

F

FINANCIAL CAPITAL

RELEVANT MATERIAL ISSUES

- Managing production and performance to ensure the successful execution of our business strategy

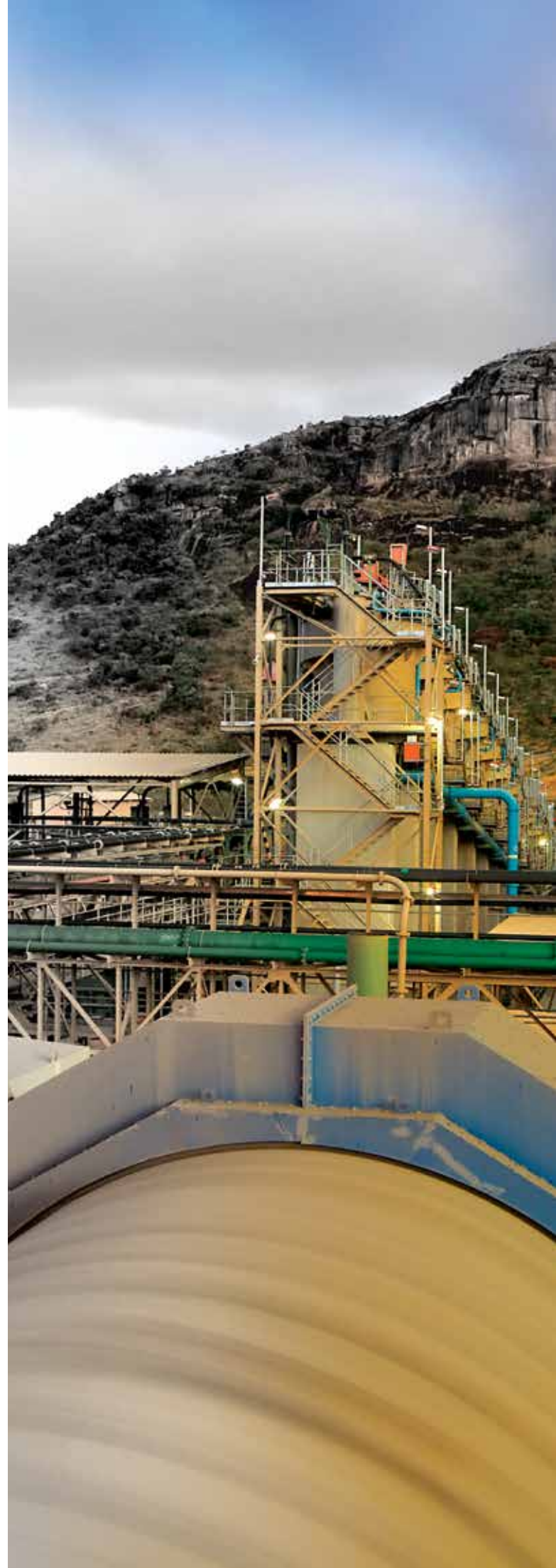
RELEVANT IDENTIFIED RISKS

- Exchange rate and commodity price

Financial capital is necessary to conduct our business. We allocate financial capital appropriately and responsibly to pay our people, fund our operations, sustain our business, invest in the future through capital expenditure and to fund rehabilitation and closure.

We do this through cash flow management, investment by shareholders and investors or through borrowings.

The Booysendal plant ►



FINANCIAL CAPITAL

ACHIEVEMENTS 	CHALLENGES 	OUTLOOK 
- Cash position of R3.1 billion - Renegotiated a five-year R1.5 billion revolving credit facility - R1.2 billion capital investment	- Difficult market conditions - Weak US\$ PGM prices	Booyssendal expansion projects approved (significant capital investment)

Northam's financial position is particularly strong. This is pleasing given the sustained difficult market conditions. For this reason, we are intent on persisting with a conservative approach to growth. The successful execution of the Booyssendal South project will be critical to achieve our strategic objectives.

In line with the group's strategy to diversify into shallow mechanisable operations the board approved the development of the initial phase of the Booyssendal South project in June 2016. This project includes the development of two UG2 mining modules and a Merensky mining module which will contribute an additional 240 000oz per annum of PGMs to the group's production profile by 2021.

The construction of the new 20MW furnace at the Zondereinde metallurgical complex is progressing well. In addition to adding smelter capacity, it will also reduce

operational risk. The total cost of the project is anticipated to be R750.0 million and is expected to be commissioned by the end of the 2017 calendar year. The expansion work follows on the extension of Northam's strategic partnership with Heraeus in terms of which Heraeus has agreed to contribute €20.0 million to the construction of the furnace. The first €10.0 million was received in June 2016. The agreement also provides for the renewal of the current refining arrangements and guarantees a supply of refined metal to Heraeus.

