CHIEF FINANCIAL OFFICER'S REVIEW

Operating profits and project margins have risen, driven by higher volumes from both mines

SUMMARISED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME*

	F2015 R'000	F2014 R'000
Sales revenue	**6 035 535**	**5 339 397**
Cost of sales	**5 439 722**	**5 277 915**
Operating profit	**595 813**	**61 482**
Share of earnings from associates and joint venture	28 769	3 464
Investment revenue	72 043	59 963
Finance charges	(245 937)	(176 124)
Sundry expenditure	(1 587 264)	(26 724)
IFRS 2 share based payment expense	(874 448)	–
Impairment of non-core assets	(261 488)	–
Net BEE lock-in fee	(242 429)	–
Corporate action transactional costs	(172 640)	–
Other	(36 259)	(26 724)
Sundry income	268 250	123 735
(Loss)/profit before tax	**(868 326)**	**45 796**
Taxation	165 619	26 199
(Loss)/profit for the year	**(1 033 945)**	**19 597**
(Loss)/earnings per share – cents	(264.3)	2.4
Headline (loss)/earnings per share – cents	(202.9)	2.2
Weighted average number of shares in issue	391 834 708	390 969 652
Fully diluted number of shares in issue	391 834 708	390 969 652
Total number of shares in issue	509 781 212	397 586 090
Treasury shares in issue	159 905 453	–
Shares in issue after adjusting for Treasury shares	349 875 759	–

** See full consolidated statement of profit or loss and other comprehensive income on page 148.*

NORMALISED EARNINGS*

	F2015 R000	F2014 R000
Profit (or loss) for the year	(1 033 945)	19 597
Less: Non-controlling interest portion	1 704	10 111
Profit (or loss) for the year attributable to owners of the parent	**(1 035 649)**	**9 486**
Add back: Corporate action transactional costs	172 640	–
Net lock-in fee	242 429	–
Impairment of non-core assets	261 488	–
IFRS 2 share based payment charge	874 448	–
Preference share interest	100 767	–
Normalised earnings	**616 123**	**9 486**
Earnings per share (cents)	**157.2**	**2.4**
Weighted average/fully diluted number of shares in issue	391 834 708	390 969 652

** See normalised earnings explanations below.*

SALES REVENUE

Group sales revenues grew by 13.0% to R6.0 billion (F2014: R5.3 billion). This is due to a combination of increases in PGM sales volumes of 6.6% to 422 631oz (F2014: 396 417oz), and a 10.6% weaker ZAR/US$ exchange rate, averaging R11.45/US$ during the year (F2014: R10.35/US$). To a degree the weaker SA currency served to offset the lower US dollar PGM prices: the average price realised in US dollars fell 7.5% to US$1 108/oz (F2014: US$1 198/oz) and 8.6% to US$1 084/oz (F2014: US$1 186/oz) at Zondereinde and Booysendal respectively.

The higher sales volumes achieved were on the back of higher production volumes for the group (including externally purchased concentrates) which were up 8.1% to 423 583oz (13 175kg) compared to 391 849oz (12 188kg) in F2014. Further, the average rand basket price realised for both mines was marginally higher in F2015 than in F2014 on account of the weaker exchange rate. Zondereinde realised an average basket price of R409 025/oz (F2014: R400 381/oz), a 2.2% improvement, whilst Booysendal's realised price improved 0.9% to R402 461/oz from R398 710/oz in F2014.

Higher sales volumes achieved were on the back of higher production volumes for the group, which were up 8.1%.

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

METAL SALES AND REVENUES – COMBINED OPERATING MINES

	F2015			F2014		
	Units sold	Average price received	Revenue	Units sold	Average price received	Revenue
	kg	R/kg	R000	kg	R/kg	R000
Platinum	7 894	457 795	3 613 649	7 522	478 259	3 597 415
Palladium	3 875	293 911	1 138 876	3 649	252 877	922 648
Rhodium	1 195	429 668	513 582	964	340 033	327 928
Gold	182	449 094	81 556	195	433 263	84 574
Sub-total: (3PGE+Au)	**13 145**	**406 809**	**5 347 663**	**12 330**	**400 042**	**4 932 565**
Iridium	397	204 174	80 976	320	174 909	55 865
Ruthenium	1 792	19 543	35 013	1 360	19 544	26 577
Other precious metals	203	6 336	1 288	149	6 853	1 019
Sub-total: precious metals	**15 537**		**5 464 940**	**14 159**		**5 016 026**
Nickel (tonnes)	1 322	172 204*	227 567	1 544	163 551*	252 507
Copper (tonnes)	679	67 749*	45 995	764	68 967*	52 656
Chrome (tonnes)	141 874	745*	105 658	79 793	481*	38 388
Other by-product revenue	9	359 550	3 209	–	–	2 749
Development ounces offset against property, plant and equipment	–		–			(137 687)
Sales revenue – Zondereinde and Booysendal			**5 847 369**			**5 224 639**
Sales revenue – other activities			188 166			114 758
Total group sales revenue			**6 035 535**			**5 339 397**

