

CHIEF EXECUTIVE'S REVIEW

My first review to shareholders and stakeholders comes after having had a fair period to establish that this company, its people and its assets, are in good shape. On behalf of the board, I must extend sincere thanks to my predecessor; Glyn Lewis's contribution to this company has been immense: the construction and successful commissioning of Booyseindal, the company's second PGM mine on the eastern limb now in full ramp-up stage, has transformed Northam, adding to its production profile, on the one hand, reducing the company's operational risk and on the other, enhancing its optionality.

DISCLOSURE AND REPORTING

In this annual integrated report, we seek to tell the story of Northam based on those issues we consider the most material to our business; airing our risks and opportunities while continuing to disclose our performance in terms of the five capitals. In his final annual report last year, Glyn Lewis alluded to the arduous reporting requirements that companies are being subjected to. I echo his concerns and I believe we should be wary about reporting for reporting's sake; although we keep a watchful eye on the constant evolution of reporting conventions, the primary drivers of our reporting remain compliance, relevance and materiality and we will maintain the maxim of 'less is more'.

The material issues for our business have not changed much year on year, although perhaps there may have been some shifts in their rankings, given the turmoil that has beset the PGM sector over the past year.

F2014 AND THE OPERATING ENVIRONMENT

The issues of constructive employee and community consultation along with meaningful and sustainable benefits for our stakeholders was brought into sharp focus in the past year: the 11-week NUM strike at

our Zondereinde operation was watched closely at the time; at that stage it was the longest strike in the South African labour environment, before being eclipsed by the five-month platinum strike called by AMCU soon after the Zondereinde strike was resolved. This was a trying period for management and employees alike.

The NUM has traditionally been the strongest union at Zondereinde with membership in excess of 80%. Given the shift in union affiliation throughout the western limb of the Bushveld Complex, we have kept a close watch on developments on the labour front. There is no doubt that AMCU has gained ground at this operation too, where it now claims membership approaching the representivity threshold of 15%. As management, we need to be alive to the potential for inter-union conflict and to guard against being caught up in it. I have, to date, been encouraged by management's approach to the labour situation – which is to increase and intensify the engagement process with the unions and to deal decisively with any issues which could be amplified, taken out of context and used as a rationale for industrial action. I am also confident that the unions will respect the two-year wage agreement we reached earlier this calendar year. Any further industrial action in the near to medium term will have a severely damaging impact on the company, on the PGM sector as a whole and will further harm South Africa's rankings as an investment destination.

There can be no doubt that the five-month platinum strike has completely changed the face of the mining sector in South Africa and, more worryingly, it has raised the social and economic expectations of a very broad stratum of South African society. Never before in this country has our sector been exposed to this level of scrutiny from the media, political and economic commentators, and analysts. Many of the issues

raised are those we have been grappling with for a number of years. And now, only a few months after the resolution of the strike, a number of economic realities are already hitting home and being felt in the broader South African economic environment, and it has perhaps become clearer to the public at large that there is no easy and quick fix.

We welcome President Zuma's spotlight on the mining sector in his state of the nation address earlier in the year and look forward to a constructive intervention in conserving an industry which still remains so critical to South Africa's economic well-being.

Our adherence to Mining Charter requirements are being scrutinised both internally and externally – and we have flagged areas which need an accelerated and intensified approach. Our housing and accommodation strategy has resulted in 359 new home owners at Mojuteng near Zondereinde while we have also created single units converted from the current hostel accommodation. In spite of these successes, and expenditure of R31 million in F2014 alone, we are conscious that the Mining Charter targets are beyond our reach for this year. The accommodation and home ownership strategy is one that is currently being reviewed and accelerated.

Performance 2014

As anticipated, the group's financial performance was dominated by the effects of the 11-week strike at the Zondereinde operation: revenue losses reached the R750 million level before a settlement was reached on 21 January 2014. In spite of the lower production volumes from Zondereinde, sales volumes were supplemented by Booyssendal's contribution and also from a release of inventory. The higher volumes, combined with the effects of a higher rand metal basket price drove sales revenues higher to R5.3 billion (F2013: R4.4 billion), thereby compensating marginally for the moribund US dollar PGM prices.

Mining inflation, nevertheless, has persisted at the level of approximately 12%. Operating costs were also seriously impacted by increases in refining and related costs, along with a substantially higher depreciation charge, associated with the inclusion, for the first time, of costs relating to the Booyssendal mine. We will be evaluating the merits of switching to an alternative accounting convention to calculate depreciation in the future.

Further details on the group's financial performance may be found in the chief financial officer's review on page 68 of this document, and in the preliminary annual results announcement, available at www.northam.co.za/investors-and-media/publications/financials respectively.

