

# CHIEF FINANCIAL OFFICER'S REVIEW



**Ayanda Khumalo**  
Chief financial officer

*The group delivered solid operating results which have been underpinned by a strong financial position.*

## DISCUSSION OF KEY ITEMS IN THE SUMMARISED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For ease of reference see page 156 in the annual financial statements.

### STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2016

|                                                                                                              | Note | Group         |               | Company       |               |
|--------------------------------------------------------------------------------------------------------------|------|---------------|---------------|---------------|---------------|
|                                                                                                              |      | 2016<br>R'000 | 2015<br>R'000 | 2016<br>R'000 | 2015<br>R'000 |
| <b>Revenue</b>                                                                                               | 32   | 6 404 641     | 6 173 618     | 6 019 284     | 4 629 208     |
| <b>Sales revenue</b>                                                                                         | 33   | 6 097 070     | 6 035 535     | 5 740 467     | 4 230 121     |
| <b>Cost of sales</b>                                                                                         |      | (5 713 722)   | (5 439 722)   | (5 680 282)   | (3 980 584)   |
| <b>Operating costs</b>                                                                                       | 34   | (5 007 233)   | (4 342 571)   | (3 430 234)   | (3 114 831)   |
| Concentrates purchased                                                                                       |      | (350 514)     | (602 395)     | (2 194 494)   | (963 011)     |
| Refining and other costs                                                                                     |      | (133 186)     | (199 470)     | (133 186)     | (83 408)      |
| Depreciation and write-offs                                                                                  |      | (403 545)     | (339 949)     | (187 968)     | (165 091)     |
| Change in metal inventories                                                                                  |      | 180 756       | 44 663        | 265 598       | 345 757       |
| <b>Operating profit</b>                                                                                      |      | 383 348       | 595 813       | 60 185        | 249 537       |
| Share of (losses)/earnings from associate and joint venture                                                  |      | (32 253)      | 28 769        | –             | –             |
| Investment revenue                                                                                           | 35   | 265 258       | 72 043        | 109 480       | 220 904       |
| Finance charges excluding preference share dividends                                                         | 36   | (39 634)      | (145 170)     | (33 515)      | (140 342)     |
| Sundry expenditure                                                                                           | 37   | (92 122)      | (1 587 264)   | (37 089)      | (9 244 535)   |
| Sundry income                                                                                                | 38   | 180 928       | 268 250       | 282 545       | 377 490       |
| Profit/(loss) before preference share dividends                                                              |      | 665 525       | (767 559)     | 381 606       | (8 536 946)   |
| Amortisation of liquidity fees paid on preference shares                                                     | 24   | (18 968)      | –             | –             | –             |
| Preference share dividends                                                                                   | 24   | (918 906)     | (100 767)     | –             | –             |
| (Loss)/profit before tax                                                                                     |      | (271 369)     | (868 326)     | 381 606       | (8 536 946)   |
| Taxation                                                                                                     | 39   | (236 894)     | (165 619)     | (108 988)     | (115 244)     |
| <b>(Loss)/profit for the year</b>                                                                            |      | (508 263)     | (1 033 945)   | 272 618       | (8 652 190)   |
| <b>Other comprehensive income</b>                                                                            |      |               |               |               |               |
| Items that will be subsequently reclassified to profit and loss                                              |      | 19 822        | (4 482)       | –             | –             |
| Share of associate's exchange differences on translating foreign operations and foreign currency translation |      | (3 947)       | (4 482)       | –             | –             |
| Reclassification of other comprehensive income from associate to profit or loss                              |      | 23 769        | –             | –             | –             |
| <b>Total comprehensive income for the year</b>                                                               |      | (488 441)     | (1 038 427)   | 272 618       | (8 652 190)   |
| <b>(Loss)/profit attributable to:</b>                                                                        |      |               |               |               |               |
| Owners of the parent                                                                                         |      | (508 263)     | (1 035 649)   | 272 618       | (8 652 190)   |
| Non-controlling interests                                                                                    |      | –             | 1 704         | –             | –             |
| <b>(Loss)/profit for the year</b>                                                                            |      | (508 263)     | (1 033 945)   | 272 618       | (8 652 190)   |
| <b>Total comprehensive income attributable to:</b>                                                           |      |               |               |               |               |
| Owners of the parent                                                                                         |      | (488 441)     | (1 040 131)   | 272 618       | (8 652 190)   |
| Non-controlling interests                                                                                    |      | –             | 1 704         | –             | –             |
| <b>Total comprehensive income attributable for the year</b>                                                  |      | (488 441)     | (1 038 427)   | 272 618       | (8 652 190)   |
|                                                                                                              |      | <b>Cents</b>  | <b>Cents</b>  |               |               |
| Loss per share                                                                                               | 40   | (145.3)       | (264.3)       |               |               |
| Fully diluted loss per share                                                                                 | 40   | (145.3)       | (264.3)       |               |               |
| Headline loss per share                                                                                      | 40   | (140.9)       | (202.9)       |               |               |
| Fully diluted headline loss per share                                                                        | 40   | (140.9)       | (202.9)       |               |               |

