DIRECTORS' REPORT

The directors have the pleasure in presenting the annual financial statements of Northam Platinum Limited group and company for the year ended 30 June 2017. In the context of the financial statements, the term group refers to the company, its subsidiaries, associate and joint ventures.

Financial results

The company and group financial results are included in this report. These annual financial statements have been prepared using appropriate accounting policies, in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee, the SAICA Financial Reporting Guidelines as issued by the Accounting Practices Committee, financial pronouncements as issued by the Financial Reporting Standards Council and the Companies Act 71 of 2008 (the Companies Act), the JSE Limited (JSE) Listing Requirements and include amounts based on judgements and estimates made by management.

The statements of financial position, statements of profit or loss and other comprehensive income, statements of cash flow and statements of changes in equity and notes to the annual financial statements reflect the financial results and position of the company and the group as at 30 June 2017.

These financial results are available on our website, www.northam.co.za

Nature of business

Northam Platinum Limited (Northam), is a public company incorporated in South Africa, and a leading supplier of platinum group metals (PGMs). Northam is listed on the JSE, trading under the share code NHM, ISIN code ZAE000030912 and for the domestic medium term notes (DMTN) programme, under the debt issuer code NHMI with the bond codes NHM002 and NHM003, ISIN code ZAG000129024 and ZAG000129032 respectively.

Northam is an independent, fully empowered, mid-tier, integrated PGM producer with two primary operating assets, Zondereinde and Booysendal mines in the South African Bushveld Complex. During the year a third operation, Eland Platinum mine, was acquired. The necessary government approvals needed for the completion of the transaction are however still pending.

Below is a short description of the current operating assets:

Booysendal mine

The Booysendal operations are located in the southern compartment of the eastern limb of the Bushveld Complex, situated approximately 35km from the town of Mashishing (formerly Lydenburg), straddling the border of Limpopo and Mpumalanga provinces in South Africa. The massive Booysendal orebody is host to both the UG2 and Merensky reefs which outcrop over a strike length of 14.5km and dip westwards at approximately 10º.

The Booysendal North UG2 mine is a shallow, mechanised room and pillar underground operation. The North shaft complex comprises four declines, three on reef and one in the reef footwall, which are accessed by a reverse decline system.

Surface metallurgical infrastructure includes a UG2 concentrator and a dense media separation plant. Concentrate is sold to Zondereinde and all material is smelted and further processed at Zondereinde.

At the North mine a shallow mechanised bord and pillar operation has also been developed on the Merensky reef horizon. This comprises two on-reef access declines.

The balance of the Booysendal resource will be accessed through a number of decline systems being developed as part of the Booysendal South project. These declines will target both the UG2 and Merensky reefs. Ore will be transported from a central point across the valley to the large capacity concentrator at the old Everest mine by a unique aerial rope conveying system. Other smaller projects to unlock value from the resources at the old Everest mine are being evaluated.

Zondereinde mine

Zondereinde mine is located on the upper end of the western limb of the South African Bushveld Complex. Operational since 1993, the mine was established and continues to operate at steady state levels and remains cash generative and profitable producing some 280 000 ounces annually.

Underground mining activities focused on Merensky and UG2 reefs. The average depth of mining is at around 1 750m, which makes Zondereinde the deepest platinum mine in the world. Hydropowered equipment is used for stoping and development. Surface infrastructure includes separate concentrators for Merensky and UG2 ore, a base metals recovery plant and a smelter, with a new 20MW furnace currently being constructed. Marketing and sales activities are performed in-house to customers across the globe.

In October 2016, the company acquired additional PGM resources on both the Merensky and UG2 reefs from Anglo American Platinum's Tumela mine adjacent to Zondereinde's western boundary. These resources are not only expected to increase Zondereonde's economic life of mine but also to improve mining flexibility and the availability of Merensky reef.

Mining licences

Booysendal mine

Booysendal Platinum Proprietary Limited is a wholly-owned subsidiary of Northam, and holds two new order mining rights for the Booysendal mine which covers an area of approximately 18 035 hectares on the farms Booysendal 43 JT, Buttonshope 51 JT, Der Brochen 7 JT, Draaikraal 48 JT, Hebron 5 JT, Hermansdal 3 JT, Kliprivier 73 JT, Pietersburg 44 JT, Uysedoorns 47 JT, Johannesberg 45 JT, Sheeprun 50 JT, Sheeprun 179 JT, Sterkfontein 52 JT, De Kafferskraal 53 JT, Hoogland 38 JT and Sterkfontein 749 JT.

