CHIEF FINANCIAL OFFICER'S REVIEW – F2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

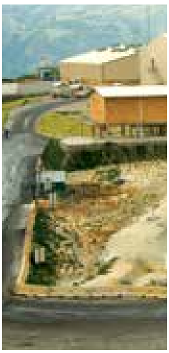
Sales revenue

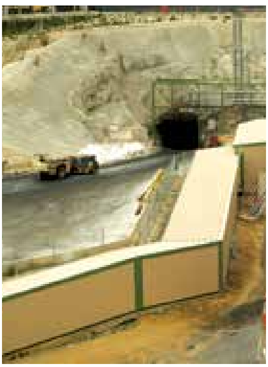
Northam's financial results were lower compared to F2013 primarily due to the impact of the 11-week strike at Zondereinde during the reporting period, which began on 3 November 2013 and ended on 21 January 2014. After the strike, and given the cautious approach to resuming safe mining activities, the production build-up was gradual, reaching full production towards the end of April 2014. In addition, Booysendal mine, currently still in ramp-up phase, is not yet in a position to contribute positively to the group's earnings.

Despite lower production from the Zondereinde mine, sales volumes were supplemented by the contribution from the Booysendal mine for the first time, and also from a release of inventory, which had built up during the smelter rebuild at the beginning of the financial year, resulting in group sales of 12 330kg or 396 417oz.

The higher sales volumes combined with the effects of a much weaker average ZAR/USD exchange rate year on year of R10.35/US$ (F2013 8.82/US$) contributed to record group sales revenues of R5.3 billion for the group. Platinum group metal sales from Zondereinde mine fell by 8.2% to 9 827kg (F2013: 10 704kg), while Booysendal contributed 2 503kg towards metal sales. Revenue relating to the sale of development ounces from the Booysendal mine of R137.7 million (345kg) was offset against property, plant and equipment during the year.

The average basket price of Zondereinde mine's metals released into the market was 9.6% higher in F2014 at R400 381/kg (F2013: R365 217/kg), while Booysendal mine metal sales achieved an average price of R398 710/kg. The improvement in the basket price is attributable to the weakening of the rand rather than an improvement in the average US dollar prices of platinum group metals, which were 6.1% lower at US$1 198/oz (F2013: US$ 1 276/oz).





Booysendal expects to produce approximately 160 000oz annually

GROUP METAL SALES AND REVENUES

	F2014			F2013		
	Units sold	Average price received	Revenue	Units sold	Average price received	Revenue
	kg	R/kg	R000	kg	R/kg	R000
Platinum	7 522	478 259	3 597 415	6 606	448 004	2 959 316
Palladium	3 649	252 877	922 648	3 133	195 716	613 109
Rhodium	964	340 033	327 928	786	322 085	253 262
Gold	195	433 263	84 574	179	455 474	81 557
Sub-total: (3PGE+Au)	**12 330**	**400 042**	**4 932 565**	**10 704**	**365 041**	**3 907 243**
Iridium	320	174 909	55 865	261	284 852	74 264
Ruthenium	1 360	19 544	26 577	1 315	23 391	30 751
Other precious metals	149	6 853	1 019	130	7 931	1 028
Sub-total: precious metals	**14 159**		**5 016 026**	**12 409**		**4 013 286**
Nickel (tonnes)	1 544	163 551*	252 507	1 313	140 547*	184 513
Copper (tonnes)	764	68 967*	52 656	678	65 171*	44 161
Chrome (tonnes)	79 793	481*	38 388	–	–	–
Other by-product revenue			2 749			1 460
Development ounces offset against property, plant and equipment			(137 687)			–
Sales revenue – Booysendal and Zondereinde mines			**5 224 639**			**4 243 420**
Sales revenue – other activities			114 758			177 557
Total group sales revenue			**5 339 397**			**4 420 977**

