

Financial review

Over the reporting year, the average US dollar price received for Northam's basket of metals decreased by 42% to US\$1 001 per ounce.

Income statement

Sales

The main feature of the past year was the global economic and financial crisis, which saw commodity prices declining from their record highs at the beginning of the year by about 50%, which were mitigated by a 21% increase in unit sales to 10 362 kg (333 159 oz).

Over the reporting year, the average US dollar price received for Northam's basket of metals decreased by 42% to US\$1 001 per ounce. This decline was, however, partly offset by the 18% decline in the value of the South African rand against the US dollar over the year, which resulted in the average rand basket price over the year being 31% lower at R280 609 per kilogram. This decline was offset by the increase in unit sales, resulting in sales revenue only declining by 18% to R3 186 million.

| | F2009 | | | F2008 | | |
|-----------------------------|-----------------|-------------------------------|------------------|-----------------|-------------------------------|------------------|
| | Units sold (kg) | Average price received (R/kg) | Revenue (R000) | Units sold (kg) | Average price received (R/kg) | Revenue (R000) |
| Platinum | 6 288 | 325 730 | 2 047 965 | 5 275 | 396 782 | 2 093 212 |
| Palladium | 3 046 | 66 509 | 202 606 | 2 523 | 94 894 | 239 379 |
| Rhodium | 848 | 721 775 | 612 217 | 643 | 1 792 215 | 1 151 946 |
| Gold | 180 | 249 094 | 44 894 | 145 | 196 949 | 28 662 |
| Sub-total – 3PGE + Au | 10 362 | 280 609 | 2 907 682 | 8 586 | 409 159 | 3 513 199 |
| Iridium | 249 | 122 682 | 30 521 | 208 | 102 822 | 21 427 |
| Ruthenium | 1 227 | 31 108 | 38 167 | 1 059 | 99 302 | 105 122 |
| Other precious metals | 200 | n/a | 736 | 188 | n/a | 852 |
| Sub-total – precious metals | 12 038 | | 2 977 106 | 10 041 | | 3 340 600 |
| Nickel | | | 173 905 | | | 211 089 |
| Copper | | | 32 806 | | | 30 769 |
| Other by-product revenue | | | 2 225 | | | 3 679 |
| Total sales revenue | | | 3 186 042 | | | 3 886 137 |

Cost of sales

Cost of sales, as discussed out below, increased by 47% to R2 368 million.

| | F2009 | F2008 |
|---------------------------------|------------------|------------------|
| Labour | 824 278 | 716 717 |
| Stores | 599 636 | 502 569 |
| Utilities | 140 577 | 110 226 |
| Sundries | 344 234 | 297 862 |
| Decommissioning and restoration | (2 836) | (764) |
| Total operating costs | 1 905 889 | 1 626 610 |
| Concentrates purchased | 140 192 | - |
| Refining and other costs | 120 917 | 75 540 |
| Depreciation and impairments | 160 907 | 149 325 |
| Change in metal inventories | 40 224 | (242 827) |
| Cost of sales | 2 368 129 | 1 608 648 |

Operating costs

Total operating costs increased by 17% from R1 627 million to R1 906 million, reflecting the increased production, along with the effects of inflationary cost pressures. The higher metal production helped to contain the increase in unit cash costs to 14% however, or to R199 680/kg.

Labour costs increased by 15% on the back of an average wage increase of 13%, a living out allowance increase of 20%, and the payment of marketing, scarcity and sign-on allowances.

The 19% increase in the cost of stores was the result of a combination of inflationary factors combined with significant increases in the prices of steel and chemicals.

Utility costs rose by 28%, with water increasing by 13% and power by 25%. The increase in the cost of power was lower than the statutory increase primarily as a result of savings in electricity consumption.

Additional haulage maintenance, in the interests of safety, contributed to a 15% increase in sundries. Additional expenditure was incurred on exploration drilling and also cover drilling to ensure that water fissures are identified timeously. Other costs increased in line with inflation.

The credit in respect of the decommissioning and restoration charge is attributable to a combination of a reduction in the discount rate and long-term inflation rate as well as an increase in the life of mine, as more fully set out in note 18 of the notes to the annual financial statements on page 76.

Concentrate purchases

Purchases of concentrates during the year amounted to 487kg (15 657oz) of concentrates to the value of R140 million. Whilst the profitability of this material is generally lower than Northam's own production, it does assist in achieving acceptable blends of concentrate feed to the smelter.

Refining and other costs

Refining and other costs increased by 60% to R121 million compared to the previous year. This increase was largely attributable to toll treatment charges of R42 million which were incurred during the rebuild of the smelter.