Zondereinde mine

Northam holds two new order mining rights in respect of the Zondereinde mine covering an area of approximately 7 627 hectares on the farms Aapieskraal 377 KQ, Amandelbult 383 KQ, Elandsfontein 386 KQ, Grootkuil 376 KQ, Kopje Alleen 422 KQ, Middeldrift 379 KQ, Vrugbaar 381 KQ, Vrugbaar 387 KQ, Witvley 423 KQ and Zondereinde 384 KQ.

On 10 October 2016, Northam entered into an agreement with Rustenburg Platinum Mines Limited to acquire a portion of the Amandelbult mineral right and associated resource on the north-west boundary of Northam's Zondereinde mine for R1.0 billion cash. In addition Northam will also acquire the land overlying the resource, in exchange for the disposal of a portion of the current mining right.

Subsequent to year-end, Ministerial Consent was obtained in terms of section 102 of the Mineral and Petroleum Resources Development Act, 202 (Act 28 of 2002) (MPRDA).

Eland Platinum mine

Northam announced on 24 February 2017 the acquisition of Eland Platinum mine from Glencore Operations South Africa Proprietary Limited for R175.0 million cash. As part of the acquisition Eland Platinum's two mining rights with resources estimated at 21.3 million 4E ounces with an average *in situ* grade of 4.4g/t will be acquired, as well as surface and underground infrastructure including a concentrator with a nameplate capacity of 250 000 per month, immovable property and a mining fleet in excess of 100 vehicles which includes low profile mechanised mining equipment.

In terms of the agreement Northam will be responsible for care and maintenance costs to the value of R50.0 million, between the date when the agreement was entered into and the date when all conditions precedent have been met.

There are a number of conditions precedent that must be met before the transaction becomes unconditional. The most significant include the consent from the Minister of Mineral Resources in terms of section 11 of the MPRDA.

Mineral resource and reserve statement

The mineral resource and reserve estimation is included in this 2017 annual integrated report.

DIRECTORS' REPORT CONTINUED

Ordinary dividends

The company's dividend policy is to consider an interim and final divided for each financial year. At its discretion, the board may consider a special dividend, where appropriate. Depending on the perceived need to retain funds for expansion or operating purposes, the board of directors (board) may pass the payment of dividends.

The quantum of any dividend would ultimately be subject to expected future market and capital commitments at the time of consideration by the board.

Given the continuing difficult conditions in the mining industry, and taking into consideration the cash requirements to fund the development of the group's project pipeline and growth strategy, the board has resolved not to declare a final dividend for the 2017 financial year (30 June 2016: R Nil).

Associates and joint ventures

The group has an interest in the following entities and joint ventures:

Dwaalkop joint venture

The Dwaalkop joint venture is a joint venture between Mvelaphanda Resources Proprietary Limited, a wholly-owned subsidiary of Northam owning 50% and Western Platinum Proprietary Limited, a subsidiary of Lonmin plc (Lonmin), owning the other 50% with the joint venture being managed by Lonmin. The Dwaalkop asset is currently not being mined; however exploration is conducted on the property by Lonmin.

The carrying value of the group's investment remained unchanged at R136.2 million. Exploration costs regarding the Dwaalkop joint venture of R0.4 million (2016: R0.3 million) was incurred, which was charged to sundry expenditure.

Pandora joint venture

Anglo American Platinum Limited, Eastern Platinum Limited, a subsidiary of Lonmin, and Northam entered into a 42.5%: 50%: 7.5% arrangement. In terms of the agreement, Anglo American Platinum Limited contributed certain mineral rights to the venture, while Eastern Platinum Limited contributed certain surface infrastructure. The venture has an operating mine in the Western Limb of the Bushveld Complex.

The investment was accounted for as an associate.

Northam has entered into an agreement to sell its 7.5% stake in the Pandora joint venture to Lonmin's Eastern Platinum Limited for a cash consideration of R45.6 million, announced on 15 May 2017.

Amongst other conditions precedent, the transaction is subject to consent from the Minister of Mineral Resources in terms of section 11 of the MPRDA and approval from Lonmin's lending banks. The transaction is expected to become unconditional in the 2017 calendar year following the fulfilment of all conditions precedent.

Pandora has a September year-end. IAS 28 requires that an entity applies IFRS 5 Non-current Assets Held for Sale and Discontinued Operation to an investment in an associate or joint venture that meets the criteria to be classified as held for sale. Per the requirements included in IFRS 5, an investor discontinues the use of the equity method from the date that the investment is classified as held for sale, and instead, the associate or joint venture is then measured at the lower of its carrying amount and fair value less cost to sell. The equity accounting in the prior year was based on reviewed results for the 12 months ended 30 June 2016.

