

# CHIEF EXECUTIVE OFFICER'S REVIEW OF BUSINESS

The travails of the 2012 financial year, which signified such an alarming wake-up call for the industry and the country as a whole, have not abated. The company's performance, notably where we measure ourselves against what we consider to be our material concerns, can probably best be described as mixed. What is significant is that these material issues, the core of which were identified in the past two years, have not gone away, and that the pressures they present are becoming more acute, threatening the realisation of our corporate vision, which remains unchanged as we aim to deliver on our strategy of:

- being a leader in the mining, processing and the independent marketing and sales of PGMs to a global customer base;
- growing our resources and output either by way of acquisition or green- or brownfields development; and
- creating maximum returns for our investors and meaningful, sustainable benefits for all our stakeholders.

## MARKET OVERVIEW

The business of mining and processing PGMs in a complex South African operating environment continues to be aggravated by the protracted global economic downturn, which has had a sustained adverse impact on the markets for PGMs. For Northam, our long-standing reputation as an independent and reliable supplier of metals has facilitated the sustained offtake of our product by customers in established worldwide markets, even since the global downturn in 2008.

Over the year, market movements for the company's products were generally moribund. The platinum

price at the beginning of the financial year was \$1 437/oz, increasing over the first half of the year to average \$1 640/oz in January 2013, before retreating to \$1 312/oz at the end of June. Across the period, the platinum price has reflected the broadly uninspiring demand for platinum particularly from the autocatalyst and industrial sectors. Nevertheless, the price has typically continued to benefit from growth in jewellery demand, most notably in China, and from increased ETF holdings in the investment sector. Since financial year end, platinum prices have traded up to levels above \$1 500/oz, reflecting what could be an increasing market deficit for this metal.

Throughout the year, palladium demand has been more resilient than for platinum; and, given the price differential between these metals, remains the preferred PGM to benefit from the growth in gasoline vehicle production, and the ongoing substitution of palladium for platinum. Prices over the financial year ranged from \$580/oz at the beginning of July 2012 to spike in April 2013 above \$770/oz, before retreating to \$643/oz at the end of June. Since then the price has recovered towards \$700/oz, supported by improved market fundamentals for palladium.

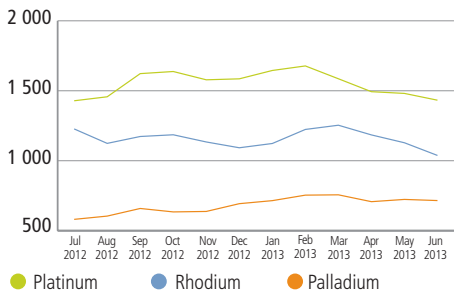
Rhodium's fortunes were lacklustre. Despite robust industrial demand, overall demand for metal remains thwarted by the weak and inconsistent demand from the vehicle sector.

Although there are sporadic signs of improving demand for platinum, it remains of concern that the outlook for platinum is likely to remain subdued, particularly in the short to medium term as the European vehicle industry struggles with the continued economic uncertainties in the region.

There is more optimism for palladium where the outlook is encouraging as the metal appears well positioned to enjoy continued support from the autocatalyst and investment sectors. With rhodium, however, demand and prices will likely remain subdued in the year ahead.

On the supply side, increasing quantities of recycled PGMs continue to find their way to market although the price dampening effect of these additional volumes will be offset by the pending cutbacks in primary mine production, and the ongoing likelihood of further supply shortages occasioned by work stoppages and disruptions. Planned reductions in mine output and the perennial spectre of labour unrest within our country should result in the further deepening of anticipated market deficits for platinum and palladium. Whether these will have a commensurate effect on prices will depend on the level of liquidity currently provided by above ground stocks of these metals. On balance, however, we believe that the medium to longer-term market outlook for our basket of metals remains very positive.

PGM RESOURCE PRICING (\$/oz)\*



\*Source: Johnson Matthey

INTEGRATED REPORTING AND MATERIAL ISSUES

As we continue to seek to report in terms of the integrated reporting requirements, and in line with the recommendations of the South African Code of Corporate Practice and Conduct (King III), we attempt to provide a balanced yet concise reflection of the business performance over the year, and our corporate response to the concerns of our shareholders and significant stakeholders. When I consider the material issues which impact our stakeholders, with which we have been grappling for the past three years, there is really one which has been in such sharp focus over the year:

- Establishing and maintaining constructive relations and peaceful engagement with employee and community stakeholders in order to avoid work stoppages.

The instability in the labour movement over the past year, which gave rise to a number of violent incidents, has not really improved although the associated atrocities have not been quite as visible. The stability accord, signed by all the unions under the auspices of the Minister of Mineral Resources and the DMR in February 2013, appears to have been effective in reducing the extent of the violence which was so disturbing to the nation, and indeed the rest of the world.

In the first half of the financial year, our operations remained unscathed by the strife and conflict elsewhere in the industry. We remained on our guard, however, and operational management in particular was constantly alive to any issues which could have been used to foment any industrial unrest. What has become apparent is a trend for employees, seemingly being aggrieved or dissatisfied

with unions and their structures, preferring to select leaders amongst their rank and file locally, without union representation, to lead them in any industrial action. For us as management, this presents further difficulties in our attempts to resolve any such disputes within the parameters of South Africa's labour relations legislation (notably the Labour Relations Act (LRA)) which is not designed to deal with such workers' committees and their actions.

Our policy at Northam is to grant organisational rights to any union with representivity of 15% or more in a relevant employee category; bargaining rights are granted to a union which can prove representation of not less than 33.3% of the relevant constituency. I must emphasise too that we are committed at Northam to treat all unions with bargaining rights fairly, and we will consult with any worker representatives or committees to resolve arising matters. On the operations, management has made some strides in enhancing its direct communication with employees.