* Rand per tonne

METAL SALES AND REVENUES BY OPERATING MINE – F2014

	Booysendal mine			Zondereinde mine		
	Units sold	Average price received	Revenue	Units sold	Average price received	Revenue
	kg	R/kg	R000	kg	R/kg	R000
Platinum	1 524	478 589	729 274	5 998	478 180	2 868 141
Palladium	741	251 676	186 366	2 908	253 186	736 282
Rhodium	227	340 506	77 363	737	339 874	250 565
Gold	11	433 362	5 027	184	433 168	79 547
Sub-total: (3PGE+Au)	**2 503**	**398 710**	**998 030**	**9 827**	**400 381**	**3 934 535**
Iridium	108	163 757	17 653	212	180 638	38 212
Ruthenium	404	19 216	7 765	956	19 681	18 812
Other precious metals	–	–	–	149	6 850	1 019
Sub-total: precious metals	**3 015**		**1 023 448**	**11 144**		**3 992 578**
Nickel (tonnes)	174	153 954*	26 711	1 370	164 767*	225 796
Copper (tonnes)	75	68 369*	5 114	689	69 027*	47 542
Chrome (tonnes)	79 793	481*	38 388	–	–	–
Other by-product revenue			229			2 520
Development ounces offset against property, plant and equipment			(137 687)			–
Sales revenue – Booysendal and Zondereinde mines			956 203			4 268 436
Total sales: operating mines						**5 224 639**

* Rand per tonne

Cost of sales

The 38.4% increase in group cost of sales to R5.3 billion (F2013: R3.8 million) is a result of a combination of increases in operating costs, purchased concentrates, refining and related costs and depreciation charges.

GROUP COST OF SALES – F2014

	F2014 R000	F2013 R000
Labour	1 499 144	1 263 779
Stores	735 647	697 954
Utilities	443 016	340 820
Sundries	839 072	445 557
Decommissioning and restoration costs	9 345	11 323
Operating costs – core business activities*	**3 526 224**	**2 759 433**
Concentrates purchased	918 605	657 540
Refining and other costs	267 117	161 591
Depreciation and write-offs#	445 622	234 690
Change in metal inventories	110 316	(66 458)
Cost of sales – core business activities*	**5 267 884**	**3 746 796**
Operating costs – other group companies	9 778	66 505
Depreciation – other group companies#	253	–
Cost of sales – other group companies	**10 031**	**66 505**
Group cost of sales	**5 277 915**	**3 813 301**

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

\# Total group depreciation R445 875.

Operating costs

Operating costs increased by 25.1% to R3.5 billion (F2013: R2.8 billion) mainly owing to Booysendal mine's contribution to group costs.

The increase of 18.6% in labour costs is largely attributable to the inclusion of Booysendal labour costs. The mining royalty declined to R20.8 million (F2013: R55.1 million) owing to lower unit sales achieved at Zondereinde mine given the industrial action.

OPERATING COSTS BY BUSINESS ACTIVITY – F2014

	Zondereinde mine R000	Booysendal mine R000	Northam Chrome Producers R000	Other group entities R000	Total group R000
Labour	1 354 749	129 171	15 224	–	1 499 144
Stores	652 232	83 415	–	–	735 647
Utilities	372 396	69 330	1 290	–	443 016
Sundries	305 074	521 944	12 054	9 778	848 850
Decommissioning and restoration costs	6 421	2 924	–	–	9 345
Total operating costs	**2 690 872**	**806 784**	**28 568**	**9 778**	**3 536 002**

CHIEF FINANCIAL OFFICER'S REVIEW – F2014 CONTINUED

Concentrates purchased

Concentrate purchases at Zondereinde increased by 20.9% to 1 975kg (F2013: 1 633kg), giving rise to the spend on concentrate purchases being 39.7% higher at R918.6 million (F2013: R657.5 million).