The 7.0% growth in metal sales to 452 393oz (FY2015: 422 653oz) was largely offset by the lower metal prices received over the year, and translated into an only marginal increase in sales revenue to R6.1 billion (FY2015: R6.0 billion).

The lower basket price achieved of R382 979/kg (FY2015: R407 864/kg) reflects a 25.0% decline in the US\$ basket price from US\$1 108/oz to US\$831/oz. The weaker ZAR, which dropped by 25.2% year-on-year from an average of R11.45/US\$ to R14.33/US\$ for the financial year under review, only partially offset the effect of the weaker US\$ metal prices.

From 1 June 2015, concentrate produced from Booyssendal has been sold to Zondereinde at 88% of the market value. On a group basis, revenue is generated by Zondereinde as all PGM sales between Booyssendal and Zondereinde are eliminated on consolidation. Previously, Booyssendal sold its final product directly to third party customers.

**Cost of sales** increased by 5.0% to R5.7 billion (FY2015: R5.4 billion) given the 7.0% growth in sales volumes. Group operating costs were up by 15.3% to R5.0 billion (FY2015: R4.3 billion) on the back of a 15.7% increase in metals produced from own operations. Depreciation and amortisation increased by 18.7% to R403.5 million (FY2015: R339.9 million), attributable to the increased production, as depreciation and amortisation is calculated on a unit of production basis for

most assets. The value of concentrates purchased from external parties fell by 41.8% to R350.5 million (FY2015: R602.4 million) largely owing to lower deliveries from the seller.

**Operating profit** was negatively impacted by the lower basket price and decreased by 35.7% to R383.3 million (FY2015: R595.8 million). Zondereinde generated an operating profit of R248.1 million (FY2015: R398.4 million) and Booyssendal generated an operating profit of R176.0 million (FY2015: R195.2 million).

**Share of earnings from associates and joint ventures** fell by 212.1% to a loss of R32.3 million (FY2015: profit of R28.8 million). In the current year, Northam's share in the Pandora joint venture's losses amounted to R12.6 million (FY2015: loss of R10.7 million) and its share of losses in Trans Hex amounted to R20.0 million (FY2015: profit of R39.5 million). The Pandora joint venture also required a number of cash injections, with the group's share of cash calls amounting to R10.6 million (FY2015: R9.7 million) with further cash calls expected in the new financial year. Management is reviewing its options with regard to Northam's continued participation in the Pandora joint venture.

With the disposal of the Trans Hex stake, a loss of R21.0 million was recognised on the sales transaction. Northam's acquisition of a 20% share in SSG Holdings Proprietary Limited (SSG) for R10.0 million, effective 29 February 2016, is recognised as an **investment in an associate**, and has been equity accounted. SSG provides security services to both the Zondereinde and Booyssendal mines. Northam's share of SSG's profits for the four months ended 30 June 2016 amounted to R0.4 million.

Interest earned on higher cash balances, along with interest received on an insurance contingency policy contributed to an increase in **investment revenue** of 268.2% to R265.3 million (FY2015: R72.0 million).

**Finance charges** were reduced by 72.7% to R39.6 million (FY2015: R145.2 million). The domestic medium term note (DMTN) of R1.4 billion was repaid on 3 September 2015, resulting in a reduction in the finance costs in the current year. New DMTNs were issued during May and June 2016, resulting in an interest accrual of R4.8 million on these new notes plus R23.5 million worth of interest paid on the old DMTN repaid in September 2015, compared to R132.9 million accrued for in the prior year.