Northam classified the investment as a non-current asset held for sale effective 1 July 2016.

As part of the agreement with Lonmin's Eastern Platinum Limited the amount of any cash calls paid by Northam to the Pandora joint venture during the period 1 January 2017 to completion of the transaction, will be refunded, provided that such cash calls do not exceed an amount of R50.0 million. To date, cash calls to the value of R3.7 million have been paid in terms of the arrangement, with an additional amount of R1.1 million being called upon subsequent to year-end.

Trans Hex Group Limited

Trans Hex Group Limited is a diamond producing and marketing company. The group held a 20.3% interest in Trans Hex Group Limited which was sold during the prior year.

SSG Holdings Proprietary Limited

SSG Holdings Proprietary Limited provides security services to all of the group's operations.

Northam holds 30% (2016: 20%) of the issued share capital of SSG Holdings Proprietary Limited through a wholly-owned subsidiary, Mining Technical Services Proprietary Limited.

Stated capital

There were no changes during the current financial year, to the authorised or issued stated capital of the company. The authorised stated capital of the company as at 30 June 2017 amounted to 2 000 000 000 shares (2016: 2 000 000 000 shares) at no par value. The issued stated capital of the company remained unchanged at 509 781 212 shares.

In terms of the Northam black economic empowerment transaction (BEE transaction) 112 195 122 shares, equivalent to 22.0% of Northam's issued stated capital, were allotted and issued to Zambezi Platinum (RF) Limited in May 2015. Zambezi Platinum (RF) Limited holds 159 905 453 Northam shares in total. These shares are treated as treasury shares for accounting purposes.

Repurchase of issued shares

At the annual general meeting (AGM) held on 9 November 2016 shareholders approved a special resolution granting a general authority for the repurchase of ordinary shares by the company (or any one of its wholly-owned subsidiaries), subject to the JSE listings requirements and the provisions of the Companies Act. No shares were repurchased in the current or prior year. This general authority is valid until the company's next AGM or for 15 months from the date of the aforementioned resolution (being 9 February 2018) whichever period is the shorter. Approval to renew this general authority will be sought at the AGM to be held on Tuesday, 7 November 2017.

Borrowing powers

In terms of the memorandum of incorporation (MOI) the directors may borrow for purposes of the company, such sums as they deem fit. Below is a summary of the various loans and borrowings:

Revolving credit facility (RCF)

During the year, the Nedbank Limited five year R1.5 billion revolving credit facility was renegotiated. This replaced the previous R1.0 billion facility which matured in November 2016.

The new facility strengthens Northam's balance sheet capability in support of the group's key strategic initiatives, including the development of the Booysendal expansion projects. Together with existing cash reserves, the new facility provides Northam with increased financial flexibility, ensuring that the group's growth initiatives remain fully funded in the medium term.

The salient terms of the new facility are as follows:

Five-year senior unsecured revolving credit facility, with a facility limit of R1.0 billion for the first 18 months from inception, whereafter the new facility limit automatically increases to R1.5 billion for the remainder of the five-year period and voluntary prepayments and redraws are permitted.

There have been no drawings from this facility between the reporting date and the date of this report, being 25 August 2017.

DIRECTORS' REPORT CONTINUED

Domestic medium term debt notes (DMTN)

During the previous year Northam issued R175.0 million five-year senior unsecured fixed rate notes. The notes bear a fixed coupon of 13.50% per annum, payable semi-annually, and will be redeemed on 12 May 2021. The proceeds further strengthen Northam's statement of financial position and will be applied for the development of the company's project pipeline.

On 9 June 2016, the Industrial Development Corporation of South Africa Limited subscribed for R250.0 million three-year senior unsecured floating rate notes under the DMTN programme. The notes attract a floating coupon rate of 3 month JIBAR plus 390 basis points and will mature on 9 June 2019. The proceeds is applied for the development of the Booysendal expansion project.

These notes were issued under the R2.0 billion DMTN programme dated 3 August 2012.

During the prior year, notes to the value of R1.37 billion were fully repaid on 4 September 2015. These notes related to notes issued on 3 September 2012 for R1.25 billion through the issue of senior unsecured floating rate notes, in terms of the company's R2.0 billion DMTN programme dated 3 August 2012. On 11 July 2013, a further R120.0 million was raised in the domestic capital market through the DMTN programme. These funds were used for the development of the Booysendal mine, the deepening project at the Zondereinde mine and other operational and working capital requirements of the group.

