

FINANCIAL DIRECTOR'S REVIEW

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

REVENUE

Sales revenues increased by 20.0% to R4.4 billion in F2013 (F2012: R3.7 billion) largely as a result of increased metal sales, which rose by 7.3% to 10 704kg (3PGE+Au) (F2012: 9 980kg), and an increase in the rand basket price of 8.9% to R365 217/kg. This increase is attributable to a 13.5% weakening of the rand against the US dollar year on year, from R7.77/US\$ in F2012 to R8.82/US\$ in F2013, notwithstanding a decline in the average US dollar price realised of some 5.1% over

the comparable periods, to US\$1 276/oz from US\$1 345/oz (3PGE+Au).

The higher revenues were achieved despite the challenging conditions of mining in South Africa which included a three week rock drill operator (RDO) strike at the Zondereinde mine in April 2013. Sales revenues include R130.0 million in sales achieved by the 70% owned subsidiary, Northam Chrome Producers Proprietary Limited (NCP), whose sales were included for the first time following its acquisition on 1 July 2012. NCP produces chrome from Zondereinde mine's UG2 tailings.

METAL SALES AND REVENUES

	F2013			F2012		
	Units sold	Average price received	Revenue	Units sold	Average price received	Revenue
	kg	R/kg	R'000	kg	R/kg	R'000
Platinum	6 606	448 004	2 959 316	6 088	404 433	2 462 213
Palladium	3 133	195 716	613 109	2 861	169 151	484 028
Rhodium	786	322 085	253 262	843	381 165	321 227
Gold	179	455 474	81 557	188	421 395	79 050
Sub-total: (3PGE+Au)	10 704	365 041	3 907 243	9 980	335 325	3 346 518
Iridium	261	284 852	74 264	218	269 173	58 604
Ruthenium	1 315	23 391	30 751	1 091	27 221	29 702
Other precious metals	130	7 931	1 028	213	n/a	1 775
Sub-total: precious metals	12 409		4 013 286	11 503		3 436 599
Nickel (tonnes)	1 313	140 547*	184 513	1 180	144 851*	170 924
Copper (tonnes)	678	65 171*	44 161	659	59 951*	39 535
Other by-product revenue			1 460			1 605
Sales revenue – core business activities			4 243 420			3 648 663
Sales revenue – other activities			177 557			35 337
Total sales revenue			4 420 977			3 684 000

* Rand per tonne

COST OF SALES

	F2013	F2012
	R000	R000
Labour	1 263 779	1 197 619
Stores	697 954	690 620
Utilities	340 820	298 353
Sundries	445 557	416 415
Decommissioning and restoration	11 323	4 907
Total operating costs	2 759 433	2 607 914
Concentrates purchased	657 540	624 774
Refining and other costs	161 591	100 612
Depreciation and write-offs	234 690	190 287
Change in metal inventories	(66 458)	(203 288)
Cost of sales – core business activities	3 746 796	3 320 299
Cost of sales – other activities	66 505	25 012
Total cost of sales	3 813 301	3 345 311

Cost of sales

Cost of sales increased by 14.0% to R3.8 billion (F2012: R3.3 billion). The main contributors to the increase were a 7.3% increase in sales volumes, a 7.3% increase in operating costs and a 60.6% increase in refining and realisation costs.

Operating costs

Operating costs increased by 7.3% to R2.8 billion in F2013 (F2012: R2.6 billion) owing primarily to higher labour and power costs which are the most significant components that contribute to mining inflation in South Africa.

Labour costs increased by 5.5% year on year. During the year, both the Northam Share Option Scheme and Share Incentive Plan were amended to provide employees with the option to elect for settlement in either cash or equity. The reversal of the share-

based payment liability at year end had the effect of reducing total labour costs. Without this change, total labour costs would have been 11.5% higher year on year. Utility costs increased by 14.2% largely due to Eskom electricity price increases. Stores costs were well contained, increasing marginally by 1.1% while sundries increased by 7.0%.

The mining royalty increased to R51.1 million (F2012: R38.7 million) owing to higher gross sales achieved during the year as well as higher profitability.

The volume of concentrates purchased declined by 13.0% from 1 877kg in F2012 to 1 633kg in the current year, mainly owing to the interruption of smelting activities at the Zondereinde site both in the July to September 2012 period and again in May 2013.