A 32.6% decline to R180.9 million (FY2015: R268.3 million) was recorded in **sundry income** during the year. An amount of R59.6 million was received as a result of the cancellation of an insurance contingency policy and the refund of the original cash contribution plus interest. In the corresponding period, an insurance refund of R183.8 million was received relating to the No. 1 shaft incident which was then included in sundry income. Sundry income during the current year was also impacted by the volatility of the ZAR as currency translation

variances increased from R6.2 million to R26.2 million. Also included in sundry income is the write-back of the Trans Hex impairment of R34.1 million, previously accounted for in sundry expenditure.

**Sundry expenditure** declined by 94.2% from R1 587.3 million to R92.1 million. In the previous year, this amount included once-off lock in fees of R242.4 million paid to the BEE participants, a once-off equity-settled share-based payment charge of R874.4 million also relating to the Zambezi BEE transaction as well as corporate action costs of R172.6 million.

Sundry expenditure in the prior year included the write down of R261.5 million relating to the investment in non-core assets, while expenditure in the year under review includes an impairment of R20.5 million relating to the Pandora joint venture. Furthermore, in FY2016, care and maintenance costs of R25.1 million (FY2015: R9.7 million) were incurred on the Everest plant and a loss of R21.0 was recorded on the sale of the Trans Hex shares.

In terms of the BEE transaction, the Zambezi preference shares accrue a cumulative variable dividend at the South African prime interest rate plus 3.5% per annum and are recognised as a finance charge in profit or loss. The non-cash finance costs associated with the preference shares for the current year amounted to R918.8 million (FY2015: R100.8 million) and are consolidated into the accounts of Northam in terms of IFRS, together with the amortisation fees paid over the 10-year lock-in period.

The rise in the **taxation** charge compared to the previous year is largely attributable to non-mining tax of R140.8 million, accrued mainly on interest earned from third parties. Deferred tax was raised on all temporary differences resulting in a tax charge of R96.1 million.



Booyssendal generated an operating profit of R176.0 million in FY2016

## CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

## Two-year summary of sales and revenues

|                                                    | FY2016        |                        |                  | FY2015        |                        |                  |
|----------------------------------------------------|---------------|------------------------|------------------|---------------|------------------------|------------------|
|                                                    | Units sold    | Average price received | Revenue          | Units sold    | Average price received | Revenue          |
|                                                    | kg            | R/kg                   | R'000            | kg            | R/kg                   | R'000            |
| Platinum                                           | 8 404         | 444 005                | 3 731 417        | 7 894         | 457 795                | 3 613 649        |
| Palladium                                          | 4 171         | 269 068                | 1 122 284        | 3 875         | 293 911                | 1 138 875        |
| Rhodium                                            | 1 326         | 334 086                | 442 998          | 1 195         | 429 668                | 513 582          |
| Gold                                               | 170           | 542 065                | 92 151           | 182           | 449 094                | 81 556           |
| <b>Sub-total: (3PGE+Au)</b>                        | <b>14 071</b> | <b>382 976</b>         | <b>5 388 850</b> | <b>13 146</b> | <b>406 809</b>         | <b>5 347 662</b> |
| Iridium                                            | 481           | 233 711                | 112 415          | 397           | 204 174                | 80 975           |
| Ruthenium                                          | 1 917         | 18 256                 | 34 996           | 1 792         | 19 543                 | 35 013           |
| <b>Sub-total: precious metals</b>                  | <b>16 470</b> |                        | <b>5 536 261</b> | <b>15 743</b> | <b>5 463 651</b>       | <b>5 463 650</b> |
| Nickel (tonnes)                                    | 1 268         | 128 507                | 162 947          | 1 322         | 172 204                | 227 567          |
| Copper (tonnes)                                    | 568           | 64 945                 | 36 889           | 679           | 67 746                 | 45 995           |
| Chrome (tonnes)                                    | 540 624       | 656                    | 354 653          | 141 874       | 745                    | 289 791          |
| Other by-product revenue                           | –             |                        | 4 370            | –             |                        | 4 716            |
| <b>Sales revenue – Zondereinde and Booyssendal</b> |               |                        | <b>6 095 120</b> |               |                        | <b>6 031 719</b> |
| Sales revenue – other activities                   |               |                        | 1 950            |               |                        | 3 816            |
| <b>Total group sales revenue</b>                   |               |                        | <b>6 097 070</b> |               |                        | <b>6 035 535</b> |

## DISCUSSIONS OF KEY ITEMS IN THE STATEMENT OF FINANCIAL POSITION

For ease of reference see page 157 in the annual financial statements.

