

CHIEF EXECUTIVE'S REVIEW



Paul Dunne
Chief executive

The past year was one of consolidation for the group as we completed the restructuring and strengthening of our balance sheet and as we progressed development of the physical assets on which our corporate future is being built.

Northam is moving into a growth phase funded by significant cash holdings and internally generated cash flows. Successful project execution will be critical in the coming year.

HEALTH AND SAFETY

Our operations completed the past financial year with no fatal accidents. The mechanised workings at Booyssendal provide the differentiator in terms of a safe working environment and contributed to Booyssendal achieving two million fatality free shifts. Zondereinde's performance was exemplary and was rewarded with five million fatality-free shifts.

My congratulations go to all parties who worked to achieve these milestones. Our objective is zero harm to all of our employees, their families and the communities in which they live.

PGM MARKETS

The past year has been one of the most challenging this industry has faced. Metal prices have languished at levels not seen since 2009, with platinum plummeting to US\$814/oz in January this year. Some recovery has been discernible since, taking the metal to \$1,023/oz at the end of the financial year.

Palladium's trading followed a somewhat similar pattern, with spot metal touching a low of US\$470/oz in January and ending the year at US\$589/oz.

Recent research has indicated that the 2016 calendar year will end with an overall platinum supply deficit of 455 000oz based on forecast demand of 8.26Moz and supply of 7.80Moz. Newly-refined production is projected to fall in each of the four principal platinum producing regions – South Africa, Russia, Zimbabwe and North America - as mining firms curtail output of unprofitable ounces and deliver just shy of 6Moz into the market. Nevertheless, Northam expects platinum demand to continue to grow at a rate similar to the growth in world gross domestic product.

The decline in South African primary supply is likely to be steady over the next 10 or so years owing to under-investment in new projects. For Northam, this creates a particularly attractive investment thesis, in that we anticipate that our growth projects will start delivering production into a rising platinum market.

THE OPERATING ENVIRONMENT

Challenges in the labour relations arena are likely to persist in the near to medium term, even though labour relations at our two operating mines were largely stable in the wake of the three-year wage agreements secured at the end of the previous financial year.

I believe that these agreements illustrate that competition between unions can be set aside for the overall benefit of employees. Longer-term agreements provide a platform for a stable operating environment, which is a fundamental tenet of our business strategy.

Civil unrest in the Steelpoort valley is not a new phenomenon, but it did result in many days of production losses at Booysendal when passage for employees to get to work was too dangerous. We are optimistic that the task team set up to deal with community issues will generate some fresh impetus and that these concerns will be resolved.

The situation at Zondereinde was potentially more serious in early June, when a mine employee was killed in the neighbouring Northam town. This was followed by the death of another employee, raising tensions on the mine and resulting in eight days' underground production losses. This issue is still being actively managed by mine management.

My thanks, and those of the board, go to all the stakeholders who contributed to resolving the immediate situation at Zondereinde, in particular the SAPS and the Minister of Mineral Resources, Mr Mosebenzi Zwane.

FINANCIAL AND OPERATING PERFORMANCE

The introduction of Zambezi Platinum as a 31.4% shareholder in the company along with the capital injection it brought, have been fully absorbed into our accounts contributing to the healthy cash position of R3.1 billion shown on our balance sheet at the financial year's end.

Details of our financial results and operational delivery are discussed further on in this report. Suffice to say that the dollar denominated PGM prices masked the solid operating performances at both operations.

In line with our focus on core business activities, we disposed of the company's 20.3% stake in the Trans Hex Group Limited, further strengthened the statement of financial position by issuing medium term notes to the value of R425.0 million and welcomed the Industrial Development Corporation (IDC) of South Africa as a strategic funding partner. This financial strength provides the basis for funding future and existing expansion projects that will eventually take our annual PGM production profile to 800 000oz.

While our statement of financial position is particularly strong, we shall continue with our conservative approach to growth and acquisition. The massive orebody at Booysendal, along with the Everest infrastructure (now part of the Booysendal South complex), secures contiguous, lease-bound brownfields growth in an area where the capital footprint has largely already been established.

Each one of our mines has ore reserves sufficient for at least 20 years of production. We have completed the ramp-up of Booysendal UG2 North's operations to full capacity and are carrying out deepening projects at both Zondereinde and Booysendal North. The Merensky mine at Booysendal North and development of the Booysendal South mining complex have been approved and are progressing well. We are also extending and optimising our processing capacity. The smelter expansion at Zondereinde is in progress, and due for completion towards the end of calendar year 2017. An offtake agreement with Heraeus has secured an investment contribution of €20 million in this R750 million expansion programme.

LOOKING AHEAD

Looking ahead, Northam is confident that the fundamentals of the PGM markets will reassert, giving impetus to a stronger pricing environment. The perceived threats to demand are receding and South African primary supply is under pressure from underinvestment. Northam's investment in new production through the cycle is intended to deliver into a rising market.

APPRECIATION

Everyone at Northam gave unstintingly to the company's development this past financial year. I am confident that they will do the same in future. For this I extend my thanks and assure all of my colleagues that they will continue to enjoy my full support. I recognise the contributions of all Northam's people at all levels in the organisation and, in particular thank my board colleagues and managers for their advice and wise counsel. Together, we will succeed in taking Northam forward.

Paul Dunne

Chief executive

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