

CHIEF EXECUTIVE'S REPORT

André Wilkens Chief Executive Officer



Our world-class team proves its mettle

We will all look back on this past year with a sense of great achievement. Before the start of F2009 there were clear signs that this would be an extremely challenging year; demand for commodities was sharply weaker, resulting in severe declines in prices realised, and it was inevitable that our year's earnings would be negatively affected.

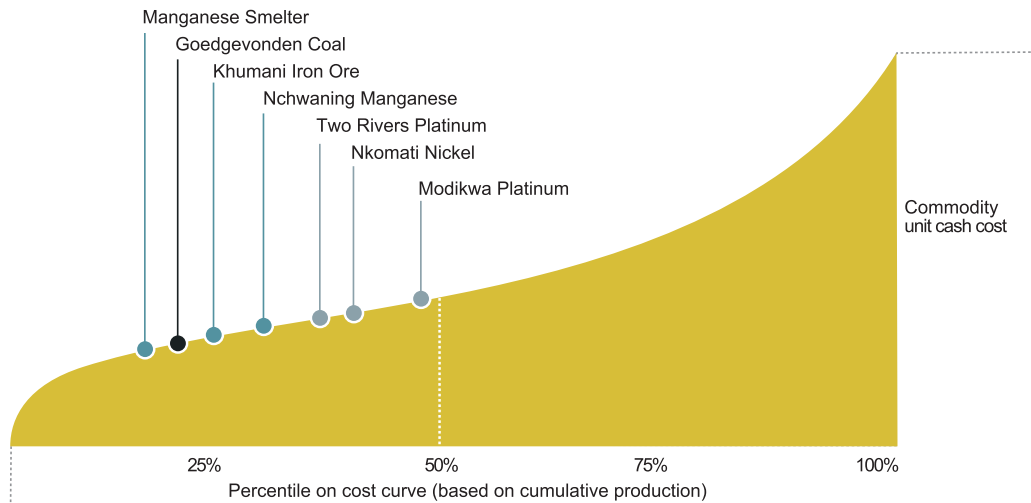
It is however pleasing to report that ARM has met the challenges head-on. None of our businesses generated a negative cash flow from operating activities, which I believe is testimony to the extent to which our team has embraced the entrepreneurial credo of "We do it better" management style.

Our collective response to the economic warning signs was effective with individual operations making far-reaching decisions appropriate to their particular circumstances. We achieved record sales volumes for iron ore and PGMs, manganese continued to be a mainstay contributor, and our cash balance for the year increased by nearly R1 billion to R3.5 billion. However, the volatility that we had to navigate during the year is illustrated by the variance in the contribution to headline earnings of our business sectors for F2009 versus F2008:

- ▶ The Ferrous Division's contribution rose from R2 775 million in F2008 to R3 150 million in F2009;
- ▶ Our platinum operations made an attributable loss of R348 million, against a R915 million profit contribution the previous year. However, we had a positive cash flow of R820 million for the financial year;
- ▶ Nkomati Nickel's attributable earnings fell from R432 million to R29 million and the mine is growing to a large scale, high volume operation; and
- ▶ Coal declined from an earnings contribution of R175 million to R135 million due to lower volumes.



ARM target for operations on the respective global cost curve by 2012
(ARM estimate, benchmarked at steady-state/normalised production volumes)



These fluctuations occurred while some operations achieved excellent production levels. The Ferrous Division dominated earnings, with iron ore achieving record sales volumes.

The Platinum Division achieved pleasing PGM sales, but reported a negative contribution to EBIT as a result of a significant fall in PGM prices during the year.

ARM's joint venture agreement with Vale was one of the year's highlights. Together with our new partner we are expecting further progress in proving the feasibility of several high-quality African resources, particularly the Konkola North Copper Project in Zambia, currently the subject of a feasibility study. The addition of copper to our portfolio represents an exciting value contribution to ARM.

As a growth company with a diverse portfolio, ARM is able to continue delivering cost benefits and a satisfactory return on assets, coupled with continuous quality improvements.

Decisive response to economic slowdown

While ARM's various production growth initiatives are continuing, supplemented by low-cost projects either recently completed or close to completion, we responded positively to weaker demand by:

- ▶ implementing production volume decreases once optimal stockpile levels were reached, driven by the respective commodity demand factors;
- ▶ containing costs at all operations, including the reduction of ARM's employees and contractors by some 30%;
- ▶ continuing capital expenditure on key development projects while delaying around 30% of capital expenditure over the next three years; and
- ▶ enhancing cash preservation at all operations.

We consulted extensively with employees through their representatives and kept job losses to a minimum by moving most of our employees to growing operations. We also successfully reallocated shifts at Modikwa to an 11-day fortnightly cycle from continuous mining operations. This restructuring at all our operations is completed.

ARM is increasingly moving towards owner-operator from contractor management as seen at the Dwarsrivier Chrome Mine. This trend will result in greater operational efficiencies. Secondly, some of our projects are ramping up to steady-state production which will improve our production and efficiency.

In F2009 ARM spent some R57 million on the training and development of human resources. Excellent progress was made this year in implementing and co-ordinating HIV & AIDS and TB programmes at all operations. A renewed drive to minimise waste at a number of operations, notably those at Machadodorp, Nkomati and Black Rock, is starting to deliver the desired results.



