"THE ARM OPERATIONS DELIVERED **STRONG OPERATIONAL RESULTS** AGAINST A BACKDROP OF CHALLENGING COMMODITY MARKETS."

MIKE SCHMIDT
CHIEF EXECUTIVE OFFICER

CHIEF EXECUTIVE OFFICER'S REPORT

INTRODUCTION

Lower US Dollar commodity prices significantly affected ARM's financial results in the year under review. US Dollar realised prices for iron ore and manganese ore decreased by 23% and 31% respectively, while the US Dollar Platinum Group Metals (PGM) basket price fell by 26%. Nickel prices were also negatively affected, with realised US Dollar prices declining by 39%. Export thermal coal prices were 25% lower. The weakening of the Rand versus the US Dollar partially offset these US Dollar price declines.

In this low commodity price environment, ARM continues to proactively manage operations and in the year under review delivered good operational results, completing the year with zero fatalities.

ARM Ferrous delivered positive headline earnings and in ARM Platinum's Two Rivers Mine contributed positively to headline earnings. The Modikwa and Nkomati mines reported headline losses of R84 million and R244 million respectively. The significant decline in Nkomati Mine's headline earnings was mainly as a result of the decline in US Dollar nickel prices. Nkomati Mine implemented the following restructuring initiatives to reduce unit production costs and minimise cash requirements from the partners:

- The high-cost underground mine was placed on care and maintenance;
- The mine's labour force was reduced by 300 employees; and
- Waste stripping was deferred to a minimum without impacting the annualised tonnage milled.

The GGV and PCB coal operations reported cash operating profits of R204 million and R397 million respectively (on an attributable basis); however, due to high interest and amortisation charges, ARM Coal reported a headline loss of R297 million for the financial year under review.

The ARM Copper headline loss increased to R555 million, mainly due to lower US Dollar copper prices and a weaker Rand versus the US Dollar exchange rate at which the Lubambe Mine results were translated. Unit production costs at the Lubambe Mine were reduced by 14%. The mine, however, remains positioned significantly above the 50th percentile of the global copper cost curve, similar to other copper mines on the Zambian Copperbelt.

HEADLINE EARNINGS CONTRIBUTION BY DIVISION/OPERATION

	12 months ended 30 June		
R million	2016	2015	% change
ARM Platinum	**(10)**	405	(102)
Two Rivers Mine	**318**	319	–
Modikwa Mine	**(84)**	(64)	(31)
Nkomati Mine	**(244)**	150	>(200)
ARM Ferrous	**1 441**	1 588	(9)
Iron ore division	**1 215**	1 248	(3)
Manganese division	**198**	289	(31)
Chrome division	**55**	92	(40)
Consolidation adjustment	**(27)**	(41)	
ARM Coal	**(297)**	(93)	>(200)
Goedgevonden (GGV) Mine	**(87)**	93	(194)
PCB Operations	**(210)**	(186)	(13)
ARM Copper	**(555)**	(430)	(29)
ARM Strategic Services and Exploration	**(23)**	(50)	54
Gold	**–**	–	
Corporate and other	**495**	324	53
ARM headline earnings	**1 051**	1 744	(40)

CHIEF EXECUTIVE OFFICER'S REPORT continued

We are restructuring our loss making operations to minimise losses. Where an operation cannot become profitable in the next two to three years, all options will be considered to maximise value for ARM and its shareholders.

Our focus remains on maintaining a competitive cost position for each of our operations as we aim to have all of them positioned below the 50th percentile of each commodity's respective cost curve. All divisions are incentivised to improve operational efficiencies on an ongoing basis in order to mitigate above-inflation cost increases.

OPERATING IN A SAFE AND RESPONSIBLE MANNER

We are committed unconditionally to maintaining a safe and healthy work environment for all our employees. In addition to achieving our best ever LTIFR the operations also delivered the following commendable safety achievements:

> ARM Ferrous achieved its lowest ever LTIFR of 0.22 per 200 000 man–hours;
> Nkomati Mine completed five million fatality-free shifts;
> Black Rock Mine completed four million fatality-free shifts;
> Beeshoek, Dwarsrivier, Lubambe and Two Rivers mines each completed three million fatality-free shifts;
> Modikwa Mine completed two million fatality-free shifts;
> Cato Ridge Works completed two million fatality-free shifts; and
> Beeshoek Mine completed 14 000 fatality-free production shifts, an achievement that took 13 years to complete.