ANALYSIS OF GROUP OPERATING PROFIT	Purchase of concentrate
Kilograms sold (3PGE+Au)	**2 184**
	R000
Sales revenue	1 005 384
Cost of sales	991 407
– operating costs plus depreciation and write-offs*	32 901
– change in metal stocks	24 648
– freight and realisation costs	–
– refining costs	15 253
– concentrates purchased	918 605
Operating profit	**13 977**
Treatment charges recovered	78 198*
Contribution to operating profit	92 175

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

Zondereinde production	Sub-total Zondereinde production	Booysendal production	Northam Chrome Producers	Other group entities	Total group
7 643	**9 827**	**2 503**	**–**	**–**	**12 330**
R000	**R000**	**R000**	**R000**	**R000**	**R000**
3 263 052	4 268 436	956 203	103 631	11 127	5 339 397
3 161 531	4 152 938	1 084 599	30 347	10 031	5 277 915
2 867 401	2 900 302	1 041 383	30 161	10 031	3 981 877
153 594	178 242	(68 112)	186	–	110 316
14 759	14 759	–	–	–	14 759
125 777	141 030	111 328	–	–	252 358
–	918 605	–	–	–	918 605
101 521	**115 498**	**(128 396)**	**73 284**	**1 096**	**61 482**

Total capital expenditure at Zondereinde was R351.5 million in F2014

Refining and other costs

Refining and related costs rose significantly by 65.3% to R267.1 million (F2013: R161.6 million), owing to increased volumes emanating from Booysendal mine as well as toll treatment charges during the period in which the Zondereinde mine smelting complex was being rebuilt following the smelter shutdown in May 2013.

Depreciation and write-offs

As the new Booysendal mine is now operational, the substantial 90.0% increase in amortisation charges to R445.9 million (F2013: R234.7 million) results from the first-time amortisation charges on Booysendal mine's property, plant and equipment and mining properties and mineral resources on a straight line basis, in line with group accounting policies. Now that the Booysendal mine has been in production for one full year, management has better knowledge of the geology, and the rate of production that the mine is likely to achieve and, therefore, as is required in terms of IAS 16 on property, plant and equipment, to review the depreciation policy of the group for F2015.

Change in metal inventories

The change in metal inventories amounts to a consolidated increase of R110.3 million (F2013: R66.6 million decrease). This comprises a R178.4 million positive change in Zondereinde mine's inventories and a R68.1 million negative change in Booysendal mine's inventory levels.

Operating profit

The operating profit of the group fell by 89.9% to R61.5 million (F2013: R607.7 million), mainly as a result of the increases in the components making up cost of sales as outlined above. Consequently, the operating margin for the group fell to 1.2% compared to 13.7% in F2013.

Share of earnings from associate and joint venture

The decrease in share of earnings from associate and joint venture was as a result of the lower production performance due to strike action during the year, which also adversely affected sales, by the Pandora joint venture.

Investment revenue, finance charges and net sundry income

Investment revenues were 79.4% higher, at R60.0 million, on the back of higher average cash balances resulting from the group's fundraising activities in F2014 and lower capital expenditure as the construction of Booysendal mine nears an end.

Finance charges increased significantly to R176.1 million (F2013: R17.9 million) as the group utilised the domestic medium term note financing facilities and the revolving credit facilities more actively during F2014 relative to F2013. In the previous financial year, finance charges relating to the Booysendal development were capitalised as borrowing costs. Net sundry income was 61.4% higher at R97.0 million (F2013: R60.1 million) owing to increased foreign exchange gains resulting from the weakening rand against the US dollar during F2014 as well as an increase in the treatment charges recovered from purchased concentrate during the year.

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 group net taxation charge of R26.2 million (F2013: R169.1 million) was lower owing to the decline in profit before tax achieved in F2014.

The higher effective tax rate, which increased to 57.2% in F2014 (F2013: 24.3%) is the result of the net effect of permanent tax differences at group level, including exempt income in the form of dividends and non-deductible expenditure, which includes fair value adjustments.

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 237.

Total comprehensive income attributable to shareholders

A lower total comprehensive income of R18.3 million was earned in the current year, compared to R523.9 million in F2013, largely as a consequence of the strike at Zondereinde mine which resulted in lower revenues, as well as costs associated with the new Booysendal mine, which is still ramping up, achieving approximately 50% of steady state production as at 30 June 2014. NCP contributed an amount of R50.6 million to the group's F2014 after tax profits.

Consequently, earnings per share fall by 98.2% in F2014 to 2.4 cents per share compared to 132.0 cents per share in F2013.

CONSOLIDATED STATEMENT OF CASH FLOWS

Operating activity cash flow

Cash flows from operating activities improved by 68.9% to R885.5 million (F2013: R524.2 million) owing to higher sales revenues achieved by the group in F2014.

