

“ALL OPERATIONS THAT ARE UNDER OUR CONTROL, WITH EXCEPTION OF THE MANGANESE ALLOYS, IMPLEMENTED COST-CUTTING INITIATIVES THAT YIELDED EXCELLENT RESULTS. CAPITAL EXPENDITURE WAS REDUCED AND LOSS MAKING OPERATIONS ARE BEING RESTRUCTURED.

ARM DECLARED AND PAID A TENTH ANNUAL CONSECUTIVE DIVIDEND.”

PATRICE MOTSEPE
EXECUTIVE CHAIRMAN



EXECUTIVE CHAIRMAN'S REPORT

RESPONDING PROACTIVELY TO A CHALLENGING ENVIRONMENT

Headwinds faced by the global mining industry persisted in the financial year under review as commodity prices declined further. US Dollar prices for all of the commodities that ARM produces were lower than the previous financial year. The 27% weakening of the Rand against the US Dollar partially offset the decline in US Dollar prices.

ARM's F2016 headline earnings decreased by 40% to R1 051 million (F2015: R1 744 million). Despite the decline in headline earnings, ARM paid its tenth consecutive annual dividend. The F2016 dividend was 225 cents per share compared to 350 cents per share in F2015.

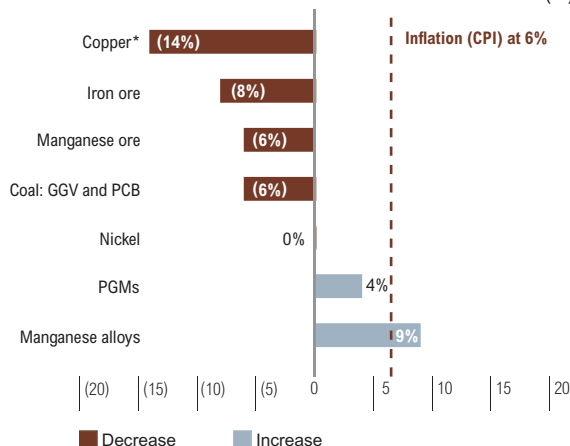
The ongoing challenges posed by the low commodity price environment have prompted an intense focus across the mining industry on cutting costs and increasing labour productivity to ensure the viability and sustainability of the mining operations as well as to save jobs.

I am pleased with the proactive manner in which our management has responded to this challenging environment focussing on those factors that are within management's control. These include improving operational efficiencies and reducing unit costs, while maintaining a safe and healthy work environment for all our employees.

Management has also, where appropriate, prudently deferred or reduced capital expenditure. Headline losses were recorded for the financial year under review at the Lubambe, ARM Coal, Modikwa and Nkomati mines and management has implemented a number of interventions to restructure these operations.

IMPROVING OPERATIONAL EFFICIENCIES AND REDUCING UNIT PRODUCTION COSTS

F2016 VERSUS F2015 ON-MINE UNIT PRODUCTION COSTS PER TONNE (%)



* The change in copper unit costs refers to C1 cash costs on a US Dollar per pound basis.

All the operations that are under our control, with exception of the manganese alloys, implemented cost-cutting initiatives that have yielded excellent results. The iron ore, manganese ore, Modikwa, Nkomati, Lubambe and PCB operations achieved decreases in unit production costs, while Two Rivers Mine achieved unit production cost increases well below inflation.

Further details on the Company's operational and financial performance are provided in the Chief Executive Officer's Report on pages 18 to 21 and in the Financial Director's Report on pages 22 to 31.

MAINTAINING A SAFE AND HEALTHY WORK ENVIRONMENT

We improved operational efficiencies and reduced unit production costs while achieving our best ever safety record. There were no fatalities in the year under review and our operations achieved the lowest Lost Time Injury Frequency Rate (LTIFR) in ARM's history at 0.32 per 200 000 man-hours (F2015: 0.35 per 200 000 man-hours). Lost Time Injuries (LTIs) were also reduced from 103 in F2015 to 86 in F2016.

Total shifts lost due to Section 54 safety stoppages decreased from 96 in F2015 to 77 in F2016. This improvement is attributable to increased discipline across the operations and close cooperation with the Department of Mineral Resources in improving our safety standards. We remain committed to continue reducing the Section 54 stoppages.

The safety and health of our employees is of paramount importance and we consistently review the effective safety and health controls that we have implemented to support safety in the workplace, manage occupational health and hygiene and demonstrate good labour practices.

IMPROVING OUR PORTFOLIO

The current commodity environment presents opportunities to further enhance our portfolio through value-accretive acquisitions and partnerships.

In the year under review we concluded an agreement with Impala Platinum Holdings to increase our shareholding in Two Rivers Mine from 51% to 54%. Two Rivers is the lowest cost underground PGM mine in the world and has a life of mine in excess of 30 years.

We continued to invest in the modernisation of our manganese ore operations through the R6.0 billion Black Rock Project. In addition to improving mining, processing and sorting efficiencies, this project will enable the manganese ore operations to increase production from 3.0 million tonnes to 4.6 million tonnes subject to market conditions and logistic capacity.

The Sakura Ferroalloys Project in Malaysia which was built at a total cost of US\$328 million, delivered its first sale of alloys in June 2016. The project, once ramped up, will produce 169 000 tonnes of ferromanganese per annum.