ANNUAL FINANCIAL STATEMENTS continued

**STATEMENT OF FINANCIAL POSITION**  
As at 30 June 2016

| Note                                                         | Group             |                   | Company           |                   |
|--------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                                              | 2016<br>R'000     | 2015<br>R'000     | 2016<br>R'000     | 2015<br>R'000     |
| <b>ASSETS</b>                                                |                   |                   |                   |                   |
| <b>Non-current assets</b>                                    | 14 110 084        | 13 367 048        | 13 299 712        | 12 988 803        |
| Property, plant and equipment                                | 5 7 853 993       | 7 065 352         | 2 790 278         | 2 419 013         |
| Mining properties and mineral resources                      | 6 5 614 084       | 5 636 476         | 101 518           | 109 362           |
| Interest in associates and joint ventures                    | 7 192 164         | 275 847           | 36 845            | 116 961           |
| Investment in subsidiaries                                   | 8 –               | –                 | 10 236 000        | 10 236 000        |
| Unlisted investment                                          | 9 6               | 6                 | 6                 | 6                 |
| Land and township development                                | 10 51 341         | 10 000            | 18 218            | –                 |
| Long term receivables                                        | 11 89 717         | 94 503            | –                 | –                 |
| Investments held by Northern Platinum Restoration Trust Fund | 12 93 647         | 49 092            | 43 204            | 38 868            |
| Environmental Guarantee Investment                           | 13 60 345         | 52 122            | 49 187            | 44 137            |
| Buttoshope Conservancy Trust                                 | 14 10 445         | 11 037            | –                 | –                 |
| Deferred tax asset                                           | 21 144 332        | 172 611           | –                 | –                 |
| Long term subsidiary loan                                    | 15 –              | –                 | 24 456            | 24 456            |
| <b>Current assets</b>                                        | 4 867 779         | 5 784 288         | 5 613 269         | 6 074 996         |
| Short term subsidiary loan                                   | 15 –              | –                 | 2 330 527         | 4 201 563         |
| Inventories                                                  | 16 1 330 270      | 1 126 550         | 1 308 256         | 1 045 353         |
| Trade and other receivables                                  | 17 375 204        | 498 854           | 274 353           | 281 497           |
| Cash and cash equivalents                                    | 18 3 105 080      | 4 138 189         | 1 654 417         | 534 959           |
| Tax receivable                                               | 57 225            | 20 695            | 45 716            | 11 624            |
| <b>Total assets</b>                                          | <b>18 977 863</b> | <b>19 151 336</b> | <b>18 912 981</b> | <b>19 063 799</b> |
| <b>EQUITY AND LIABILITIES</b>                                |                   |                   |                   |                   |
| Stated capital                                               | 19 13 778 114     | 13 778 114        | 13 778 114        | 13 778 114        |
| Treasury shares                                              | 19 (6 556 123)    | (6 556 123)       | –                 | –                 |
| Retained earnings                                            | 631 545           | 1 139 808         | (6 077 117)       | (6 349 735)       |
| Equity settled share based payment reserve                   | 20 874 448        | 874 448           | 1 173 756         | 1 173 756         |
| Share of other comprehensive income from associate           | –                 | (19 822)          | –                 | –                 |
| <b>Total equity</b>                                          | <b>8 727 984</b>  | <b>9 216 425</b>  | <b>8 874 753</b>  | <b>8 602 135</b>  |
| <b>Non-current liabilities</b>                               | <b>9 072 179</b>  | <b>7 310 753</b>  | <b>8 981 473</b>  | <b>8 235 923</b>  |
| Deferred tax liability                                       | 21 590 637        | 521 452           | 594 935           | 527 234           |
| Long term provisions                                         | 22 272 820        | 187 217           | 139 316           | 114 509           |
| Long term loans                                              | 23 275 513        | 39 963            | 239 590           | –                 |
| Long term share based payment liability                      | 26 84 373         | 69 466            | 52 641            | 58 236            |
| Financial guarantee liability                                | 25 –              | –                 | 7 535 944         | 7 535 944         |
| Domestic medium term debt notes                              | 27 419 287        | –                 | 419 287           | –                 |
| Preference share liability                                   | 24 7 429 549      | 6 492 655         | –                 | –                 |
| <b>Current liabilities</b>                                   | <b>1 177 700</b>  | <b>2 624 158</b>  | <b>1 056 755</b>  | <b>2 225 741</b>  |
| Current portion of long term loans                           | 23 13 201         | 3 801             | 9 400             | –                 |
| Short term share based payment liability                     | 26 56 704         | 61 019            | 44 197            | 49 974            |
| Domestic medium term debt notes                              | 27 –              | 1 370 000         | –                 | 1 370 000         |
| Tax payable                                                  | 104 072           | 102 072           | –                 | –                 |
| Trade and other payables                                     | 29 877 935        | 959 996           | 885 358           | 685 303           |
| Short term provisions                                        | 30 125 788        | 127 270           | 117 800           | 120 464           |
| <b>Total equity and liabilities</b>                          | <b>18 977 863</b> | <b>19 151 336</b> | <b>18 912 981</b> | <b>19 063 799</b> |