** Rand per tonne.*

The bord and pillar mining method is used at Booysendal.

METAL SALES AND REVENUES PER OPERATING MINE – F2015

	Booysendal mine			Zondereinde mine		
	Units sold kg	Average price received R/kg	Revenue R000	Units sold kg	Average price received R/kg	Revenue R000
Platinum	2 157	460 124	992 360	5 737	456 919	2 621 289
Palladium	975	294 051	286 566	2 900	293 864	852 309
Rhodium	363	431 757	156 779	832	428 757	356 803
Gold	15	448 117	6 763	167	449 183	74 793
Sub-total: (3PGE+Au)	**3 509**	**411 021**	**1 442 468**	**9 636**	**405 275**	**3 905 194**
Iridium	190	148 639	28 261	259	203 750	52 715
Ruthenium	798	15 607	12 452	1 147	19 664	22 562
Other precious metals	–	–	–	203	6 336	1 288
Sub-total: precious metals	**4 497**		**1 483 181**	**11 245**		**3 981 758**
Nickel (tonnes)	166	142 784*	23 657	1 185	172 030*	203 910
Copper (tonnes)	83	55 603*	4 635	610	67 763*	41 360
Chrome (tonnes)	141 874	745*	105 658	–	–	–
Other by-product revenue	2	–	335	8	–	3 089
Development ounces offset against property, plant and equipment						
Sales revenue – Zondereinde and Booysendal mines			**1 617 465**			**4 230 117**

** Rand per tonne.*

COST OF SALES

The 3.1% increase in group cost of sales to R5.4 billion (F2014: R5.3 billion) is largely a result of an increase in operating costs as explained below.

GROUP COST OF SALES – F2015

	F2015 R000	F2014 R000
Labour	1 606 237	1 499 144
Stores	978 243	735 647
Utilities	540 507	443 016
Sundries	1 177 201	839 072
Decommissioning and restoration costs	37 002	9 345
Operating costs – core business activities*#	**4 339 190**	**3 526 224**
Concentrates purchased	602 395	918 605
Refining and other costs	199 470	267 117
Depreciation and write-offs	339 949	445 622
Change in metal inventories	(44 663)	110 316
Cost of sales – core business activities*	**5 436 341**	**5 267 884**
Cost of sales – other group companies#	**3 381**	**10 031**
Group cost of sales	**5 439 722**	**5 277 915**

** Core business activities refer to: Zondereinde mine, Booysendal mine and Northam Chrome Producers.*

 # The addition of these two numbers reconciles to the total group operating cost of R4 342 571 shown in the table on page 72.

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

Operating costs

Operating costs increased by 22.8% to R4.3 billion (F2014: R3.5 billion) owing to higher group production volumes (largely resulting from Booysendal's new production as it ramped up during the year), higher wage and power costs.

For comments on refining and other costs and on depreciation and write-offs, please refer to page 73.

OPERATING COSTS BY CATEGORY AND BUSINESS UNITS – F2015

	Zondereinde mine R000	Booysendal mine R000	Northam chrome producers R000	Other group entities R000	Total group R000
Labour	1 471 400	123 425	11 412	–	1 606 237
Stores	827 031	151 212	–	–	978 243
Utilities	443 603	94 739	2 165	–	540 507
Sundries	358 054	800 532	18 615	3 381	1 180 582
Decommissioning and restoration costs	14 743	22 259	–	–	37 002
Total operating costs	**3 114 831**	**1 192 167**	**32 192**	**3 381**	**4 342 571**
Concentrates purchased	602 395	–	–	–	602 395
Refining costs	83 408	116 062	–	–	199 470
Depreciation	165 091	171 961	2 897	–	399 949
Change in metal inventories	(345 757)	300 927	167	–	(44 663)
Cost of sales	**3 619 968**	**1 781 117**	**35 256**	**3 381**	**5 439 722**

Concentrates purchased

The value of concentrate purchases declined by 34.4% to R602.4 million (F2014: R918.6 million) owing to a drop in the volumes of purchased concentrates from third party sources which amounted to 1 416kg (F2014: 1 975kg). A change in the inter-company arrangements which took effect on 30 June 2015 saw Zondereinde purchase concentrate from Booysendal rather than toll treat it. A total of 922kg of metal in concentrate was purchased by Zondereinde from Booysendal.