ARM FERROUS

The iron ore operations achieved record sales volumes of 17.0 million tonnes. The Khumani Mine in particular delivered an impressive operational performance lowering its LTIFR by 42% to 0.17 per 200 000 man hours, increasing iron ore production by 7% to 13.6 million tonnes and reducing on-mine unit production costs by 12% to R194.10 per tonne.

Khumani Mine also reduced capital expenditure by R250 million, in line with ARM's focus on prudently reducing or deferring capital expenditure.

Ensuring adequate water supply for the Khumani Mine was a challenge in F2015, however, the mine (in conjunction with the Sedibeng Water Board) implemented a number of initiatives to address this water shortage. As a result production lost due to a shortfall in water supply was reduced by 50% to 300 000 tonnes.

Transnet Freight Rail continued to deliver good operational performance and logistical support, enabling the export of 14.1 million tonnes of iron ore. 2.9 million tonnes of iron ore was sold locally.

At Beeshoek Mine, development of the Village Pit is progressing on schedule and within budget. The Village Pit extends Beeshoek Mine's life of mine to 12 years at a sustainable annual production rate of 3.0 million tonnes. This production rate is consistent with Beeshoek Mine's supply contract to a local steel producer.

The manganese ore operations delivered increased sales volumes despite ongoing construction on the modernisation of the Black Rock Mine. Of the 3.1 million tonnes of manganese ore sold, 3.0 million tonnes was exported and 0.1 million tonnes was sold locally. Unit costs at the mine were well controlled, with on-mine unit production costs decreasing 6% in nominal terms.

Capital expenditure for the manganese ore operations (on a 100% basis) increased marginally to R1 939 million with most of the capital spent on the Black Rock Project.

The Black Rock Project is progressing on schedule and within budget. The project will modernise the manganese ore operations and yield the following benefits:

> Optimise the exploitation of the higher grade Seam 1 and Seam 2 manganese ore resource in the Nchwaning mining complex;
> Ensure greater efficiency in mining, processing and sorting;
> Create flexibility for the Black Rock Mine to respond to changes in market product requirements; and
> Allow the mine to increase production volumes from 3.0 million tonnes to potentially 4.6 million tonnes, subject to market demand and logistics capacity.

The project is approximately 68% complete.

During the year, an agreement was reached with Transnet regarding the manganese ore export capacity, as per the interim Manganese Export Capacity Allocation (MECA2) process. Synchronisation of the ramp-up of the Black Rock Mine with the longer-term MECA3 process is ongoing.

Challenging market conditions in the manganese alloy market continued to negatively impact the smelters. Production volumes at Cato Ridge were intentionally reduced in response to market conditions with only three of the six furnaces currently operating.

ARM and Assore are in the process of evaluating all options for the future of Machadodorp Works.

The disposal of our 50% effective interest in Dwarsrivier Chrome Mine to Assore was completed after year-end in July 2016. The operational and financial results of the Dwarsrivier Mine are therefore included for the full 2016 financial year.

ARM PLATINUM

ARM Platinum improved operational performance delivering increased production volumes and good unit production cost control.

PGM production (on a 100% basis, including Nkomati) increased by 10% to 851 924 6E ounces (F2015: 776 996 6E ounces) and Nkomati Mine's nickel production increased marginally to 21 592 tonnes (F2015: 21 298 tonnes).

Chrome ore sales from Two Rivers Mine were 18% higher at approximately 284 thousand tonnes, while chrome concentrate sales from Nkomati Mine reduced to 273 thousand tonnes (F2015: 377 thousand tonnes).

Unit costs were well contained at the ARM Platinum operations. The Modikwa and Nkomati mines held costs flat year-on-year on a Rand per tonne basis and each achieved decreases in unit production costs on a Rand per 6E PGM ounce and C1 cash cost net of by-products basis respectively. Two Rivers Mine unit production costs per tonne increased by 8%, marginally above the inflation rate.