## Property, plant and equipment and mining properties and mineral reserves

The higher value of fixed assets reflects the capital projects at both of the group's operating assets. These are discussed in detail on page 30 of *Financial capital*.

Other movements relate to depreciation calculated in the normal course of business using either the units of production method or the straight line method to the value of R403.5 million (FY2015: R339.9 million).

In assessing the useful lives of its assets, technological innovation, product life cycles, the physical condition of the assets and maintenance programmes are taken into consideration by management. Residual values are the expected values at the end of an asset's useful life, a process of estimation is required to determine the residual values. During the year under review, there were no significant changes to the useful lives and residual values of property, plant and equipment balances.

Detailed impairment testing was also performed as part of the year-end process and it was confirmed that the carrying value of all assets is less than the recoverable value, thereby negating the need for any impairment during the year under review.

### Interest in associates and joint venture

Interest in associates and joint ventures comprise a 7.5% interest in the Pandora joint venture, a 50% interest in the Dwaalkop platinum project and a 20.3% interest in the issued share capital of Trans Hex which was sold during the current year. Northam also acquired a 20% investment in the share capital of SSG during the year.

### Land and township development

The increase in land and township development reflects the increased investment following board approval in 2015 of a housing strategy to provide accommodation opportunities to all employees at the group's operations. See page 50 for further information on the group's housing initiatives.

### Long-term receivables

This balance reflects the sales of houses to employees on an instalment sale basis, through a wholly-owned subsidiary of the group, Norplats Properties Proprietary Limited.

### Northam Platinum Restoration Trust Fund and Environmental Guarantee Investment

The R44.6 million increase in the restoration trust fund represents the additional contribution received from AQPSA as part of the acquisition of the Everest plant and mineral reserves amounting to R33.9 million as well as additional contributions made by the group to the restoration trust fund during the year under review.

Additional contributions were also made to the environmental guarantee investment.

All other movements relate to interest earned on these investments.

### Deferred tax asset

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

Below is the breakdown of investments in associates:

|                                                    | Interest in<br>Dwaalkop<br>joint venture | Interest in<br>Pandora joint<br>venture | Interest in<br>Trans Hex<br>Group Limited | Interest in<br>SSG Holdings<br>Proprietary<br>Limited | Total          |
|----------------------------------------------------|------------------------------------------|-----------------------------------------|-------------------------------------------|-------------------------------------------------------|----------------|
|                                                    | R'000                                    | R'000                                   | R'000                                     | R'000                                                 | R'000          |
| <b>Opening balance as at 1 July 2015</b>           | 136 230                                  | 70 720                                  | 68 897                                    | –                                                     | 275 847        |
| Additional investment                              | –                                        | 10 601                                  | –                                         | 10 000                                                | 20 601         |
| Share of earnings from associate and joint venture | –                                        | (12 620)                                | (20 002)                                  | 369                                                   | (32 253)       |
| Other comprehensive income                         | –                                        | –                                       | (3 947)                                   | –                                                     | (3 947)        |
| Current year amortisation                          | –                                        | (2 600)                                 | –                                         | –                                                     | (2 600)        |
| Cash distributions received                        | –                                        | (24)                                    | –                                         | –                                                     | (24)           |
| (Impairment)/reversal of impairment                | –                                        | (20 512)                                | 34 122                                    | –                                                     | 13 610         |
| Sale of investment                                 | –                                        | –                                       | (79 070)                                  | –                                                     | (79 070)       |
| <b>Closing balance as at 30 June 2016</b>          | <b>136 230</b>                           | <b>45 565</b>                           | <b>–</b>                                  | <b>10 369</b>                                         | <b>192 164</b> |

## CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

### Buttonslope 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 Booyseendal mine as an environmental conservancy. The principal objective of the trust is to govern the conservation, rehabilitation, environmental education and awareness training and sustainable development projects on the Buttonslope farm. This property is owned by Booyseendal Platinum Proprietary Limited.

The group contributed an amount of R10.0 million to the trust in previous years and contributed an additional R0.4 million in the current year.

### Inventories

Since 1 June 2015, all concentrate produced by Booyseendal has been sold to Zondereinde at a value equal to 88% of the market value. The adjusted value of 88% of market value takes into account the further refining costs necessary to bring the inventory to a condition and location ready for sales to third parties. During the year, 164 579oz were sold by Booyseendal to Zondereinde for a total consideration of R1.8 billion (which was eliminated on consolidation).

Inventories increased by 18.1% due to increased production during the current year as Booyseendal moved to steady-state production levels with higher quantities of inventory held at year end.

### Trade and other receivables

Trade and other receivables decreased by 24.8% mainly due to long outstanding Value Added Tax receivable refunds received during the current year.

### Cash and cash equivalents

The movement in cash and cash equivalents is mainly due to the repayment of domestic medium term debt notes during the year. Please also refer to the consolidated statement of cash flow on page 160 for all movements relating to the cash and cash equivalent balance.

### Deferred tax liability

The increase in the deferred tax liability is due to the movement in tax values of mainly property plant and equipment. The tax treatment of property, plant and equipment results in deferred tax liabilities.

### Long-term provisions

In terms of, *inter alia*, the MPRDA, no 28 of 2002, Northam is required to make financial provision for its decommissioning and restoration costs that will be incurred upon the cessation of mining activities.

Provision is made for the present value of the estimated future decommissioning and restoration costs at the end of the mine's life. When this provision gives rise to future economic

benefits, a decommissioning asset is recognised, otherwise the costs are charged to the statement of comprehensive income (income statement). The estimated decommissioning and restoration costs are discounted at a rate that reflects the current market assessments of the time value of money. The increase in the decommissioning provision due to the passage of time is recognised in profit or loss. Other changes in the carrying value of the provision subsequent to initial recognition are included in the determination of the carrying value of the decommissioning asset.

Management has engaged the services of a third party environmental expert to assess the potential commercial closure liability for all operations taking into account the new regulations pertaining to the financial provision for prospecting, exploration, mining or production operations.

Prior to the publication of the regulations in terms of the National Environmental Management Act (NEMA), financial closure and rehabilitation requirements were governed by legislation in the MPRDA and guideline documents dating back to the former Department of Minerals and Energy, now the Department of Mineral Resources (DMR). Currently all environmental governance provisions are dealt with under NEMA, which has resulted in a significant increase in the provision for rehabilitation and decommissioning.

### Preference share liability

Zambezi Platinum was created and designed for the sole purpose of providing Northam with BEE credentials and as a structure to hold the listed BEE preference shares.

By virtue of its initial purpose, Northam determined the activities and direction of Zambezi and as per the subscription and relationship agreement between the two companies, Zambezi's Memorandum of Incorporation may not be amended or replaced without Northam's prior written consent. Northam assumes full responsibility for the administration of Zambezi as well as any costs incurred by Zambezi up to a certain limit. Furthermore, Northam provides a guarantee for Zambezi's obligation in respect of the preference shares.

In terms of the transaction, an "N" share was issued to Northam, which gives it the right to implement mitigating action should Zambezi not comply with certain undertakings as per the transaction's agreements and in other limited instances aimed at maintaining the integrity of the transaction at all times.