ANALYSIS OF CONCENTRATES PURCHASED – F2015

	Purchase of concentrate	Own Production	Sub-total Zondereinde mine	Booysendal mine	Northam Chrome Producers	Other group entities	Total group
Kilograms sold (3PGE+Au)(kg)	**1 368**	**8 268**	**9 636**	**3 509**	**–**	**–**	**13 145**
	R000	R000	R000	R000	R000	R000	R000
Sales revenue	630 558	3 599 561	4 230 119	1 617 466	184 132	3 817	6 035 535
Cost of sales	636 547	3 344 038	3 980 585	1 420 501	35 256	3 381	5 439 722
• operating costs	31 589	3 083 242	3 114 831	1 192 167	32 192	3 381	4 342 571
• change in metal stocks	(371 296)	25 540	(345 756)	300 927	167	–	(44 663)
• depreciation and write offs	–	165 091	165 091	171 961	2 897	–	339 949
• freight and realisation costs	–	19 146	19 146	–	–	–	19 146
• refining costs	13 243	51 019	64 262	116 062	–	–	180 324
• concentrates purchased	963 011		963 011	(360 616)	–	–	602 395
Operating profit	**(5 989)**	**255 523**	**249 534**	**196 965**	**148 876**	**436**	**595 813**
Treatment charges recovered	66 040*						
Contribution to operating profit	60 051						

** Treatment charges recovered are included in sundry income in the statement of profit or loss and other comprehensive income.*

Refining and other costs

Refining and related costs were 25.3% lower at R199.5 million (F2014: R267.1 million), reflecting more normalized levels after the smelter shutdown and rebuild, along with outsourced smelting costs incurred in the prior year.

Depreciation and write-offs

Depreciation and write-offs were lower in F2015 owing to a change in the depreciation methodology (which is a change in accounting estimate). This is evident primarily at Booysendal whereby most assets are now depreciated on a unit of production basis rather than the straight line method. This method better matches the depreciation charge to the rate of depletion of reserves at Booysendal.

Change in metal inventories

The group change in metal inventories amounts to a net decrease of R44.7 million (F2014: R110.63 million increase). This is made up of a R345.6 million decrease in inventories at Zondereinde and a rise of R300.9 million in Booysendal mine's metal inventory levels compared to the prior year.

Operating profit

The group achieved an operating profit of R595.8 million, higher than the F2014 operating profit of R61.5 million. Both the higher operating profit and higher operating profit margin, at 9.9% (F2014: 1.2%), are on the back of higher production volumes from both mines, higher average rand basket prices realised, lower refining and related costs and the lower depreciation and write-off charges as stated above.

Share of earnings from associate and joint venture

The share of earnings from associates and joint ventures of R28.8 million (F2014: R3.5 million), is attributed mainly to higher earnings from Trans Hex Group Limited. Investment revenues of R72.0 million (F2014: R60.0 million) mainly comprises interest earned on the group's invested funds.

Finance charges

Finance charges which amounted to R245.9 million (F2014: R176.1 million) were higher owing to the interest of R138.0 million paid on the domestic medium term notes and revolving credit facility secured in F2014, and R100.8 million for the preference dividends to be paid to preference shareholders of Zambezi Platinum (which is consolidated in the results) in terms of the BEE transaction. The preference dividends are payable at the end of the 10-year term of the BBE transaction.

Sundry expenditure

Sundry expenditure amounted to R1.587.3 million (F2014: R26.7 million) reflecting accounting charges and costs associated with the two major corporate deals undertaken in the current year, the BEE transaction and the acquisition of the Everest mine from Aquarius Platinum.