Depreciation and impairments

The depreciation and impairment charge amounted to R161 million (2008: R149 million), comprising R144 million (2008: R149 million) in respect of depreciation and an impairment charge of R17 million. The decline in the depreciation charge arose as a result of the increase in the estimated life of mine from 16 years to 18 years. The rebuild of the smelter, which was some five years earlier than originally anticipated, resulted in an impairment charge of R17 million.

Change in inventories

Notwithstanding a 14% increase in unit operating costs, the higher sales volumes resulted in a decline in physical inventory, resulting in the value on metal of hand decreasing by R37 million.

Income from associate

Following the implementation of the various agreements relating to the acquisition of Booyendal, the group achieved recognition as an HDSA entity. Consequently it became entitled to acquire the 7.5% interest in the Pandora joint venture that had been warehoused by Mvelaphanda Resources. As a consequence, Northam brought to account an investment of R65 million and income of R72 million, R68 million of which related to the periods prior to the group being entitled to account for Pandora.

Investment income and net sundry income

The higher interest rates earlier in the year had a positive impact on investment income which was 34% higher at R130 million. Net sundry expenditure was R6 million compared to net sundry revenue of R2 million the previous year.

Hedging

Minor volumes of currency and metals were hedged during the year resulting in a loss of R4 million. There were no outstanding contracts at the end of the period.

Tax charge

The tax charge of R384 million equates to an effective rate of 37.9%, some 9.9% higher than the statutory rate of 28.0%. This additional 9.9% is accounted for by state's share of profits of 0.7%, secondary tax on companies (STC) of 7.9% and permanent and other minor differences of 1.3%, as more fully set out in note 28 to the annual financial statements on page 81.

Net profit attributable to shareholders

As a consequence of the above, profit attributable to shareholders decreased by 58% to R630 million, with headline earnings per share decreasing from 627 cents per share to 172 cents per share.

Cash flow

Operating cash flow

The cash flow from operations reduced significantly from R1 547 million to R718 million, whilst cash generated from the operations decreased from R2 429 million to R1 049 million, reflecting the decline in operating profits. Investment income increased to R128 million from R95 million primarily as a consequence of the higher interest rates during the earlier part of the year. Working capital decreased by R357 million compared to an increase of R265 million in F2008. This decrease of R357 million is attributable to decrease in inventories (R37 million), decrease in trade and other receivables

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(R132 million) and increases in trade and other payables (R188 million). The higher tax payments from R748 million to R792 million is primarily as a result of the payment of the liability of R449 million owing at the end of F2008 together with the payment of the current year's tax charge of R343 million.

Investing cash flow

Investing cash flows absorbed R446 million (2008: R264 million), comprising capital expenditure of R367 million less sundry disposals of R2 million, the investment in associates of R65 million and township development expenditure of R22 million.

Major items of capital expenditure included R14 million on development, R78 million on access infrastructure to 1 and 18 levels, R74 million on the once-off smelter rebuild, R23 million on additional accommodation and R36 million on the Booyendal project. The balance comprised routine capital expenditure.

Planned capital expenditure at the Zondereinde mine for F2010 amounts to a total of R270 million and includes the following major items: the 18 level extension project (R104 million), additional backfill facilities (R22 million), ventilation system (R7 million), improvements to the metallurgical plants (R33 million) and additional underground equipment (R25 million).

The investment in associates comprised R65 million in respect of the acquisition of the interest in the Pandora joint venture reduced by cash of R7 million distributed by Pandora.

A further R22 million was spent on the employee housing project. The sale of the houses to employees was again delayed by the lack of

power reticulation by the local authority, but it is anticipated that the necessary power will be available within the coming months, and sales of houses to employees are expected to commence early in 2010.

Financing cash flows

An amount of R4 million (2008: R22 million) was received following the exercise of share options by employees.

The dividends paid of R802 million reflect the strong performance of the group in a difficult environment, and comprise the final dividend for F2008 of 185 cps and the interim dividend for F2009 of 38 cps. A final dividend of 40 cps for F2009 has been declared bringing the total dividends in respect of F2009 to 78 cps.

The increase in the Restoration Trust Fund comprised a contribution made by the company of R1 million (2008: R1 million) and net income received by the Fund of R2 million (2008: R2 million).

The increase in the Environmental Contingency Fund comprised a contribution made by the company of R3 million (F2008: R3 million).

Balance sheet

The group's balance sheet remains strong, with cash and cash equivalents at the 30 June 2009 of R921 million (2008: R1 500 million) and net current assets of 1 129 million (2008: R1 592 million). The environmental decommissioning and restoration liability is R54 million (2008: R56 million). Apart from this liability and the deferred tax provision of R429 million (2008: R388 million) the group has no debt.