EXECUTIVE CHAIRMAN'S REPORT continued



Two Rivers Mine chrome recovery plant

We also concluded the sale of our 50% effective interest in Dwarsrivier Mine to our partners, Assore, in July 2016 and received R450 million as the purchase consideration. The production cost at Dwarsrivier Mine was significantly above the 50th percentile and was not in line with the unit cost requirements of our portfolio of assets.

PARTNERING AND INVESTING IN OUR EMPLOYEES

Our employees are crucial to our ability to deliver on our strategic goals and building a globally competitive mining company. Maintaining open and honest relationships with our employees and the trade union organisations that represent them remains a key focus area.

One of our key focus areas is ensuring that our workforce is motivated and appropriately trained and skilled. We address our skills development requirements through internal skills development programmes which include training courses, learnerships, internal and external bursaries and study assistance. In the year under review, we invested approximately R183 million in the training and development of our employees, which represents 6.9% of payroll. This exceeds the current Mining Charter target of 5%.

ARM also introduced various initiatives to develop and secure future skills. These include a graduate development programme as well as maths and science educational programmes in the communities in which we operate. The latter serves both to increase knowledge of these subjects, which are integral to everyday life, as well as to reduce South Africa's learning deficit.

We are proud of the diversity of our workforce and believe that it greatly benefits and enriches our Company. It is encouraging to note that our employment equity at the professionally qualified level increased from 54% to 57% and from 44% to 47% at the senior management level. We are committed to continue making progress in this regard and in building an inclusive and representative workforce.

BENEFITING OUR STAKEHOLDERS

We are committed to developing the host communities in which we operate through, *inter alia*, Corporate Social Investment (CSI) initiatives, Local Economic Development (LED) and Social and Labour Plan (SLP) projects. These aim to build capacity in communities and prioritise women, the youth, people living with disabilities, HIV and Aids projects, and assisting those who are historically disadvantaged. During F2016, R106 million was invested through our CSI, LED and SLP projects.

In addition, we contribute to the broader upliftment and development of the communities in South Africa through the ARM Broad-Based Economic Empowerment Trust (ARM BBEE Trust), which has distributed R120 million since inception to a wide range of poor and historically disadvantaged beneficiaries. The ARM BBEE Trust works in close collaboration with local communities, traditional leaders and other stakeholders to ensure that the local communities play a central role in identifying and benefiting from the development and upliftment projects that we implement.

During the financial year the ARM BBEE Trust was restructured to achieve a more permanent and sustainable funding solution for the Trust. The Financial Director's report deals in detail with the sustainable funding solution that we implemented.

ENSURING ENVIRONMENTAL WELL-BEING

We are committed to exceeding compliance requirements and ensuring that we apply global good practice in our environmental stewardship.

ARM is a member of the International Council on Mining and Metals (ICMM). ICMM's sustainable development framework continues to guide our environmental management and improvement initiatives.

Environmental management systems have been put in place at all operations to identify environmental impacts and to assist in

the implementation of environmental plans and performance monitoring. Our principal focus areas include responsible water management, the efficient use of energy to reduce our carbon footprint, biodiversity and rehabilitation of the land on which we operate our mines.

Further details regarding our sustainability performance are contained in our detailed Sustainability Report, which can be found on our website.

THE ROLE OF MINING IN SOUTH AFRICA

The mining industry has historically been the backbone of the South African economy and continues to contribute to the economic growth and sustainable development of the country as well as to the upliftment and improvement in the living conditions of all our people.

The communities around mines, which are often in remote and sparsely populated areas, benefit from the creation of direct and indirect jobs and through increased opportunities created by preferential procurement, supplier development and enterprise development initiatives.

The South African mining industry remains an important hub both in the global mining context and for the country's economy. I am confident that the government, the private sector and all stakeholders are committed to ensuring that the legislative, regulatory, tax and the overall governing dispensation of the mining sector continues to be globally competitive.

The decrease in the prices of the commodities that we produce has had a profound impact on the South African economy. The weaker Rand against the US Dollar, reduced tax revenues and job losses have compounded existing low levels of business and consumer confidence.

We are committed to working with government, labour, the communities neighbouring our mines and other stakeholders to ensure that the South African mining industry remains an attractive global investment destination and that all stakeholders benefit from the mining industry.

LOOKING AHEAD

ARM's operations have responded well to the current low commodity price environment, specifically in the areas of cost containment and prudent planning of capital expenditure.

ARM remains focussed on positioning its operations below the 50th percentile of each commodity's global unit cost curve, restructuring loss making operations and investing prudently in our businesses.

Mining companies globally have responded to the prevailing market supply/demand dynamics by reviewing and in many instances reducing supply of commodities. These supply-side responses appear to have resulted in the apparent bottoming of US Dollar commodity prices. We are positive about the recovery in commodity prices in the medium to long term and believe that all steps taken now to improve productivity and unit costs will position ARM well into the future.

APPRECIATION

I wish to extend my gratitude to all our shareholders for their continued support and to all our stakeholders. Continued engagement and building good relationships with our host communities, worker organisations, national and international governments, suppliers and joint venture partners remain a top priority as we pursue the creation of shared values and benefits.

What we have achieved this year would not have been possible without the commitment and contributions of our world class management team and staff. Mike Schmidt continues to provide excellent leadership as our CEO. I also wish to express my sincere gratitude to my fellow board members for their invaluable guidance and advice.

We remain confident about the future of ARM and its strategic positioning to weather the current challenging commodity prices and to continue creating value for our shareholders and other stakeholders into the future.

Patrice Motsepe

Executive Chairman

12 October 2016