We are confident that the fundamentals of the PGM markets will eventually 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 this cycle is intended to deliver into a rising market and therefore create value for all stakeholders.

Below is a summary of the normalised headline earnings per share

	30 June 2016	30 June 2015
	R'000	R'000
Headline loss	(492 837)	(794 963)
Add back:		
Net lock in fee	–	242 429
IFRS 2 black economic empowerment share-based payment charge	–	874 448
Amortisation of liquidity fees paid on preference shares	18 088	–
Preference share dividends	918 806	100 767
Normalised headline earnings	444 057	422 681
Normalised headline earnings per issued share (cents)	87.1	82.9
Number of shares in issue including treasury shares	509 781 212	509 781 212

Normalised headline earnings have been calculated taking into account headline earnings per share adjusted for non-cash items relating to the BEE transaction. These include the preference share dividends associated with the BEE structure, represented by Zambezi Platinum (RF) Limited, which are consolidated into the group accounts as well as the amortisation of the liquidity fees paid in the prior year to the underwriters of the preference shares.

The normalised headline earnings of R444.1 million resulted in a normalised headline earnings per share of 87.1 cents (FY2015 82.9 cents) based on the total number of 509 781 212 shares issued, which include 159 905 453 treasury shares.

FINANCIAL CAPITAL CONTINUED

OVERVIEW

Given the current PGM price environment, the group's focus has been to optimise existing operations, contain costs and create a platform for further diversification into shallow mechanisable operations. Northam has continued to invest in large capex items which are fundamental to the group's growth strategy. In June 2016, the board approved a six-year capex programme of R4.2 billion in real terms for the significant Booyssendal South expansion. Capital investment in 2016 reached R1.2 billion. Further detail on capital expenditure items is provided on page 38 in the *Manufactured capital* section.

The healthy cash position of R3.1 billion at year end is mainly attributable to the cash injection from the BEE transaction in the prior year. Further strengthening came from the focus on our core business which led to the disposal of the group's 20.3% stake in Trans Hex Group Limited which yielded R81.8 million. The strategic participation of the IDC in contributing to the funding of the group's 800 000oz production profile resulted in the issue of medium-term notes. Improved operational results boosted cash flows from operating activities which rose to R839.1 million (FY2015: R341.0 million). Cash flows utilised in investing activities increased marginally, by 2.3% to R1.1 billion. These relate mainly to the capital items in support of the group's growth targets:

- R291.6 million incurred on the new 20MW furnace at Zondereinde
- R157.1 million spent on the Merensky project at Booyssendal
- R132.7 million spent on the deepening project at Zondereinde
- R178.0 million spent on the UG2 phase 1 and deepening project at Booyssendal
- R55.2 million on the acquisition of the Everest mineral resources

FUNDING

In September 2015, Northam repaid R1.4 billion relating to the previous DMTN. In May and June the company once again raised capital through the issue of DMTNs:

- On 11 May, 2016 a five-year DMTN to the value of R175.0 million was issued at a fixed coupon rate of 13.5%. Interest will be payable on a bi-annual basis in May and November of every year.

- On 9 June 2016, a further R250.0 million notes were issued at a floating rate of the 3-month JIBAR plus 390 basis points. Interest is payable on a quarterly basis in August, November, February and May of every year. As a result, cash flows utilised in financing activities declined from a R4.2 billion inflow to an outflow of R745.4 million.

Excluding the repayment and issue of the DMTN, the Northam group utilised net cash to the value of R82.4 million for the year.

Subsequent to year-end, the group renegotiated a five-year R1.5 billion revolving credit facility (RCF) to replace the existing R1.0 billion facility which will mature in November 2016. The new RCF commences in November 2016 and is a facility of up to R1.0 billion for 18 months, rising thereafter to a facility of R1.5 billion for the rest of the 5-year term.

These initiatives have been undertaken to ensure sufficient cash is available should metal prices be lower for longer and to fund various potential growth opportunities that may become available.

SEGMENTAL REPORTING

Operating profit was negatively impacted by the lower basket price and declined 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).

Zondereinde's total operating costs were R3.5 billion (FY2015: R3.2 billion), representing an increase of 10.1% based on higher total production of equivalent refined metal from own operations. This resulted in an overall 1.0% decrease in the unit cash cost per equivalent refined 3PGE + Au/kg from R378 737/kg to R374 846/kg in the current year, demonstrating tight cost control.