Nederlandse Financierings Maatschappij voor Ontwikkelingslanden NV

A wholly-owned subsidiary, Norplats Properties Proprietary Limited previously arranged a loan facility with the *Nederlandse Financierings Maatschappij voor Ontwikkelingslanden NV* to fund the sale of houses to employees in terms of the group's affordable housing initiative. During the current financial year, the loan was repaid in full due to the restrictive requirements placed by the *Nederlandse Finacierings Maatschappij voor Ontwikkelingslanden NV* which was not conducive to achieving the housing strategy of the group.

Details of the above mentioned borrowings including interest rates, terms and conditions are included in the notes to the annual financial statements.

Financial assistance

Under the Companies Act, inter-group loans; guarantees and other financial assistance require approval of shareholders by a special resolution.

According to section 45 of the Companies Act, the board may not authorise a company to provide any financial assistance to a related or interrelated company (which includes a loan by a holding company to a subsidiary or to a director or prescribed officer of the company) unless the particular provision of financial assistance is pursuant to a special resolution of the shareholders, adopted within the previous two years, which approved such assistance either for a specific recipient, or generally for a category of potential recipients, and the specific recipient falls within that category.

In addition, before authorising any such financial assistance, the board must be satisfied that: immediately after providing the financial assistance, the company would satisfy the solvency and liquidity test; and the terms upon which the financial assistance is proposed to be given are fair and reasonable to the company.

Financial assistance to subsidiary companies

Northam has granted the following financial assistance to its subsidiaries:

	Approved facility 2017	Changes in the coming year 2018	New loan facility to be granted 2018	Balance 2017
	R000	R000	R000	R000
Booysendal Platinum Proprietary Limited*	3 470 000	(3 470 000)	–	1 720 088
Booysendal Platinum Proprietary Limited loan advanced by Khumama Platinum Proprietary Limited*	3 400 000	(3 400 000)	–	–
Norplats Properties Proprietary Limited	88 300	50 000	138 300	81 893
Windfall 38 Properties Proprietary Limited*	15 800	(15 800)	–	9 689
Mvelaphanda Resources Proprietary Limited	42 000	24 680	66 680	–
Mining Technical Services Proprietary Limited	20 000	50 000	70 000	26 543
Khumama Platinum Proprietary Limited*	1	(1)	–	–
Total loan facilities	7 036 101	(6 761 121)	274 980	1 838 213

** These loans will no longer be required, as these loans have either been capitalised or are in the process of being capitalised as part of the restructuring of the group.*

	Approved facility 2017	Changes in the coming year 2018	New loan facility to be granted 2018	Balance 2017
	USD000	USD000	USD000	USD000
Northam Platinum Investments (US) Inc. and subsidiaries	–	25 000	25 000	–
Total loan facilities	–	25 000	25 000	–

With the acquisition of the assets and properties of A-1 Specialized Services Inc, announced on 28 July 2017, located in the state of Pennsylvania, United States of America, a number of foreign subsidiaries are in the process of being incorporated and funding will be required for the operational requirements during the start-up phase.

DIRECTORS' REPORT CONTINUED

	Approved facility 2016	Changes in the coming year 2017	New loan facility to be granted 2017	Balance 2016
	R000	R000	R000	R000
Booysendal Platinum Proprietary Limited	4 970 000	(1 500 000)	3 470 000	2 262 163
Booysendal Platinum Proprietary Limited loan advanced by Khumama Platinum Proprietary Limited	3 400 000	–	3 400 000	2 355 843
Norplats Properties Proprietary Limited – fixed term loan	34 300	–	34 300	24 456
Norplats Properties Proprietary Limited – general loan	44 000	10 000	54 000	37 724
Windfall 38 Properties Proprietary Limited	15 800	–	15 800	14 590
Mvelaphanda Resources Proprietary Limited	42 000	–	42 000	1 047
Mining Technical Services Proprietary Limited	20 000	–	20 000	15 002
Khumama Platinum Proprietary Limited	1	–	1	1
Total loan facilities	8 526 101	(1 490 000)	7 036 101	4 710 826

Below are the various guarantees issued together with the additional guarantees which will be tabled at the forthcoming AGM:

	Current guarantee 2017	Additional amount to be guaranteed in the coming year 2018	Total guarantee to be granted 2017
	R000	R000	R000
Northam Platinum Limited guarantee to Zambezi Platinum (RF) Limited	7 535 944	–	7 535 944
Booysendal Platinum Proprietary Limited guarantee to Northam Platinum Limited	3 500 000	–	3 500 000
Khumama Platinum Proprietary Limited guarantee to Northam Platinum Limited	3 500 000	(3 500 000)	–
Northam Platinum Limited subordination agreement to Mvelaphanda Resources Proprietary Limited	56 680	15 000	71 680
Total guarantee	14 592 624	(3 485 000)	11 107 624

