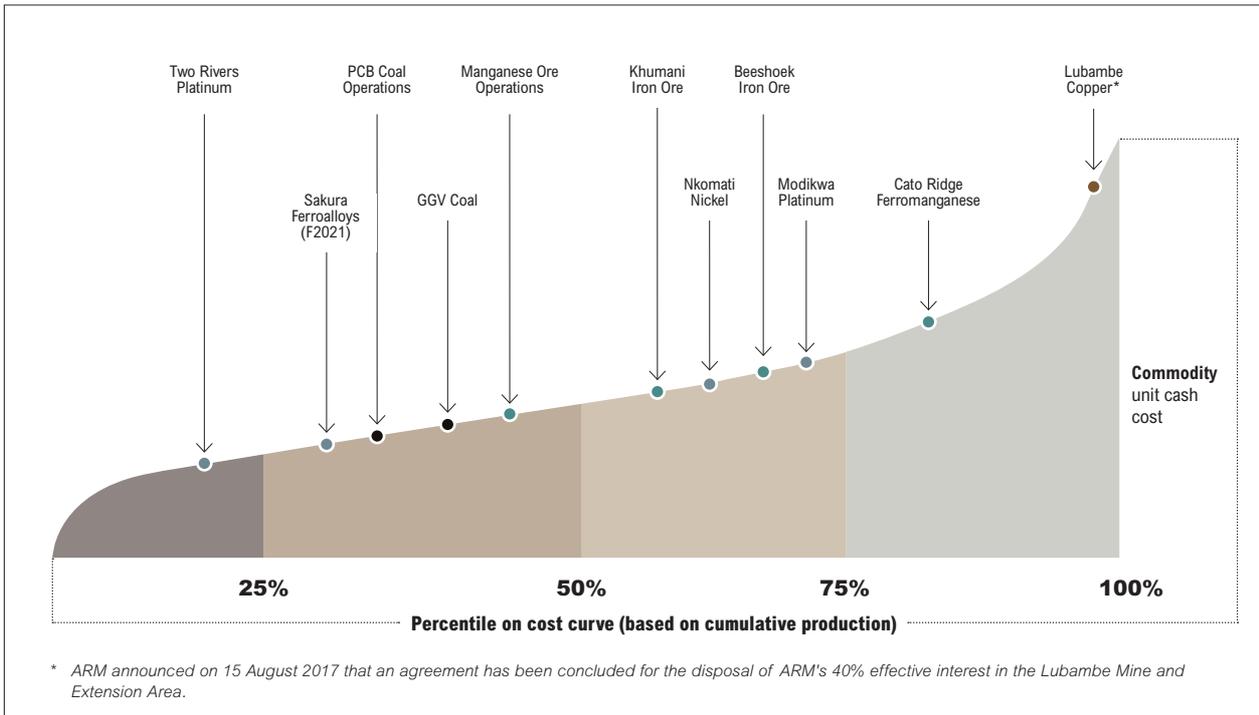
ARM and Glencore Operations South Africa are in discussions concerning the restructuring of the ARM Coal partner loans to improve ARM's debt obligations in terms of these loans.

IMPROVING OPERATIONAL EFFICIENCIES AND CONTAINING UNIT COST INCREASES

Positioning all operations below the 50th percentile of the respective global commodity unit cost curves, remains a key part of ARM's strategy.

EXECUTIVE CHAIRMAN'S REPORT continued

ARM'S OBJECTIVE IS TO ENSURE THAT ALL OPERATIONS ARE BELOW THE 50th PERCENTILE



In the financial year under review a number of ARM's operations moved up the global unit cost curves, as per the diagram above. These are; the Khumani, Beeshoek, Nkomati, Modikwa and Lubambe mines, as well as Cato Ridge Works.

Khumani and Beeshoek mines: Despite the iron ore operations achieving unit cost increases below inflation in F2017, Khumani and Beeshoek Mine moved to the right of the global iron ore unit cost curve (which is based on, all-in cash costs including sustaining capital expenditure on a 62% fines adjusted basis). The move to the right was mainly as a result of a flattening of the global iron ore unit cost curve as new low cost production from the major iron ore producers ramped up.

Even at the current cost curve position the iron ore operations remained very profitable delivering an EBITDA margin of 45%. Khumani Mine realised premiums for the lumpy and high iron ore content that it sells.

Nkomati Mine: Nkomati Mine is expected to remain positioned above the 50th percentile of the global nickel unit cost curve (which is based on a C1 unit cash costs net of by-products) during the three-year period of reduced production volumes, as discussed earlier in this report. When the mine ramps back up to 18 500 tonnes per annum its position is expected to improve to the 50th percentile of the F2021 global nickel unit cost curve.

Modikwa Mine: In F2017 Modikwa Mine improved to be positioned below the 75th percentile. The global PGM unit cost curve has flattened in recent years. Consequently, incremental unit cost improvements at Modikwa Mine (such as those achieved

in the fourth quarter of F2017) are expected to further improve the mine's position on the global PGM unit cost curve.

