

CHIEF EXECUTIVE'S REVIEW



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The year under review has been a memorable one, characterised by the R6.6 billion BEE equity transaction with Zambezi Platinum which has underpinned our empowerment credentials.

It is with somewhat mixed feelings that I am writing my second review of Northam's performance. As we have entered a new financial year, we remain faced with the challenge of a weak platinum market.

On the positive side, we completed our BEE transaction which was fully endorsed by shareholders and which will secure the company's continuing compliance with the ownership requirements of the Mining Charter. It has also contributed significantly to strengthening the company's balance sheet.

HDSA ownership levels in the company are now recognised at 35.4% which is well in excess of the Mining Charter's requirements with participants locked in for 10 years. The transaction included the successful raising of R4.6 billion that will fund the company's future growth and development. In terms of the deal, Northam issued 112.2 million new shares (equivalent to 22% of Northam) to a special-purpose black empowerment vehicle known as Zambezi Platinum. These shares were supplemented by 47.7 million shares (or 9%), sold to Zambezi Platinum by the Public Investment Corporation (PIC), a long-standing Northam shareholder.

To underscore the depth of our HDSA shareholdings, Zambezi Platinum, itself, has a range of HDSA stakeholders including an employee trust, community trusts, a women's group and a core of strategic partners. Together they will hold a 31.4% stake in Northam. A further 4.0% contributed by the Toro Trust takes the company's HDSA equity to 35.4%.

In a separate transaction, the 13.1% stake held by ENRC since 2010, was disposed of in an oversubscribed bookbuild, with 51.7 million shares sold at R48.25 apiece for a sum of approximately R2.5 billion. This transaction successfully removed a potential stock market overhang of Northam shares.

With the resolution of the company's empowerment status, and a totally transformed, strong and supportive shareholder base, we now have a solid platform from which to launch our growth strategy.

The first step on this growth path was the R450 million acquisition of the Everest property from AQPSA. In addition we have advanced a number of organic brownfields extensions to our current operations.

The acquisition comes with surface infrastructure that includes a 250,000t/month concentrator, water and power allocations and a tailings deposition facility. Developing the Booyssendal South project is expected to take four years.

Our operating performance has been encouraging as we have steadily continued with the ramp-up of production at Booyssendal. At Zondereinde, despite a shaft incident that put the No.1 shaft out of commission for six weeks, and a one-week work stoppage in January, mine management recovered well from both these eventualities, and overall production was satisfactory.

The decline in the prices of platinum group metals during financial 2015 and which has continued since the year's end, remains a matter of concern. So, too, does the rise in costs – administered electricity tariffs and the prices of other inputs such as labour. Accordingly, our focus has been and continues to be on containing the unit cost of producing each PGM ounce.

DISCLOSURE AND REPORTING

Our objective with this report is to recount the issues that are most material to our business. At the same time we have sought to discuss and assess the social, financial, natural, human and physical inputs, or capitals as they are sometimes called. Once again we have sought external assurance on a number of indicators which remain pivotal to our business.

HEALTH AND SAFETY

There were no work-related fatalities at our operations and we collaborate across the organisation to ensure that this remains the case. The safety and health of our employees, their families and their communities are foremost in our minds.

At Zondereinde the safety improvement that was noted in the year's first half persisted into the second six months. Overall the operation's lost time injury incidence rate (LTIR) was 1.31 per 200,000 hours worked (2014: 1.70) and the reportable injury incident rate (RIIR) was 0.94 (2014: 0.86).

Shaft steelwork was accidentally damaged during a rope-change exercise at Zondereinde's No.1 shaft on July 28 last year. The accident did, however, put the shaft out of commission for six weeks.

At Booyensdal, safety figures were slightly poorer than in the preceding year. The LTIR rose to 0.54 (2014: 0.27) while the RIIR was 0.41 (2014: 0.21). The mechanised mining method remains a significant safety differentiator.

THE OPERATING ENVIRONMENT

The operating environment has improved somewhat since the end of the 11-week strike at our own operations in early 2014 and the five-month strike that affected other major operators on the platinum belt in the same year. The one-week work stoppage at Zondereinde at the beginning of the calendar year once again brought these conditions into sharp focus. The decision we took to close the operation was not easy, but our foremost concern remains the safety of our employees, and it is incumbent on us to act in everybody's best interests when a situation of risk prevails.

It needs to be taken into account that, particularly in the current environment of falling metal prices, with the best will in the world, we cannot afford to meet every demand and expectation of employees, of their dependants and of the communities in which we operate.

We are pleased to report that, post F2015, wage negotiations were concluded with NUM at Zondereinde, with a good outcome for both employees and the company. We recognise the mature and constructive manner in which the engagement was undertaken.

The issue of housing and accommodation remains an area where we have acknowledged that we have to do more. I indicated in my message to stakeholders in 2014 that our efforts would be redoubled. We feel we can, in successful partnership with local authorities and financial institutions, make a real difference to our employees' lives, while raising our own profile as a responsible and preferred employer. During the year we made significant progress in this area, having secured buy-in from the unions for our Accommodation Strategy 2020 and having

secured board approval. Our strategy is outlined in further detail on page 7.

FINANCIAL PERFORMANCE

Our results for the year were largely determined by the steadily declining dollar prices of platinum group metals. We were afforded some protection by the rand's weakening against the dollar. Unit mining costs increased at a rate greater than the rise in the overall consumer price index. While this could continue as wages and electricity tariffs increase, we shall remain as vigilant over costs as we were in the year under review.