Capital expenditure at ARM Platinum operations (on a 100% basis) reduced by approximately R500 million to R1 052 million (F2015: R1 589 million). The majority of this capital expenditure (R351 million) related to Nkomati Mine's capitalised waste stripping. Capital at Modikwa Mine was mostly spent on the restructuring of the South 1 and South 2 shafts to enable operational synergies and cost savings and the continuation of the capital project at South 2 Phase 1 to improve mining flexibility.

Two Rivers Mine's capital was spent on fleet replacement and refurbishment, the deepening of the Main and North declines and the associated electrical and mechanical infrastructure.

ARM COAL

The seaborne thermal coal market remained oversupplied resulting in a decline of US Dollar realised export thermal coal prices of 25% in F2016. This decline was more pronounced in the second half of the financial year. The 27% weakening of the Rand/US Dollar exchange rate was not enough to offset the decline in US Dollar prices, resulting in Rand export thermal coal prices declining by 6%.

ARM Coal export sales volumes were 17% higher, mainly driven by increased volumes from the PCB operations as the Tweefontein Optimisation Project (TOP) ramped up. GGV Mine sales volumes and unit production costs were negatively affected by a 22% decrease in saleable production volumes, a result of mining in a lower-grade area and lower than planned equipment availability. The GGV Mine's export sales were 24% lower, while unit production costs increased by 27%. The PCB operations reduced on-mine unit production costs per saleable tonne by 18%.

ARM COPPER

We reported in our F2016 interim results that the Lubambe Mine was being placed under review. As part of this review a number of production scenarios were evaluated with the aim of minimising cash funding requirements. It was subsequently agreed to reduce production to 80 000 tonnes milled per month effective from 1 March 2016.

F2016 production volumes at the mine therefore reduced by 19% to approximately 21 000 tonnes of copper. Despite the decline in production volumes, the Lubambe Mine achieved a 14% decrease in C1 unit cash costs to US$2.41/lb of copper produced (F2015: US$2.80/lb). This was achieved through a number of cost reduction initiatives which included:

> Reducing expatriate labour by 66%, from 47 to 16 employees effective from 1 March 2016;
> Shutting down the No 2 Vertical Shaft and the ventilation shaft to reduce maximum demand of electricity and requirement for the more expensive imported power; and
> Parking equipment not required for the 80 000 tonnes per month plan.

Notably, during the last four months of F2016, after the reduction of targeted tonnage was implemented, the C1 unit cash cost reduced to an average of US$2.27/lb of copper produced.

A number of options are being considered for the Lubambe Mine to maximise value for ARM and an announcement will be made when appropriate in this regard.

ARM STRATEGIC SERVICES AND EXPLORATION

ARM Strategic Services and Exploration costs decreased by 54% to R23 million as exploration activities were reduced (F2015: R50 million). The Strategic Services and Exploration division continued to evaluate a number of new business opportunities and provided information technology, technical, strategic and project development support across ARM's operations and projects.

LOOKING AHEAD

This past year has been difficult for the global mining industry as a result of oversupply in most commodities and macroeconomic factors largely beyond our control.

In responding to these challenges, ARM has adhered to our 'We do it better' management style, which is underpinned by our values including:

> Providing a safe and healthy work environment;
> Maintaining a nondiscriminatory workplace;
> Aiming for operational excellence;
> Improving the lives of communities in which we operate;
> Maintaining the highest levels of corporate governance; and
> Working responsibly with all stakeholders to balance the economic, social and environmental aspects of our business

Looking ahead, we will continue to adhere to these values as we assess ways to improve operations and sustain quality production. We remain committed to steering the Company into the future as a more efficient and resilient business, to the benefit of all our stakeholders.

CONCLUSION

In these demanding times, it is the hard work and commitment of our employees that forms the foundation of the Company's strength, endurance and long-term success. For this, I would like to thank each and every employee for their contribution. I extend heartfelt thanks to our stakeholders and partners for their continued support during the year. And 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.