

## Message from the chairman and chief executive



Lazarus Zim

We now stand uniquely positioned in the PGM sector with a major greenfields growth prospect to develop, while we still continue to generate cash at our existing operation.



Glyn Lewis

This annual report comes to you in a fundamentally changed global economic environment. Resource companies across the world have been severely affected by the downturn in metal demand and the impact of this on prices. The relative strength of the local

currency in South Africa has provided little relief – particularly in the second half of the year, when we were hammered by the average rand basket price of R246 000/kg. Against this rather bleak backdrop, and the ever-present impact of inflation on our cost profile,

Northam has once again proved its resilience in the face of these substantial challenges.

More significantly against this background, F2009 has seen the culmination of a number of our strategic initiatives, signaled by the following company-changing developments:



**The finalisation and bedding down of the Booyesendal transaction.** The final steps of this protracted and complex process were concluded in June 2009 with Northam's acquisition of the entire issued share capital of Micawber 278 (Proprietary) Limited (Micawber), the owners of the Booyesendal mining titles.

**Entrenching the groups's black empowerment status.** The conclusion and implementation of the various agreements relating to the acquisition of the Booyesendal platinum asset (Booyesendal) have resulted in the transformation of our shareholder profile and the recognition of the group as an HDSA entity (historically disadvantaged South Africans) as required by the Minerals and Petroleum Resources Development Act of 2002 (MPRDA).

**Taking ownership of a stake in the Pandora joint venture.** With the group's HDSA status being entrenched, we have now taken full ownership of our 7.5% stake in the Pandora joint venture. Income from the joint venture has now for the first time been consolidated and is reflected in our earnings.

**Leveraging the metallurgical operations.** On the face of it, growth in this area has perhaps been slower than anticipated. As

management however, we are pleased with the progress we have made in this area, which has been carefully planned in tandem with the requisite modifications and improvements to the metallurgical operations:

- ongoing work on our proprietary sparger column cell technology in the UG concentrator circuit;
- the installation of the high pressure roll crusher; and
- the scheduled rebuilding of the furnace in the smelter, which was completed on schedule and without incident.

Following the metal offtake agreement with Pilanesberg Platinum Mines (Pty) Limited (PPM) in the previous financial year, we received first concentrate from PPM in April this year. Our metallurgical staff has done well to manage this process as well as it has as we move to increase our sales offering to the market. On a strategic level this intent represents an important development as we build up volume to feed into Heraeus South Africa's planned expansion of their refining facilities in Port Elizabeth.

## Safety and sustainable development

As has become customary for resource companies, we have flagged safety as a

material sustainable development issue at our operations. On behalf of the board and management, we once again acknowledge and remember Messrs Masilo, Gxoko, Dlwana and Sekholane who tragically lost their lives in mining-related activities during the year.

Notwithstanding this very sad outcome, we must pay tribute to the ongoing work by the unions, the safety inspectorate of the Department of Mineral Resources (DMR) and management for their efforts in promoting safety awareness and safe work practices. The past year has seen a particularly stringent focus on safety, and we are beginning to see some encouraging trends emerge in our safety statistics. All in all a total of 26 production days were lost and allocated to safety training and awareness initiatives. The challenge remains to further reduce the number and severity of accidents in the year ahead.

In our second sustainable development report, issued in tandem with the annual report and available on the Northam website at [www.northam.co.za](http://www.northam.co.za), we expand both on our exposure to and our management of sustainable development matters.



# Message from the chairman and chief executive

## Financial and operating results

Although production at the Zondereinde mine was only marginally higher at 9 408kg (302 474oz), metal sales were 21% higher at 10 362kg (333 159oz). Sales revenues however, were 18% lower at R3.2 billion, having reached R3.9 billion the previous year in the unusually high metal price environment.

In US dollar terms metal prices on average were 42% lower year on year at US\$1 001/oz, reflecting the dramatic decline in the metal prices: in the period from July to October 2008, platinum fell from US\$2 015/oz to US\$763/oz; palladium from US\$565/oz to US\$170/oz; and rhodium, which over the previous financial year had reached peaks of over US\$10 000, in the same three-month period had fallen from US\$9 750/oz to a mere US\$925/oz.

Inflation in South Africa continues to affect our input costs and we have had to absorb increases of up to 30% in the cost of steel and chemicals and 25% in the cost of power. Explosives, which in a mining environment represent a high volume and value item, were 17% dearer year on year.

Refining costs for the year, 60% higher at R121 million, reflect the impact of the once-off third party toll treatment charges – illustrating the benefits of being a fully

integrated producer with on-site smelting and base removal facilities.