In terms of the transaction, Zambezi may not dispose of the Northam ordinary shares without the prior consent of Northam. Northam has significant exposure to Zambezi, through the creation and maintenance of the BEE credentials during the 10 year lock-in period as well as through the guarantee provided by Northam. The decision-making power of Zambezi's board of directors is restricted to maintaining Northam's BEE credentials and funding arrangements.

All of these factors have been considered in determining that even though Northam does not have majority voting rights in Zambezi, it still has control over the entity. Thus Zambezi is consolidated into Northam.

The preference shares are redeemable in 10 years' time (from May 2015) at R41 plus the cumulative preference dividends. The preference shareholders are entitled to receive a dividend equal to the issue price multiplied by the dividend rate of prime plus 3.5%, calculated on a daily basis, based on a 365-day year compounded annually and capitalised at the end of December of every year.

The movements relate to accrued dividends on the preference shares for the year ended 30 June 2016.

### Share-based payment liability

The group operates the Northam share option scheme (the scheme) as well as the Northam share incentive plan (the SIP). The scheme has been discontinued owing to its dilutionary nature although share options issued before its discontinuance will be allowed to run their course.

Where the counterparty has a right to elect for the settlement in either shares or cash, IFRS 2 regards the transaction as a compound transaction to which split accounting must be applied. The general guiding principle is that the transaction must be analysed into a liability component (the counterparty's right to demand settlement in cash) and an equity component (the counterparty's right to demand settlement in shares).

Management has considered the requirements and has determined that, based on historical information, very few individuals, if any, have kept their Northam shares, and that the majority of the outstanding options, performance and retention shares will be settled in cash and should therefore be accounted for as a cash-settled rather than an equity-settled share-based payment.

Northam re-measures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value being recognised in profit or loss for the period. Therefore fluctuations in the share price mean that the liability relating to the cash-settled options and shares will fluctuate with movements recognised in profit and loss.

Management engaged the services of an expert to assess the share-based payment liability. A Black Scholes model was used to value the liability, which assumed an expected volatility of 53.78% which reflects the assumption that the historical volatility over a period similar to the life of the option/incentive shares is indicative of future trends, which may not necessarily be the actual outcome. In addition, a risk-free rate of between 7.3% and 7.5% has been used in valuing the various options.

Retention shares vest after three years from grant date with no performance criteria attached and performance shares also vest after three years from grant date with measurement against

performance criteria having to be met. It is important to note that the cash-settled share-based payments valuation is directly linked to the share price.

This balance therefore represents the liability arising from the 30 June 2016 outstanding options and incentive shares granted to employees in terms of the group's share option scheme and share incentive plan. The increased liability is mainly attributable to the share price being higher at the end of the current year than in the prior year.

### Domestic medium term notes

During the year under review the group issued a total of R425.0 million of domestic medium term debt notes.

In the prior year, the DMTN was classified as current due to the maturity date being September 2015. The notes were settled on maturity date. Further discussion on the DMTNs is provided in the *Financial capital* section on page 30.

### Long-term loans

The first €10.0 million of Heraeus's €20.0 contribution to the construction of a new furnace at Zondereinde was received in June 2016 but is recognised as a liability given that, in terms of the agreement between Northam and Heraeus, Northam is obliged to refund the amount of €10.0 if the furnace is not commissioned on time. Once the furnace is commissioned and the second €10.0 million is received, the €20.0 million will be deducted from the cost of the smelter as the value contributed by Heraeus is effectively considered a rebate in terms of IFRS.

In addition, R9.4 million will be paid annually by Northam for product development on 1 July of every year, commencing on 1 July 2016 for 20 years. A liability was recognised at contract inception. The liability was measured at the present value of the R9.4 million payments over 20 years using the prevailing prime interest rate and has also been included in long-term loans with the first payment on 1 July 2016 included as a current portion under current liabilities.

### Trade and other payables

The movement relates to a number of movements with the most significant relating to the decrease in the liability for purchased material from third parties.

### Short-term provisions

This liability relates to leave accrued to employees and the balance depends on leave taken by employees.

**Ayanda Khumalo**  
Chief financial officer

23 September 2016