Investing activity cash flow

Cash flows utilised in investing activities decreased significantly from R1.7 billion in F2013 to R766.1 million in F2014, on the back of a significant decline in capital expenditure at Booysendal mine, which is now fully commissioned. Revenue relating to the sale of development ounces of R137.7 million was offset against these cash outflows in F2014, further reducing cash flows utilised in investing activities.

Financing activity cash flow

Cash flows generated from financing activities fell significantly by 82.0% to R248.0 million (F2013: R1.4 billion) primarily owing to the R120 million raised in F2014 from the domestic medium term notes programme, compared to R1.25 billion raised in F2013.

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 R367.5 million (F2013: R193.6 million).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Non-current assets

Property, plant and equipment

Despite group capital expenditure increasing to R897.8 million, revenue from the sale of development ounces of R137.7 million being offset against property, plant and equipment, a depreciation charge of R234.6 million from the Booysendal mine, which is being depreciated over the life of mine for the first time, and pre-production expenditure relating to the development of Booysendal mine, amounting to R300.3 million, was credited to property, plant and equipment to account for the initial stockpile in the inventory balance on 1 July 2013 when the mine came into production. The initial stockpile was depleted by year end.

Interest in associates and joint venture
There are no major changes in 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;

An analysis of these assets is available in Annexure 2 of these annual financial statements, on page 256.

Land and township development
At 30 June 2014, a total of 359 housing units had been sold to new home owners at Mojuteng near Zondereinde and an additional 29 stands are being prepared for housing construction for the benefit of employees. The company has also converted, from the current hostel accommodation, and built 1 640 employee single units (including units for contractors).

Long-term receivables
The increase in this balance reflects the sales of housing to employees on an installment sale basis, through the 100%-owned housing subsidiary Norplats Properties Proprietary Limited.

Northam Platinum Restoration Trust Fund and Environmental Guarantee Investment
The R14.1 million increase in the combined balance of these funds is due to contributions made and net income earned.

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 Tourism and Parks Agency to retain a portion of the freehold land adjacent to the Booysendal mine as an environmental conservancy. The group contributed an initial 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 decrease in this balance is due to the more aggressive following up of debtors in order to lower net interest charges of borrowing.

Cash and cash equivalents
The total cash resources of the group at year end were R666.1 million (F2013: R298.6 million). The rise in this balance is mainly due to an increase in operating cash flows and the raising of funds through the claw-back rights offer (net R579.0 million raised) and the tap issue on the domestic medium term notes programme in F2014 (R120.0 million).

Non-current liabilities

Deferred tax liability
The deferred tax liability arises from normal timing differences.

Long-term provisions

The increase in this provision is mainly as a result of the unwinding of the discount rate on calculating the decommissioning and restoration cost provisions.

Share-based payment liability

This balance represents the liability arising from the 30 June 2014 balance of outstanding options and incentive shares granted to employees in terms of the group's share option scheme and share incentive plan. The increase in the liability relates to the additional allocation of incentive shares to employees during F2014.

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 organisation, *Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden NV* (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

Cash conservation strategies, particularly during the strike, resulted in a decline in trade payables.

Short-term provisions

This liability relates to leave accrued to employees, and is higher owing to the rising salary and wages expenditure.

Revolving credit facilities

The revolving credit facility was repaid in full during the year and the total R1.4 billion facility was available for drawing at 30 June 2014.

Capital expenditure

Booysendal mine

Capital expenditure of R539.6 million was spent on the development of the mine during F2014 (F2013: R1.4 billion). Capital expenditure is expected to be R483.4 million in F2015, including R78.4 million of ongoing capital expenditure. Since inception, the total project expenditure, including finance costs and other directly attributable costs, is expected to be R4.9 billion by the end of F2015. The original capital budget for Booysendal mine was R3.9 billion in June 2010 money terms.

Zondereinde mine

Capital expenditure was R351.5 million in F2014 (2013: R347.9 million). Capital spend in F2015 is expected to be R331.2 million.

Ayanda Khumalo
Chief financial officer
25 September 2014