The total operating costs at Booyssendal increased from R1.2 billion to R1.5 billion. The increase of 29.3% is attributable to the increase in metals in concentrate produced which grew by 31.7% to 5 017kg/161 300oz (FY2015: 3 809kg/122 462oz).

Segmental statement of profit or loss and other comprehensive income for the year ended 30 June 2016

	Zondereinde operating segment	Booyseindal operating segment	Inter- company eliminations	Zambezi Platinum and the BEE transaction	Other	Total
	R'000	R'000	R'000	R'000	R'000	R'000
Sales revenue	5 966 217	1 972 883	(1 843 980)	–	1 950	6 097 070
Cost of sales	(5 718 092)	(1 796 904)	1 843 980	–	(42 706)	(5 713 722)
Operating profit	248 125	175 979	–	–	(40 756)	383 348
Share of losses from associate and joint venture	–	–	–	–	(32 253)	(32 253)
Investment revenue	111 066	163 940	(27 223)	–	17 475	265 258
Finance charges before preference shares	(33 515)	(24 131)	27 223	–	(9 211)	(39 634)
Sundry income	157 437	3 233	–	–	20 258	180 928
Sundry expenditure	(37 088)	(32 110)	–	–	(22 924)	(92 122)
Profit/(loss) before preference share dividends	446 025	286 911	–	–	(67 411)	665 525
Amortisation of liquidity fees paid on preference shares	–	–	–	(18 088)	–	(18 088)
Preference shares	–	–	–	(918 806)	–	(918 806)
Profit/(loss) before tax	446 025	286 911	–	(936 894)	(67 411)	(271 369)
Taxation	(162 587)	(82 866)	–	–	8 559	(236 894)
Profit/(loss) for the year	283 438	204 045	–	(936 894)	(58 852)	(508 263)



Given the current PGM price environment, the group's focus has been to optimise existing operations, contain costs and create a platform for further diversification into shallow mechanisable operations

FINANCIAL CAPITAL CONTINUED

Segmental statement of profit or loss and other comprehensive income for the year ended 30 June 2015

	Zondereinde operating segment	Booyseindal operating segment	Inter- company eliminations	Zambezi Platinum and the BEE transaction	Other	Total
	R'000	R'000	R'000	R'000	R'000	R'000
Sales revenue	4 414 254	1 978 081	(360 616)	–	3 816	6 035 535
Cost of sales	(4 015 840)	(1 782 850)	360 616	–	(1 648)	(5 439 722)
Operating profit	398 414	195 231	–	–	2 168	595 813
Share of earnings from associate and joint venture	–	–	–	–	28 769	28 769
Investment revenue	232 598	29 929	(189 100)	588	(1 972)	72 043
Finance charges before preference shares	(140 342)	(186 410)	189 100	–	(7 518)	(145 170)
Sundry income	265 336	1 147	–	–	1 767	268 250
Sundry expenditure	(197 285)	(13 498)	–	(1 289 518)	(86 963)	(1 587 264)
Profit/(loss) before preference share dividends	558 721	26 399	–	(1 289 930)	(63 749)	(767 559)
Preference share dividends	–	–	–	(100 767)	–	(100 767)
Profit/(loss) before tax	558 721	26 399	–	(1 389 697)	(63 749)	(868 326)
Taxation	(153 604)	74 279	–	(87 350)	1 056	(165 619)
Profit/(loss) for the year	405 117	100 678	–	(1 477 047)	(62 693)	(1 033 945)



Zondereinde's base metal recovery plant

HOW WE DISTRIBUTE VALUE

Northam creates value for stakeholders in many ways, including increasing production and sales; increasing earnings and growth; through taxes and royalties; transformation; salaries and wages; training and development; housing and accommodation; and investing in communities in the form of local economic development, preferential procurement and corporate social investment (CSI). We recognise that stakeholders, be they shareholders, employees or communities, have certain expectations of the company, not all of which may be appropriate or possible to meet. We need to understand and manage these expectations through credible and effective stakeholder engagement.

Below is a summary of value created and distributed to various stakeholders:

