

MATERIAL ISSUES

This year we are reporting in terms of our material issues – those issues that are most material to the business and stakeholders, and which fundamentally influence the assessments and decisions of stakeholders. In the pages that follow we discuss those material issues which, by their very nature, touch on all aspects of our business and its sustainability.



MATERIAL ISSUE 1:

ENSURING THE SUCCESSFUL DELIVERY AND EXECUTION OF OUR BUSINESS STRATEGY

It is the responsibility of executive management to set realistic and achievable strategic targets for the business (see business model and strategy on page 7 and 8). As a public company, the success of this strategy affects shareholders, or the providers of capital, and a range of other stakeholders, most importantly the group's employees. In terms of this material issue we discuss these challenges and our response.



CHALLENGES

Demand and prices for PGMs

At the end of the financial year the dollar prices for PGMs were:

- Pt: US\$1 078/oz (2014: US\$1 480/oz)
- Pd: US\$677/oz (2014: US\$844/oz)
- Rh: US\$875/oz (2014: US\$1 115/oz)

The average price realised over the year, for Northam's basket of metals (Pt, Pd, Rh, Au) was US\$1 108/oz (2014: US\$1 198/oz) for Zondereinde and US\$1 084/oz (2014: US\$1 186/oz) for Booysendal.

The rand 4PGE basket price per unit increased by only 2.2% and 0.9% at Zondereinde and Booysendal respectively, yet unit cash costs increased by 7.6% and 11.3% at the respective mines.

The downtrend in prices resulted from the broadly lacklustre demand for PGMs, together with continuing steady supplies of metal from primary producers, above-ground stocks, and recycling.

Demand for PGMs remains dependent upon global economic conditions. In the autocatalyst sector in particular, projected increases in global sales of motor vehicles and tightening emissions legislation are forecast in the longer-term to underpin increasing consumption of PGMs.



RESPONSE

Northam, like all producers, has little or no influence over demand and metal prices, and is essentially a price-taker.

However, the group contributes towards a number of industry-led initiatives to stimulate various avenues of demand. Most notable is the Platinum Guild International (PGI), which serves as a platform for consumer and trade markets for platinum jewellery.

Northam has also been supportive of the establishment of the World Platinum Investment Council (WPIC) during 2014, which seeks to promote investment in physical PGM stocks.



CHALLENGES

Escalating costs

The entire industry is faced with inescapable cost increases. The effect of wage increases, combined with soaring electricity tariffs is likely to add approximately 10% per annum to Northam's current cost base in the foreseeable future.

Although the sustained weakening of the rand against the US dollar has the effect of partially offsetting the decline in dollar prices for PGMs, a weak currency ultimately adds to imported input costs.



RESPONSE

Management has initiated a group-wide cost cutting exercise. Each and every manager has had to examine budgets and come up with cost-saving ideas.

Given that labour accounts for such a high proportion of the cost base, we keep a tight rein on recruitment, and only appoint additional employees in critically important positions.

At the deep-level Zondereinde mine, unit mining costs at R386 117/kg are uncomfortably close to the R409 025/kg realised.

Shareholders and lending institutions need a level of comfort to fund companies like Northam, which are looking to bring new mines into production, and make up for the diminishing primary supply from South Africa.

At Northam the strategy is to shift production towards the shallow and mechanisable orebody at the Booyssendal property, with its lower cost profile.

Over the next few years, the new Booyssendal South mine (previously Everest) will be developed to complement the existing North mine.

In South Africa, electricity is supplied by Eskom, the national electricity supplier. In recent years, Eskom's tariffs and supply shortages have increased steadily, by 16% in 2012, 8% in 2013, 9% in 2014 and 13% in 2015. In F2015, Northam's electricity spend totalled R517.1 million (84% at Zondereinde and 16% at Booyssendal).

These sustained increases in electricity costs have already spawned a number of energy efficiency and saving programmes. Certain intensive usage functions have been shifted to off-peak periods. However, Zondereinde has no further capacity for introducing any additional energy conservation measures without constituting a risk to employees.

MATERIAL ISSUES CONTINUED



CHALLENGES

Industrial action



RESPONSE

The group remains vulnerable to any potential strike action and community service delivery protests.

In January this year a  work stoppage at the Zondereinde mine resulted in five days' lost production. Zondereinde, with its relatively high cost profile, is particularly vulnerable to any slippage in tonnages, which has a deleterious effect on unit costs and ultimately on the profitable operation of the mine. For this reason (and others) employee and union relations need to be very carefully managed. The five-month strike in the PGM sector in 2014 was instructive, with the emergence of AMCU, a union to rival the NUM.

The three-year wage agreement concluded in July 2015 with the NUM signals some stability going forward. (See *Material issue 3*)



CHALLENGES

Smelting capacity

Northam's processing facilities were built in 1987/88, when the mine was first established. At the time the smelter was designed to smelt concentrate containing base metal sulphides, typically associated with Merensky ore.

With the advent of the UG2 expansion in 2000, and the current profile of the ore mix, the existing 15MW furnace has reached its nameplate capacity, and is also limited in terms of the concentrate's Cr_2O_3 levels.

Given that production growth will be mainly from UG2 orebodies, the constrained smelting facilities could pose an operating risk on the one hand, and could impair the company's ability to execute its expansion strategy on the other, primarily in the UG2-rich eastern limb.



RESPONSE

The company's processing and refining capability represents a clear strategic advantage, which could be further developed and exploited.

Following a detailed review of the group's requirements, and the available technology, a 20MW AC furnace has been selected as the preferred option, thereby increasing smelter capacity by 600 000oz per annum.

Importantly, the operating risk will be mitigated by a second processing stream which will be able to process UG2 concentrate.

With board-approved capital expenditure of R750.3 million, a sum of R10 million has been committed to date for design and drawing work. This project is expected to be completed over the next three years.