Although, in these trying economic times Northam remained profitable, the impacts were real and severe: operating profits dropped by some 64% to R818 million; profit attributable to shareholders declined by 58% to R630 million; and headline earnings per share fell from 627 cents to 183 cents – the latter number also of course reflecting the dilutionary effect of the 121 million new shares issued as consideration for the Booyensdal asset.

As the reality of our expansion prospects begin to dawn, the imperative to preserve cash becomes more pressing; this approach has translated, in line with previous guidance, into a more cautious approach to dividend payments, as reflected in the 78cps payment to shareholders for the full year (H1: 38cps; H2: 40cps). As our growth strategy takes shape, we will continue to review our dividend policy on a six-monthly basis.

## Booyensdal project update

A lot of work has been done on the Booyensdal project since the last year end with the feasibility study on track for completion in the latter half of the calendar year. The infrastructure, mine and metallurgical designs and the environmental component of the project are currently being finalised by

specialist consulting teams in these areas. We have now secured 16 megawatts (MW) of power, and 7 megalitres (ML) of water for the start-up of the project, and we anticipate that construction of infrastructure work will also start in the early part of calendar 2010, subject to various regulatory approvals. The approach of a modular build-up of production units at Booyensdal starting on the UG2 reef remains our preferred option of developing Booyensdal. If however, market conditions warrant it, and if we are in a position to source additional power and water, we could assume a higher tonnage profile, which may require some design changes.

## Mining rights

Our interaction with the Department of Mineral Resources (DMR) with regard to the conversion of the old order mining title covering the Booyensdal property has been constructive and has resulted, in May in the approval of the conversion of the mining title over nine of the 11 farms. The conversion was executed on 10 September 2009. The application for mining rights over the remaining two farms currently held under new prospecting rights is being processed.

The Zondereinde mine's application was originally submitted in April 2006 and was accepted by the DMR. We have recently had positive and constructive engagement with the department, and are confident



that our application will meet with success in the near future.

## Unlocking shareholder value

In many ways the first half of the financial year was dominated by the expression of interest in your company by Impala Platinum Holdings Limited (Implats). These discussions were finally terminated in January 2009, owing to the parties' inability to agree on a value for Northam for our shareholders.

We have, since these talks were terminated, continued to deliver value to shareholders from our existing operational mine. At Booyendal, which remains the premier next PGM production opportunity, the size of the resource promises that value can be unlocked over a period of time. With our impeccable BEE credentials now firmly in place, and as a fully integrated metals producer, we are extremely well positioned to play a leading role in any industry consolidation. In the year ahead we will continue to explore any opportunities which make sound commercial sense and best serve the interests of all our shareholders.

## Taking Northam into the future

Northam has done exceptionally well in weathering the moribund markets over the past year. We now stand uniquely positioned

in the PGM sector with a major greenfields growth prospect to develop while we still continue to generate healthy levels of cash at our existing operation which has, over a 20-year period proved itself as a reliable and steady producer with a life of mine of 18 years yet.

We also appreciate that shareholders are keen to understand the funding implications of bringing Booyendal into production. As we have said before – we believe that there will be a number of options to explore at the time when we have all the information available to make such decisions. These include the possibility of a rights issue and some medium-term debt. We remain conscious of the announcement by our major shareholder of an unbundling exercise which could benefit Northam in the event that we do pursue a rights issue. At the same time, our ungeared balance sheet – which only a few years ago was a little unfashionable in the market – has stood us in good stead as we contemplate the next exciting chapter in the life of Northam.

## Board changes

On behalf of the board our thanks go to Norman Mbazima and Pine Pienaar, who resigned from the board – Norman in August last year and Pine shortly ahead of the year

end in early June. Both these gentlemen made significant contributions in helping to secure for Northam the Booyendal asset.

In other changes to the board we welcome Alwyn Martin, Kelello Chabedi, Mikki Xayiya, Atul Gupta and Mark Willcox and look forward to their contributions in the future.

## Acknowledgements

Also, on behalf of the board, we extend our gratitude and best wishes to Sybrand van der Spuy, who retired in October 2008 as company secretary.

After an exceptionally busy year all round, and particularly in view of the uncertainty presented by the Implats approach, the management and employees of Zondereinde mine deserve a tribute for a more than creditable operational performance. Our thanks go to the corporate team too for their tireless work involved in finalising the various aspects of the complex and time-consuming Booyendal transaction; and finally the Booyendal project team deserves credit for the excellent progress on the feasibility study – we extend our sincere appreciation for all these efforts.

**Glyn Lewis – chief executive officer**  
**P Lazarus Zim – chairman**  
18 September 2009