	30 June 2016	30 June 2015
	R'000	R'000
Sales revenue	6 097 070	6 035 535
Less: purchase of goods and services in order to operate and produce refined metals	(4 147 472)	(3 114 767)
Value added by operations	1 949 598	2 920 768
Add: share of (losses)/earnings from associate	(32 253)	28 769
Investment revenue	265 258	72 043
Sundry income	180 928	268 250
Sundry expenditure	(92 122)	(1 587 264)
Total value added	2 271 409	1 702 566
Distributed and utilised as follows:		
Value distributed to employees		
Salaries and wages	1 583 260	1 441 799
Contributions to retirement benefit funds	123 964	114 565
Contributions to healthcare funds	68 831	66 074
Share based payment	56 222	74 386
	1 832 277	1 696 824
Value distributed to government		
Mining and non-mining tax	140 825	135 762
Dividend withholding tax	–	12 447
Capital gains tax	–	74 592
Royalty taxes	44 283	39 986
Pay as you earn deducted from employees	294 043	277 861
	479 151	540 648
Value distributed to providers of capital		
Dividends	–	3 908
Finance charges excluding the Zambezi preference share dividends	39 634	145 170
	39 634	149 078
Value distributed to the broader community		
Corporate social responsibility and local economic development	3 543	6 805
Value utilised by the group		
Depreciation and write-offs	403 545	339 949
Rehabilitation provided to meet statutory obligations	1 700	7 689
Retained income	(488 441)	(1 038 427)
	(83 196)	(690 789)
Total value added	2 271 409	1 702 566

FINANCIAL CAPITAL CONTINUED

CONSOLIDATION OF ZAMBEZI PLATINUM (RF) LIMITED INTO THE CONSOLIDATED ACCOUNTS OF NORTHAM

In terms of the Northam BEE transaction, Northam first issued 112 195 122 new ordinary shares on 18 May 2015 to Zambezi Platinum, representing 22.0% of Northam's issued share capital at a subscription price of R41 per share, for a consideration of R4.6 billion. Secondly Zambezi, acquired an additional 47 710 331 existing Northam ordinary shares from the PIC, also at an acquisition price of R41 per share, amounting to a consideration of R2.0 billion, representing 9.4% of the Northam issued share capital. Zambezi therefore holds a combined 31.4% interest in Northam's issued share capital.

The transaction was financed by way of 159 905 453 new Zambezi listed preference shares with an aggregate value of R6.6 billion, redeemable at the end of a 10-year period. Eligible Northam shareholders were able to subscribe for the Zambezi BEE preference shares at an issue price of R41 per share. Subscription undertakings for the full value of the preference shares were underwritten by Coronation Asset Management Proprietary Limited and the PIC at a liquidity fee of 2.5% of the value of the preference shares. These BEE preference shares are guaranteed by Northam and as a result of the guarantee consolidated into the Northam group results.

The redemption of the preference share liability will occur in part through 90% of any dividends received from Northam. There is, however, no obligation to settle the preference share liability during the 10-year lock in period should no dividends be received from Northam. After the lock-in period of 10 years the preference share liability will be redeemed in a bullet payment through the possible sell-off of the Northam shares owned by Zambezi into the market to realise the capital value. In the event that this is not sufficient to settle the liability, the remaining preference share liability will be secured in terms of a financial guarantee issued by Northam. Should a liability arise under the Northam guarantee, Northam may settle this liability by capitalising Zambezi with cash and/or Northam shares before the redemption amount becomes due or making payment directly to the preference shareholders. The manner of settlement is a choice and is not contractually specified.

In terms of the preference share agreement between Zambezi and its preference shareholders, the preference shareholders will be entitled to receive dividends equal to the South African prime interest rate plus 3.5% compounded over the 10-year period. The preference shares will be compulsorily redeemable on the day immediately preceding the 10th anniversary of the implementation date. The preference shares can only be redeemable before this date upon the occurrence of an early redemption event which is defined in the agreement. The redemption price will be equal to the preference shares' issue price. In terms of the preference shares agreement, the preference dividends will accumulate (compounded) at the rate mentioned above for the 10-year period if not paid by Zambezi. On the redemption date, Zambezi has to settle any outstanding dividends accumulated, together with the redemption price. Zambezi does not have any discretion to avoid the payment of cumulative preference dividends or the payment of the redemption price, and is therefore obliged to settle this amount by delivering cash, a variable number of Northam shares or a combination of the two. The preference shares as well as any accumulated and unpaid preference dividends meet the definition of a financial liability, and are accounted for as such in the statement of financial position of Zambezi, and consolidated in the financials of Northam in terms of International Financial Reporting Standards. This means that the financial statements of the Northam group reflect the BEE equity issued shares as treasury shares and the BEE preference shares are reflected as a liability.

OUTLOOK

The global economic outlook remains uncertain resulting in volatile metal markets and exchange rates. The group's financial performance will depend on achieving higher metal sales prices and a stable operating performance. Cost saving and productivity improvement initiatives are in place at both Zondereinde and Booyssendal. Management is confident that the group's strong financial position, prudent financial controls and the development of shallow, mechanisable operations at Booyssendal, where the capital footprint has largely been established, will place the group in a position to take advantage of improved market conditions in the future.

Booyse's capital footprint has largely been established