Included in costs associated with the BEE transaction are the "share-based payment" charge of R874.4 million in line with IFRS 2, which is a once-off charge associated with a transaction of this nature and the R242.4 million net lock-in fee (being the gross R400.0 million lock-in fee paid to the BEE participants (collectively the ESOP Trust, the Booysendal Community Trust, the Zondereinde Community Trust, the Strategic Partners and the Women's Consortium as defined in the circular dated 17 February 2015) less taxes paid and less the portion of the lock-in fee relating to the three trusts which are eliminated on consolidation). Shareholders are referred to the *pro forma* financial effects of the said BEE transaction circular for the mechanics of the transaction.

Also included in sundry expenditure are the non-core asset impairment charges of R261.5 million for the Pandora and Dwaalkop joint ventures and the Trans Hex Group Limited investment, as well as corporate action costs of R172.6 million related mainly to the said two corporate transactions.

Sundry revenue

The sundry income of R268.3 million (F2014: R123.7 million) incorporates the once-off proceeds of R183.8 million received from the No.1 shaft incident insurance claim.

Hedging

The group's policy is not to hedge, thus exposing investors fully to the prevailing PGM prices; consequently there were no outstanding contracts at the end of the financial year.

Taxation charge

The taxation charge of R165.6 million (F2014: R26.2 million) is higher than the comparative period due to the higher taxable profits earned by the group in F2015 relative to F2014.

A detailed analysis of the tax charge, including the effect of permanent and other differences is set out in note 35 to the annual financial statements on page 175.

Total comprehensive income for the year

The group reported a net loss of R1 033.9 million (F2014: profit of R19.6 million). A loss per share of 264.3 cents was reported (F2014: profit of 2.4 cents per share) reflecting the effect of the reported loss and an increase in the weighted average number of shares in issue of 391 834 708 shares (F2014: 390 969 652).

The group's total number of shares in issue at 30 June 2015 is 509 781 212 (F2014: 397 586 090) following the issue of 112 195 122 shares to Zambezi Platinum, which is Northam's 31.4% BEE shareholder. The group has 159 905 453 treasury shares which are not accounted for in the calculation of the abovementioned loss per share. Zambezi Platinum's results are consolidated with Northam's group results.

NORMALISED EARNINGS

(See table on page 69)

This is defined by management as earnings achieved by the underlying operational business units of the group.

A normalised earnings calculation has been performed. This excludes abnormal and or unusual costs incurred during the

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

financial year, by adding back (adjusting for) costs such as the BEE transaction and other corporate action costs, IFRS 2 and other charges relating to the BEE transaction and impairment charges as explained below:

- corporate action transactional costs relate to consulting, legal and various other fees paid in relation to the BEE transaction and other corporate projects during the year.
- the net lock-in fee (being the gross R400.0 million lock-in fee paid to the BEE participants less taxes paid and less the portion of the lock-in fee due to the three trusts which are eliminated on consolidation).
- impairment of non-core assets include the impairment of investments in associates and joint ventures as explained above. Dwaalkop and Pandora joint ventures have been impaired by R164.4 million and R40.5 million respectively, and the associate investment in Trans Hex Group by R34.0 million.
- the IFRS 2 share-based payment charge of R874.4 million and the preference share dividend of R100.8 million relate to the preference shares issued by Zambezi Platinum as part of the BEE transaction.

By stripping out the above-mentioned costs therefore, normalised earnings are derived based on the normal underlying operational performance of the group.

The outcome of this exercise demonstrates that earnings per share of 157.2 cents would have been achieved in F2015 (compared to the prior year's 2.4 cents).

CONSOLIDATED STATEMENT OF CASH FLOWS

Operating activity cash flow

Cash flows from operating activities are lower in F2015 at R341.6 million (F2014: R885.5 million) mainly due to the higher working capital requirements and higher tax payable. Higher working capital requirements emanate from higher sales and debtors and increases in total group inventory values owing to the higher production volumes.

Investing activity cash flow

Cash flows utilised in investing activities are higher at R1.1 billion (F2014: R766.1 million) due to the higher project capital expenditure which includes the acquisition of Everest mine assets for R400.0 million.

Financing activity cash flow

Cash flows generated from financing activities amounting to R4.2 billion (F2014: R248.0 million) are largely accounted for by the proceeds of R4.6 billion received by Northam from the issue of 112 195 122 million shares by Northam to Zambezi Platinum in terms of the BEE transaction.

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 R3 472.1 million (F2014: R367.5 million).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Non-current assets

Property, plant and equipment

The 12.4% increase in property, plant and equipment reflects capital expenditure during the F2015 year. Additions to maintain operations were R323.0 million during the year and additions to expand operations were R779.1 million. The increase in expansion (project) capital expenditure is due to acquisition of the Everest for R400.0 million in June 2015.