Coal washing and processing plant at Goedgevonden Coal Mine under construction

Growth investment continues

Expenditure on some of our long-term projects and pre-stripping operations has been delayed or reduced. The reduction at the pre-stripping operations was due mainly to the decline in the chrome market. Our strong net cash position allows us to continue with key growth projects:

- ▶ Our Goedgevonden Coal Expansion Project, started commissioning in Q1 of F2010;
- ▶ The completion of the Khumani Iron Ore Mine on time and within budget, and currently ramping up to 10 mtpa;
- ▶ The continuation of the 6 mtpa Khumani Iron Ore expansion; and
- ▶ The commissioning of Phase 2a involving a 375 000 tpm concentrator at Nkomati Nickel mine and ramping up to 20 000 tonnes nickel per annum over the next two years.

ARM's volume growth in key commodities, coupled with the strength of our balance sheet, places the Company in an advantageous and competitive position.

We are also fortunate in that this incremental growth has been in markets where it is unlikely to negatively affect the global demand/supply balance. As a growth company with a diverse portfolio, ARM is able to continue delivering cost benefits and a satisfactory return on assets, coupled with continuous quality improvements.

Maintaining strong margins

In F2009, EBITDA decreased by R2.7 billion to R4.5 billion. The average EBITDA margin, although lower at 44% compared to 57% the previous year, is satisfactory and was achieved as a result of a firm focus on cost containment.

It is gratifying that all of our operations are expected to be in the bottom half of the global cost curves for the commodities produced, by 2012. ARM is expected to reach this target because:

- ▶ We have large, high-grade ore deposits;
- ▶ Our operations are relatively shallow or open-pit;
- ▶ Much of our infrastructure is modern with new technology;
- ▶ We are an integrated alloy producer;
- ▶ Large scale operations allow for economies of scale; and
- ▶ Experienced management employed at all divisions.

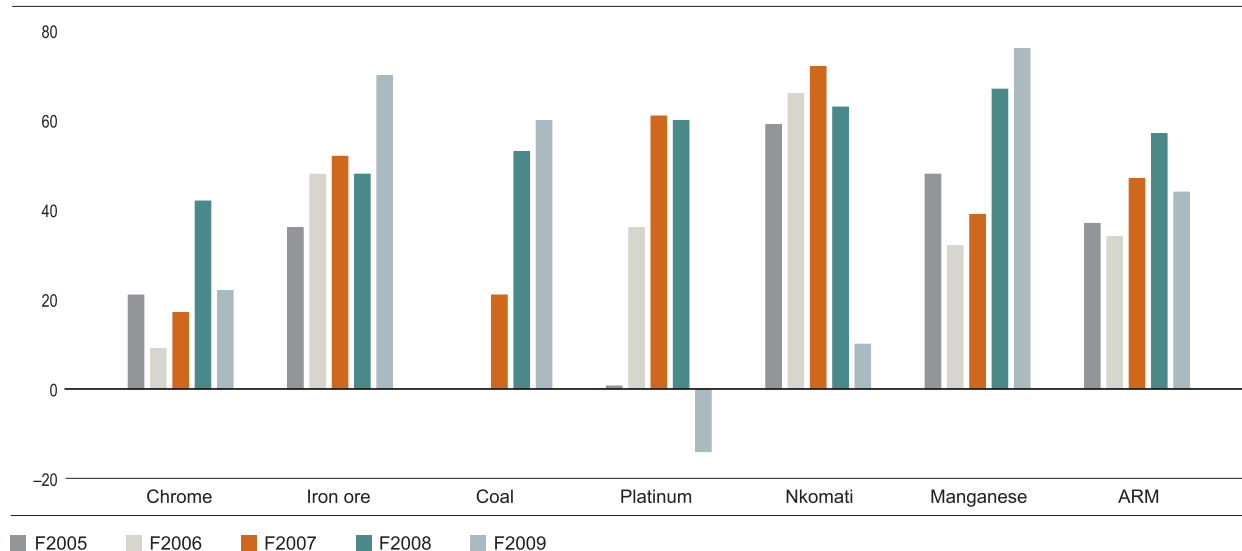
Managing inflationary pressures

While the outlook for the global economy and commodity sales is uncertain, pressure on costs such as wage expectations and electricity increases remain high.

ARM's proportion of labour and electricity costs is relatively low due to the high level of mechanisation and low cost mining methods.

ARM remains well positioned to benefit from any recovery in the global commodity demand. Where stockpiles have previously

Divisional EBITDA margin trend (%)



been reduced these have been rebuilt. Maintenance has improved on major equipment in an effort to reduce operating costs, and the benefits of the sometimes painful restructuring process will become apparent in F2010.

We have long-life quality assets, with a typical life of mine of some 25 years, and our investment decisions are made accordingly. China remains a strong driver of resource demand, benefitting particularly our ferrous business, while the continuing growth in this and other emerging markets such as India continues to underpin the thermal coal market. As economic recovery materialises further there is bound to be an even greater focus on environmental legislation in the more established economies, which will increase PGM demand.

Working with enthusiasm, dedication and skill

The restructuring initiatives implemented in F2009 will be of tremendous benefit to the Company in the new financial year, which promises to be every bit as challenging as the last. With the commitment of the people of ARM, our superb partners, our resilient mix of resources and assets, and a strong balance sheet, we certainly look to 2010 with good confidence.

André Wilkens
Chief Executive Officer
7 October 2009