Lubambe Mine: Lubambe Mine continues to be positioned well above the 50th percentile of the global copper unit cost curve. An agreement for the disposal of Lubambe Mine has been concluded as discussed earlier in this report.

Cato Ridge Works: ARM and Assore are currently reviewing their strategy for the local manganese alloy production.

Only three of the six furnaces at Cato Ridge Works are operating, owing to the high cost of production at this operation.

IMPROVING OUR FINANCIAL POSITION

The cash dividend received from Assmang increased from R875 million in F2016 to R2 488 million in F2017. This, along with other cash generated, enabled ARM to fully repay its corporate revolving credit facility and reduce the overdraft and short-term borrowings. The net debt improved from R4 235 million at 30 June 2016 to R1 271 million as at 30 June 2017.

The ARM Ferrous attributable cash and cash equivalents balance (which is excluded from the net debt calculation) was R3 165 million at 30 June 2017 (F2016: R2 399 million).

PARTNERING AND INVESTING IN OUR EMPLOYEES

Our employees are crucial to our ability to create sustainable value for all our stakeholders. We continued to build on the good relationships we have with our employees and the trade unions that represent them through open and honest engagement.

There are approximately 24 100 employees at the ARM operations (F2016: 23 128). Employee turnover based on full time employees leaving was only 1.1% for F2017 (F2016: 15%).

Investment in our workforce through skills development and particularly in relation to the skills that our employees require to be more efficient and competitive was maintained at R180 million in F2017 (F2016: R184 million).

Over the years ARM has invested, across all our operations, in a range of initiatives that support youth and women development. These initiatives include, amongst others, community cadetship training, Science, Technology, Engineering and Mathematics (STEM) programmes, learnerships and a graduate development programme. The initiatives increase the pool of future industry skills, especially amongst members from historically disadvantaged communities.

It is pleasing that our efforts of creating an inclusive and transformed workforce are bearing fruit as 55% of our senior management are historically disadvantaged South Africans.

We believe that an inclusive and representative workforce greatly benefits and enriches our company and our country.

IMPROVING OUR RELATIONSHIP WITH KEY STAKEHOLDERS

We are committed to develop and to improve the living conditions of the residents living at our host communities through *inter alia*; various Corporate Social Investment (CSI), Local Economic Development (LED) and Social and Labour Plan (SLP) initiatives and projects. These initiatives prioritise women, youth, historically disadvantaged persons and people living with disabilities or HIV and Aids.

During F2017, R115 million was invested through our CSI, LED and SLP projects (F2016: R106 million).

We also contribute to the broader upliftment and development of poor and historically disadvantaged communities in South Africa through the ARM Broad-Based Economic Empowerment Trust (ARM BBEE Trust), which works in close collaboration with local communities, traditional leaders and other stakeholders.

Since inception beneficiaries of the ARM BBEE Trust have received approximately R134 million. These funds were used for education, water, health, farming and various other rural development projects throughout South Africa and have also benefitted particularly the youth and women.

ENSURING THAT WE REMAIN RESPONSIBLE STEWARDS OF OUR ENVIRONMENTAL RESOURCES

We are committed to being responsible stewards of the environmental resources in the areas where we mine.

ARM is also committed to applying global good practice and our approach to managing our environment is in line with the principles of the Sustainable Development Framework of the International Council on Mining and Metals (ICMM) of which we are a member.

We have introduced initiatives that are focussed on the efficient and responsible use of water, the efficient utilisation of energy and the reduction of carbon emissions.

Further details on our environmental management programmes are included in the operational reviews for each division and in the 2017 Sustainability Report.

THE SOUTH AFRICAN MINING INDUSTRY

The mining industry remains a key part of the South African economy. It is significant to the country's economic growth and sustainable development. It contributes to the fiscus and to the country's balance of payments. It creates direct and indirect employment for several hundred thousand South Africans. It also creates opportunities for SMME's (Small, Medium and Micro Enterprises) through preferential procurement, supplier development and enterprise development.

Despite the current challenges of low business confidence, job losses and the disagreement between the government and the Chamber of Mines on the Mining Charter; all parties and stakeholders recognise that it is critically important that the legal, regulatory, tax and overall governing dispensation of the mining industry continue to be globally competitive and attractive for private and foreign investment.

We are committed to working with government, labour, our host communities and other stakeholders to ensure that the South African mining industry advances the interests and benefits all stakeholders.

RECOGNITION

I would like to extend my gratitude to our shareholders, employees and their representative organisations, host communities and to all our other stakeholders for their support and co-operation.

I am also grateful to our world-class management team and staff and for the good leadership that Mike Schmidt continues to provide.

Finally, I would like to thank each and every director for their invaluable guidance and contribution to the board.

We are confident about the future of ARM and are committed to ensuring that it continues to be a globally competitive company, that benefits all its stakeholders.

Patrice Motsepe
Executive Chairman

10 October 2017