Interest in associates and joint venture

The impairment charges for the Dwaalkop and Pandora joint ventures and the Trans Hex Group associate investment, have accounted for the lower values in F2015 compared to F2014.

There are no other changes in the physical assets owned by the group, which 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 diamond producer and marketer listed on the JSE Limited.

An analysis of these assets is available in Annexure 2 of these annual financial statements, on page 186.

Land and township development

At 30 June 2015, 375 housing units had been sold to new home owners at Mojuteng near Zondereinde mine. An additional 37 stands are being prepared for housing construction for the benefit of employees.

Long term receivables

This balance reflects the sales of housing to employees on an instalment sale basis, through the 100% owned housing subsidiary (Norplats Properties Proprietary Limited).

Northam Platinum Restoration Trust Fund and Environmental Guarantee Investment

The R2.6 million increase in the combined balance of these funds is mainly due to interest earned on funds invested.

Deferred tax asset

The deferred tax asset arises out of the tax benefits that are expected to arise in future as a result of the capital expenditure incurred during the development of the Booysendal mine.

Buttonshope Conservancy Trust

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

Current assets

Inventories

Inventories increased due to the higher unit cost of stock values and higher quantities held at year end.

Trade and other receivables

The significantly higher balance reflects the increase in sales revenues, on the back of a 6.6% increase in PGM sales volumes and a weaker ZAR/USD exchange rate (averaging R11.45 to the US dollar during the year compared to last year's average of R10.35 to the US dollar).

Cash and cash equivalents

The total cash resources of the group at the year-end were R4 138.2 million (F2014: R666.1 million). The rise in this balance is mainly due to the raising of funds through a share issue as a result of the BEE transaction.

Non-current liabilities

Deferred tax liability

The increase in the deferred tax liability has arisen owing to the movement in tax values of mainly inventory and property plant and equipment (fixed assets). In terms of IAS 2 inventory is carried at the lower of cost or net realisable value whilst for tax purposes inventory is carried at cost), Fixed assets also have differences of treatment resulting in deferred tax liabilities.

Long term provisions

The balance has increased by R44.5 million mainly due to the increase in the mine's decommissioning provision based on the latest third party assessment of the provision as at 30 June 2015.

Share-based payment liability

This balance represents the liability arising from the 30 June 2015 balance of outstanding options and incentive shares granted to employees in terms of the group's share option scheme and share incentive plan. The liability has declined, reflecting the lower share price year on year, and the effect of the drop in staff complement.

Domestic medium term notes

This balance represents the R1.25 billion finance for the continued development of Booysendal mine raised during F2013 plus the R120 million tap issue raised in F2014, through the issue of three year senior unsecured floating rate notes at a rate of Jibar plus 350 basis points.

Long term loans

The loan was raised from a Dutch organization, Nederlandse Financierings–Maatschappij voor Ontwikkelingslanden N V (FMO), to fund the group's affordable home ownership initiative for employees. The short term portion of this loan amounts to R3.8 million and is disclosed under current liabilities.

Current liabilities

Trade and other payables

The increase in trade and other payables is due to the stricter adherence to payment terms as part of cash management strategies implemented to conserve cash.

Short term provisions

This liability relates to leave accrued to employees and is higher due to the rising salary and wages expenditure and higher accumulated leave days.

Revolving credit facilities

The revolving credit facility was repaid in full during the year and the total R1.0 billion facility was available to be drawn at 30 June 2015.

Capital expenditure

Booysendal mine

Capital expenditure of R798.8 million was spent on the development of the mine during F2015 (F2014: R539.6 million) including R400.0 million for the acquisition of Everest assets from AQPSA. Stay in business capital is estimated at R112.5 million with project capital estimated at R250.0 million in F2016.

Zondereinde mine

Capital expenditure was R303.2 million in F2015 (2014: R351.5 million). Stay in business capital in F2016 is estimated at R303.0 million. This includes R130.0 million for the deepening project in F2016 with similar amounts being expended over the five year project.

Project capital is estimated at R95 million which includes R60 million for increasing the UG2 concentrators throughput, and R35 million for initial work on the planned R20MW furnace for expanding the smelter complex, a project estimated to cost R750 million over three years.

Ayanda Khumalo

Chief financial officer

25 September 2015