Investors in Northam are clearly concerned about the group's intention to distribute cash and pay dividends. This is something we are grappling with, at board level, balancing the need to reward our shareholders on the one hand, while leveraging our positioning in the sector, and ensuring we have a pipeline of growth projects to sustain the group into the future, on the other hand. These factors will inform our dividend policy in the future.

Both mining divisions of the group fared well in the past year. Although there was some slippage in the ramp-up at Booyssendal, this is not serious and, with clear management focus, Booyssendal should reach steady state by the end of the 2015 calendar year. With Booyssendal's contribution to metal sales for the first time, the effect of the Zondereinde strike was partially tempered, illustrating the progressive derisking that a second operating asset provides.

I am pleased to report that Booyssendal achieved one million fatality-free shifts during the year. Safety performance at Booyssendal has been world class, with mechanisation clearly being the differentiator.

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Zondereinde too has had a commendable safety performance, culminating in the achievement of one million fatality-free shifts. No fatalities were reported in the year under review. There was a slight uptick in the number of injuries during the return to work after the strike, in spite of a rigorous safety drive and risk assessments in areas that had been standing. Management at both divisions, together with employees and the representative unions, must be congratulated for their diligence in this area.

We have provided more detail on the divisional operating results on page 78 of this report. Both Zondereinde and Booyseendal obviously feature in our strategy going forward, which is explained in considerably more detail below.

BLACK ECONOMIC EMPOWERMENT

We are deeply conscious of Northam's empowerment equity shortfall. The South African investment community, and indeed the mining sector itself, is divided with regard to companies' empowerment equity requirements post 2014. Even though I have only been in the chief executive's seat for a few months, I have taken on board the concerns of shareholders and their fears around dilution, on the one hand, and the imperative for creating value and the principle of being appropriately empowered, on the other. We will keep shareholders informed at the appropriate time and expect to conclude this issue shortly.

STRATEGIC REGENERATION FOR FUTURE SUSTAINABILITY

One of the major features of the current economic environment, and of the PGM markets in particular,

is the failure of the markets to react to the supply shortfalls occasioned by the strike in South Africa, giving rise to the postulation that above-ground stocks have comfortably satisfied demand since the 2008 financial crisis, particularly where platinum is concerned. The research we have available to us suggests that we are unlikely to see a more marked and sustained recovery in the platinum price until 2016 and beyond when significant deficits in platinum supply will start manifesting. For us at Northam, the challenge is now to position the company favourably in order to draw substantial benefit from a turn in market conditions.

The labour relations climate in the sector, and indeed the country, remains fraught, and we are already seeing the early signs of industry restructuring. With these opportunities in the offing, we have to ensure that we are optimally positioned to benefit. I have referred previously to the imperative for the restoration of our empowerment status, the acceleration of a number of Mining Charter initiatives, including the housing and accommodation strategy, and the perceived lack of a social wage, all of which remain critical elements of our licence to operate in the future.

We have embarked on a strategic review of the business – an exercise with clear terms of reference and a limited lifespan. The process is being driven internally, with appropriate contributions from specialist external consultancies where required. The review focuses both internally – on optimising our current operations – and externally – by evaluating growth prospects further afield.

Operational optimisation

Given the considerable infrastructural footprint at Zondereinde, our focus there will be on increasing the current 15-year life of mine through prioritising the deepening project, further exploitation of the UG2 orebody and improving the process plant to deal with a higher UG2 ratio, while also improving the Zondereinde operation's position on the cost curve.

At Booyssendal, we need to keep our focus on the ramp-up, with full production scheduled for October 2015, along with improving the metallurgical recoveries to 85%; also, given the size of the Booyssendal resource, we need to evaluate the opportunities it poses for growth. In terms of processing and refining, Northam's strategic advantage has perhaps not always been fully recognised and we will be exploring ways of increasing capacity and reducing risk.

Strategic objectives

In terms of the strategic review we have put in place, we will look towards capitalising on any restructuring in the sector, and have put together a four-stage framework which will take account of contiguous, non-contiguous and global expansion opportunities. The process entails a thorough sifting of PGM opportunities in order to come up with a priority list of expansion possibilities and to recalibrate the business based on the presumption of higher metal prices by 2018.

IN CONCLUSION

I have mentioned the departure of Glyn Lewis earlier in my review, although I am pleased to advise that Glyn is continuing to provide consultancy services to the group.

On behalf of the board, I must thank Judy Dlamini for her nine years' service as a director.

At the same time, it is appropriate to express my thanks to Bernard van Rooyen, who retired from his consultancy position in June this year. Bernard has been involved with Northam since its inception in the late 1980s. On behalf of the board and everyone at Northam, I wish Bernard all the best in his retirement.

From me, a newcomer in the company, I must extend my thanks to the board for their welcome and support over the past few months, and their valuable insights into the company. I am happy to report that the institutional knowledge and expertise amongst a very lean management structure at Northam provides a very solid base from which to grow.

Paul Dunne

Chief executive

25 September 2014