ANALYSIS OF CONCENTRATE PURCHASES – F2013

	Purchase of concentrate	Own production	Sub -total	Other group entities	Total group
Kilograms sold (3PGE+Au)	1 470	9 233	10 704	–	10 704
Sales revenue (R000)	625 010	3 618 410	4 243 420	177 557	4 420 977
Cost of sales (R000)	631 856	3 114 940	3 746 796	66 505	3 813 301
Total operating costs (R000)	21 464	2 972 659	2 994 123	66 661	3 060 784
Change in metal stocks (R000)	(59 887)	(6 571)	(66 458)	(156)	(66 614)
Freight and realisation costs (R000)	–	10 348	10 348	–	10 348
Refining and other costs (R000)	12 739	138 504	151 243	–	151 243
Purchase custom material (R000)	657 540	–	657 540	–	657 540
Operating profit (R000)	(6 846)	503 470	496 624	111 052	607 676
Treatment charges recovered (R000)	55 840*				
Contribution to operating profit (R000)	48 994				

* This amount is included in sundry revenue in the statement of comprehensive income

Refining and other costs

Refining and related costs increased by some 60.6% owing to the weaker exchange rate, and the outsourcing of smelting and refining services twice during the year owing to the smelter rebuilds in July to September 2012 and again in May 2013.

Depreciation and write-offs

The increase in depreciation is a result of the write-off of R33.0 million in respect of the smelter rebuild following the unexpected erosion of the refractory bricks in May 2013.

Change in inventories

Metal inventories were higher at year end due to the higher unit cost of stock values and higher quantities at year end, compared to the year before.

OPERATING PROFIT

The net result of the above elements of the statement of comprehensive income was an increase in operating profit to R607.7 million (F2012: R338.7 million) which resulted in an improved operating margin of 13.7% (F2012: 9.2%).

Share of earnings from associate

The decrease in share of earnings from associate was as a result of the lower production performance and therefore lower sales, from the Pandora joint venture.

Investment income and net sundry income

Investment revenue was 38.0% lower at R33.4 million (F2012: R54.0 million) owing to the depletion of cash reserves which were applied to the construction of the Booyseendal mine.

Sundry income increased to R88.4 million (F2012: R61.6 million) mainly owing to foreign exchange rate gains in F2013, compared to foreign exchange losses in F2012.

Hedging

The group's policy is not to hedge, thus exposing investors fully to the prevailing platinum group metals (PGM) prices and exchange rates.

Tax expense

The 19.0% increase in the tax charge is a result of the higher operating profit earned in F2013 as outlined above.

The lower effective tax rate, which dropped to 24.3% in F2013 (F2012: 31.4%) was largely influenced by two factors:

- the change to allow for cash settlements for the group's share option scheme and share incentive plan (this resulted in tax deductions which were previously not allowed); and
- the implementation of borrowing/lending agreements between group companies to optimise tax benefits for the group.

A detailed analysis of the tax charge, including the effect of permanent and other differences is set out in note 33 to the annual financial statements on page 151.

NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit before tax rose by 54.0% to R697.1 million (F2012: R452.6 million) whilst profit after tax at R528.0 million was 70.0% higher year on year owing to the 20.0% increase in sales revenues and a lower effective tax rate. NCP contributed an amount of R52.2 million to the group's F2013 after tax profits. The group net margin improved from 8.4% in F2012 to 11.9% in F2013. Consequently, earnings per share increased by some 62.6% in F2013, to 132.0 cents per share compared to 81.2 cents per share in the previous year.

CONSOLIDATED STATEMENT OF CASH FLOWS

Operating cash flow

The 19.8% increase in operating cash flow is driven by an increase in profit before tax of 54.0% and a net increase in working capital of R281.1 million. The higher

F2013 working capital value compares with R90.4 million in F2012 and is attributable to the higher levels of trade and other receivables and inventory at the end of F2013 following the smelter shutdown.

Investing activity cash flow

Cash flows utilised in investing activities decreased by 15.3%, to R1.7 billion due to the near completion of the surface construction of Booyssendal mine.

Financing activity cash flow

Cash generated from financing activities rose to R1.4 billion following the raising of R1.25 billion from the domestic debt capital markets and a R250 million drawdown on the five year revolving credit facility (RCF) to continue financing the construction of Booyssendal mine.

Net increase in cash and cash equivalents

The result of all operating, investing and financing cash flow activities for the year was a net cash inflow of R193.6 million (F2012: outflow of R1.6 billion).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

NON-CURRENT ASSETS

Property, plant and equipment

The increase in property, plant and equipment is due to the expansion of operations by the continued development of the Booyssendal mine during the year through capital expenditure of R1.4 billion and on-going capital expenditure at the Zondereinde mine amounting to R347.9 million, less depreciation.

Interest in associates and joint ventures

The group has interests in the following:

- 7.5% of the Pandora joint venture;
- 50% of the Dwaalkop joint venture;
- A 51% initial participatory interest in the Kokerboom joint venture (a greenfields iron oxide/

gold/copper and massive sulphide exploration project); and

- 20.3% share of Trans Hex Group Limited, a listed diamond producer and marketer listed on the JSE.

An analysis of these assets is available in annexure 2 of these annual financial statements, on page 168.

Land and township development

A further 97 houses in the Mojuteng township were sold in F2013, resulting in 337 being sold to date. During the year a portion of the undeveloped township land was sold to a third party.

Long-term receivables

The increase in this balance reflects the sales of housing units to employees on an instalment sale basis, through the 100% owned housing subsidiary Norplats Properties Proprietary Limited. As stated above, in F2013, a further 97 more houses were sold, in addition to the 240 sold in previous years.