At a senior executive level, I have been personally involved too with working with my peers in the industry to consider the current climate where we direct our efforts towards reducing the impact of inter-union rivalry and other disputes, and to stabilise the platinum industry.

Nonetheless, the three-week strike in April this year by rock drill operators at the Zondereinde operation was protracted, and resulted in the loss of some 17 000oz. The rock drill operators' dispute centred on the payment methodology of production-related bonuses.

At the time of going to print, the wage negotiations at Zondereinde had begun. It is disappointing to note that little progress has been made to date

and once again, I remain cautious about predicting the outcome of these talks. Given the inter-union rivalry I have referred to earlier, and the continued dominance of the NUM at Zondereinde against the background of the strides made by AMCU amongst our peers in the platinum sector, we have to be alive to the possibility of the unsettled labour environment persisting for a while yet.

It is a credit to operational management that they have not taken their eye off the ball, and that they have continued to produce at healthy levels while keeping a strong focus on safety.

- *Operating safely and efficiently to protect the lives and livelihoods of employees, and – in so doing – ensuring the sustainable profitability of the company.*

The death of an employee, Mr Amose Dlamini, at Zondereinde during the year blighted what was an improved safety performance all round. Both the Zondereinde and Booyssendal operations reached the one million fatality-free shifts milestone; and in April this year Zondereinde reached the two million level. With the ramping up of Booyssendal, I believe that we will soon be in a position to start leveraging the institutional knowledge which is now being built up at two such varying operations.

Despite the challenges of mining in South Africa, which included safety stoppages, labour disruptions at the Zondereinde mine in April 2013 and the sluggish markets, the business posted improved results year on year on the back of increased sales volumes from our established Zondereinde mine, combined with a significant 13.5% weakening of the rand against the US dollar, which contributed to a 20.0% increase in sales revenues to R4.4 billion

(F2012: R3.7 billion). The rand weakness went a long way towards offsetting the effect of the lower US dollar prices for PGMs, which resulted in the average dollar basket price for the year being 5.1% lower at US\$1 276/oz (F2012: 1 345/oz).

For a company which is essentially a price taker, the short-term benefits of a weak rand are immediately tangible. However, given the dollar-denominated prices of fuels, chemicals and other imported consumables, we have to caution against a protracted period of rand weakness and the false sense of comfort we see in our improved margins (from 9.2% in F2012 to 13.7% in F2013), without any real gains in the business. Operating costs crept up by 7.3%, attributable in the main to increases in labour and power costs, the most significant components contributing to mining inflation in South Africa during the year.

Headline earnings of R522.2 million translated into headline earnings per share of 136.5 cents. Given Booysendal's ramp-up phase, and the uncertain labour relations climate, the board has not declared a final dividend.

- *Achieving and maintaining legislative and regulatory compliance, including our social licence to operate, and ensuring the underlying systems and processes are in place to achieve this.*

There have been no further developments with regard to the Northam Black Economic Empowerment (BEE) shareholding. Shareholders are referred to the announcement dated Friday, 3 August 2012 wherein they were advised of a restructure of the group's BEE shareholding. Since then, the group has proposed an 'A' class share scheme to be held by BEE trusts. The proposal is aimed at restoring the group's BEE shareholding to 26%. Shareholders will be informed of progress in due course.

- *Successfully delivering the Booysendal project on time and within budget.*

The permanent power supply at Booysendal was commissioned on 10 March 2013, after which cold and hot commissioning of the concentrator continued until year end. I must congratulate our construction and development teams on having reached this milestone, particularly in view of the difficulties associated with community tensions and land invasions in the area. Equally, our stakeholder engagement policy and practices at Booysendal have stood us in good stead as we have had to commission a mine in an impoverished region of the country where communities' expectations are high and frequently unrealistic.

The commissioning process produced 473kg of metal from relatively low grade stockpiled ore

which includes development ore. I am confident that the grades will improve as stoping ramps up, development progresses and also once we have totally depleted the surface stockpile.

The shutdown of the smelter at Zondereinde restricted sales of metal from Booyssendal to 109kg (3 500oz). At year end, the surface stockpile at Booyssendal contained some 400 000 tonnes.

- *To maximise cash flows and optimise capex so as to maintain and grow the value of the company and to be able to raise capital cost-effectively*

I am pleased, and humbled at the same time, to have reported to shareholders the results of our capital raising programme just before going to print with this report. The decision to raise financing in this troubled operating environment was not taken lightly, and was borne out of an extensive board and executive management review of the company's capital and funding requirements. We believe we have taken a prudent and proactive approach to this by addressing our short-term cash flow challenges while Booyssendal continues to ramp up, and while we continue to toll treat concentrate during the Zondereinde smelter rebuild.

The equity component of this programme, the claw-back R600 million rights offer (fully subscribed by

Coronation Asset Management (Proprietary) Limited, a long-standing and loyal shareholder) provides immediately available cash resources, without prejudicing any other shareholders from participation in the offer at the same price, of R40 per share.

In a further strengthening of the balance sheet we have introduced a new R400 million additional revolving credit facility, with certain covenants being amended to reduce key short to medium term borrowing risks.

## IN CONCLUSION

The past year has been one of the toughest in the industry for a number of years, with external pressures continuing to pose unprecedented challenges, particularly for our operational management teams. I must congratulate management and employees at both our operations for sustaining an operational recovery at Zondereinde on the one hand and, on the other, for the timely commissioning of our new asset on the eastern limb.

### Glyn Lewis

Chief executive officer  
27 September 2013