The once-off costs associated with the BEE transaction skewed our numbers this year, but this is something we were prepared for, and for which we had previously cautioned shareholders in the transaction documentation. Nevertheless, we remain buoyed by the underlying performance of the group's operating assets, and reported an operating profit of R595.8 million for the year.

In the final analysis however, the positive effect of the BEE transaction cannot be discounted: the cash balance of the group at year end was a healthy R4 138.2 million, most of which was received in May 2015. Given our strategy to diversify the asset base into shallow, mechanisable deposits, growth remains high on our agenda, even in these difficult economic times.

OPERATIONAL REVIEW

Full details of our operations' financial and technical performances are contained in the chief financial officer's report (see page 68) and in the operational overview (page 76). The Zondereinde mine is an operation running at steady state, and its performance during the year under review reflects this stability and our confidence in its sustainability. Despite the shaft incident early in the financial year, Zondereinde delivered 795 885 tonnes (2014: 803 736 tonnes) of Merensky reef to its processing plant at a (3PGE+Au) head grade of 5.7g/t (2014: 5.8g/t). Mining of the UG2 reef delivered 1 064 499 tonnes (2014: 920 420 tonnes) to the processing plant at a head grade of 4.3g/t (2014: 4.3g/t).

At the year's end available ore reserves on the Merensky reef were sufficient for 20 months' production and on the UG2 reef 24 months'. With the completion of the decline section of the mine and with infrastructure to the 18 level in place, the mine's life will be extended to 21 years.

In the light of the current weakness of platinum prices, we have adopted a cautious approach to capital spending. While we had planned to spend a total of R329 million in the year under review, certain expenditure was deferred resulting in total spend of R303 million.

CHIEF EXECUTIVE'S REVIEW CONTINUED

We cannot, however, defer capital projects indefinitely. We will continue to pursue projects to optimize operations and that add strategic value. This will include the continuation of the deepening project that will in time enable reef access to 18 level as well as a project to increase the throughput of the UG2 concentrator to match the planned mining extraction. The construction of a new furnace at the smelter complex will add capacity and de-risk the metallurgical process.

Booyseendal

Booyseendal continued the progressive ramp-up towards its annual steady-state PGMs production target of 160,000 ounces planned to be reached in the first half of F2016. The mine's prospects have been significantly improved by its acquisition of the neighbouring Everest property from AQP SA. Though this has contributed a comparatively small underground resource to the total, the acquisition was largely about obtaining Everest's infrastructure and its processing plant which can be used to treat Booyseendal ore.

During the new financial year we will pay particular attention to the integration of the two properties' operations so as to

optimise and increase production rates. Booyseendal's resource is of such a size that it can support production levels that will make full use of Everest's plant.

For the year as a whole Booyseendal's run-of-mine production totalled 1 670 437 tonnes (2014: 1 233 089 tonnes) with the tonnage milled increasing to 1 786 375 tonnes (2014: 1 517 109 tonnes) at a head grade of 2.6g/t (3PGE+Au) (2014: 2.6g/t).

As the mine has progressed towards its planned full-production level, costs have approached the sort of levels we might expect when underground operations are delivering fully to the mill. Less will be drawn from surface stocks to augment underground material. Booyseendal's total operating costs were R1.192 billion against R0.806 billion in F2014 with unit operating costs of R358 554 per kilogram (2014: R361 902/kg) and cash costs of R308 719 per kilogram (2014: R277 308/kg).

During the latter part of the year under review we initiated an evaluation of the viability of exploiting Booyseendal's Merensky reef using mechanised mining methods. Evaluation of this project, including bulk sampling and trial mining, is planned to be completed in December 2015.



PGM markets

In line with most other commodities the prices of platinum group metals fell during the year under review.

At the start of the financial year the platinum price opened at \$1,497/oz and reached a year's high of \$1,512 ten days later. Then it was downhill all the way with the metal trading at \$1,078/oz on June 30 – a 28% fall over the year.

Palladium started the financial year at \$849/oz, touching a high of \$911/oz at the start of September and then falling progressively to \$677/oz by the financial year's end – an overall drop of 20%. Rhodium was priced 27% lower at the financial year's end.

Market conditions during the past year have been challenging, underpinned by weak global macro-economic conditions and a widespread flagging in demand for resources, a situation further exacerbated by the on-going strengthening of the US dollar. Also weighing heavily on the market has been the continuing economic slowdown and equity market crisis in China.

On the supply-side of the market, primary production of PGMs from South African mines recovered swiftly from the five-month strike that severely curtailed production during the early months of 2014. In addition, recycling of metal from used vehicle and industrial catalysts, and from jewellery, is now firmly entrenched as a key source of supply and will, in the years ahead, continue to provide significant quantities of PGMs to the market.

However, demand for platinum and palladium remains firmly rooted in autocatalyst consumption, driven by rising vehicle production and ever-tightening emissions legislation in both the

light and heavy duty vehicle markets. Europe, China and the US will continue to dominate regional demand for metal, buoyed further by the outlook for increasing autocatalyst demand from motor manufacturers in India. In addition, Northam continues to support the market development programmes of the Platinum Guild International and World Platinum Investment Council to lend support to the jewellery and investment sectors respectively.

Looking ahead

Realistically, it is not to be expected that PGM prices will rise appreciably over the next 12 months, and our planning will be founded on this expectation.

Northam is well positioned in a difficult market. We will continue to invest through the cycle, further strengthening and growing our business.

APPRECIATION

It remains for me to express my appreciation to everyone at Northam whose commitment has been unremitting during this period. I am grateful for the support of my board colleagues and management and continue to welcome their advice and wise counsel. I recognise the contributions of people at all levels throughout the organisation – we depend on each other.

Paul Dunne

Chief executive

25 September 2015