Northam Platinum Restoration Trust Fund and Environmental Guarantee Investment

The R6.7 million increase in the combined total balance of these funds reflects the cash contributions made in terms of South African mining legislation to fund the group's obligations for decommissioning and restoration of its mining operations.

Buttonshope Conservancy Trust

The trust was established in 2011 as part of an initiative to collaborate with the Mpumalanga Parks and Tourism Agency to retain a portion of the freehold land adjacent to the Booyssendal mine as an environmental conservancy. The group contributed an amount of R10.0 million in F2012.

CURRENT ASSETS

Change in inventories

Metal inventories were higher at year end due to the higher unit cost of stock values and higher quantities compared to the year before.

Trade and other receivables

The increase in these balances is a result of the 20.0% rise in sales revenues in F2013 compared to F2012 as stated above under revenue.

Cash and cash equivalents

The total cash resources of the group at the year-end was R298.6 million (F2012: R105.0 million). The rise in this balance is due to an increase in operating cash flow and the raising of R1.25 billion through the Domestic Medium Term Notes (DMTN) programme in F2013.

NON-CURRENT LIABILITIES

Long-term provisions

The increase in these provisions is as a consequence of the changes in the estimate and unwinding of the discount.

Share-based payment liability

This liability has arisen from a change in the treatment of the group's employee share option scheme and share incentive plan, whereby employees may now choose for their benefit to be either cash settled or equity settled.

Domestic Medium Term Notes

This balance represents the R1.25 billion finance required for the continued development and operation of the Booyssendal mine raised during F2013, through the issue of three-year senior unsecured floating rate notes at a rate of Jibar plus 350 basis points.

Long-term loans

An additional loan of R16.1 million (F2012: R35.3 million) was raised from a Dutch organisation, Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. ('FMO') during F2013, to fund the group's affordable home ownership initiative for employees. The short-term portion of this loan amounts to R3.8 million.

CURRENT LIABILITIES

Trade and other payables

The marginal increase in trade payables is due to cash management strategies implemented to conserve cash. Both balances in F2013 and F2012 are similarly high compared to previous years due to the advent of the Booyseendal mine which will henceforth be a permanent feature of the group as an operating mine.

Short-term provisions

This liability relates to leave accrued to employees and is higher owing to the increasing salary and wages bill.

CAPITAL EXPENDITURE

Booyseendal mine

Booyseendal absorbed R1.5 billion in capital expenditure in F2013 (F2012: R1.7 billion). Capital expenditure is expected to be R532.1 million in 2014, which includes R75.6 million for on-going capital. Since inception the total project expenditure, including finance costs and other directly attributable costs, is R4.0 billion against a projected total expenditure of R4.5 billion. The original capital budget for Booyseendal mine was R3.9 billion in June 2010 money terms.

Zondereinde mine

Capital expenditure was R345.8 million in F2013 (2012: R331.1 million). Capital spend in F2014 is projected at R350.2 million, and includes an initial estimate of R55.0 million for the smelter rebuild.

POST BALANCE SHEET FINANCING ACTIVITY

Shareholders are referred to the announcement dated 20 September 2013, wherein the company announced a new R1.0 billion funding programme, comprising a R600.0 million fully subscribed renounceable claw-back rights offer, a R400.0 million additional revolving credit facility and amendments to certain key terms of Northam's current revolving credit facility.

In terms of the claw back offer, 15 000 000 new Northam ordinary shares of no par value will be offered to shareholders at a price of R40 per share, representing a total claw back offer subscription consideration of R600 million. The subscription price represents a 2% discount to the 30 day volume weighted average price (VWAP) and a 5% premium to the 60 day VWAP of Northam ordinary shares, calculated at 18 September 2013. The claw back shares will be offered to shareholders in the ratio of 3.92068 claw back shares for every 100 Northam ordinary shares held on 15 November 2013. The circular containing details of the claw back offer will be posted to shareholders on or about Monday, 18 November 2013.

As advised in the above announcement, Northam has secured an additional revolving credit facility of R400.0 million (new RCF), on terms that are customary for a credit facility of this nature. The new RCF has an automatic termination date of 31 March 2015, whereupon any drawn down and unpaid balance must be repaid in full and the facility will expire. The new RCF is unsecured and does not introduce any material new or otherwise onerous lending conditions relative to those governing the existing revolving credit facility. Northam has retained full flexibility to draw down funds, to repay funds drawn under the new facility and/or to cancel the facility, entirely or partially, prior to its expiry date.

In addition to the new RCF referred to above, Northam secured a complete special covenant holiday in respect of all debt covenants applicable to the existing revolving credit facility that pertain to, or are calculated with reference to Northam's earnings before interest, tax, depreciation and amortisation over the next three measuring periods. The covenant holiday will also apply to the new RCF.

Ayanda Khumalo,

Financial director

27 September 2013