	Current guarantee 2016	Additional amount to be guaranteed in the coming year 2017	Total guarantee to be granted 2016
	R000	R000	R000
Northam Platinum Limited guarantee to Zambezi Platinum (RF) Limited	7 535 944	–	7 535 944
Booysendal Platinum Proprietary Limited guarantee to Northam Platinum Limited	3 000 000	500 000	3 500 000
Khumama Platinum Proprietary Limited guarantee to Northam Platinum Limited	3 000 000	500 000	3 500 000
Northam Platinum Limited subordination agreement to Mvelaphanda Resources Proprietary Limited	41 680	15 000	56 680
Total guarantee	13 577 624	1 015 000	14 592 624

Northam guaranteed the preference shareholders in Zambezi Platinum (RF) Limited that in the event that Zambezi does not have the means to settle the liability in 2025, after realising their investment in Northam Platinum Limited. At year-end the liability was R8.6 billion and the fair value of the investment in Northam was R6.4 billion, leaving an exposure under this guarantee at year-end of R2.2 billion (2016: R771.0 million).

The Booysendal Platinum Proprietary Limited guarantee, as well as the Khumama Platinum Proprietary Limited guarantee to Northam Platinum Limited relate to both the revolving credit facility as well as the domestic medium term debt note facility. With the collapse of Khumama Platinum Proprietary Limited from the group structure, these guarantees will no longer be required.

Zambezi Platinum (RF) Limited

Zambezi Platinum (RF) Limited (Zambezi) was established as a special purpose vehicle by Northam, with the principal objective of ensuring BEE compliance.

Zambezi was incorporated on 2 June 2014. The company was created for the purpose of assisting Northam to comply with the historically disadvantaged South African (HDSA) ownership requirements set by the Mining Charter.

Zambezi holds 159 905 453 Northam shares which amounts to approximately 31.4% of the total issued ordinary stated capital of Northam.

Zambezi is a ring-fenced entity created for the specific purpose of raising funds and to hold Northam shares. As such, Zambezi will not be conducting any other business activities until the expiry of the lock-in period (which is 10 years from May 2015). At the end of the 10-year period, Zambezi is required to redeem the preference shares with cash or Northam shares. All amounts payable to the holders of the preference shares are guaranteed by Northam in terms of the transactional agreements. Further, Northam is required to settle the operational expenses of Zambezi, subject to certain limitations.

Zambezi's prospects are therefore limited in nature in that they are dependent on the prospects of Northam and the returns attributable to the preference shares are constant and fluctuate only in accordance with prevailing interest rates. Various characteristics of the preference shares, such as the Northam guarantee and redemption payment structure, provide the holders with additional certainty regarding the recoverability of their dividends and capital.

However, the preference shares retain equity risk as a result of their redemption being ultimately supported by the value of Northam shares and/or Northam's ability to continue as a going concern. The preference shares therefore present their holders with a combination of the risks and rewards associated with equity and debt instruments.

Northam's prospects for growth and continued profitability are subject to various external and internal factors which cannot be accurately predicted, forecasted or controlled by Zambezi as an investor in Northam.

The redemption of the preference shares is planned to occur through cash accumulation from dividends received from Northam, and after the lock-in the possible sell-off of Northam shares into the market to realise the capital value, to redeem the preference shares. In the event that this is not sufficient to settle the liability, it will be secured by Northam in terms of a financial guarantee (Northam guarantee).

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 not contractually specified. Therefore should the Northam share price not increase in value from the 10 year lock in period there could be a significant dilution in value for all Northam shareholders, should additional shares be issued to the preference shareholders.

Included in the financial statements of Northam is a guarantee of R7.5 billion, based on the initial recognition fair value that was issued based on the above.

During the year Northam acquired 4 202 454 Zambezi Platinum (RF) Limited preference shares in the open market. See note 9 of the financial statements for more details.

Booysendal Platinum Proprietary Limited

Northam currently has finance facilities available in the form of a revolving credit facility of R1.0 billion with Nedbank Limited, and has issued R425.0 million on the debt capital market. Booysendal has signed a letter of guarantee with regards to both these facilities.

There is currently also an interest free loan between Northam and Booysendal, which is being settled as and when cash is available. Northam is in the process of streamlining the group structure and will eliminate the intermediate holding company, Khumama Platinum Proprietary Limited (Khumama) between Northam and Booysendal. This process was not completed by year-end. Subsequent to year-end, Khumama will be liquidated and the loan between Northam and Booysendal will be capitalised.

DIRECTORS' REPORT CONTINUED

Khumama Platinum Proprietary Limited

With the acquisition of the Booysendal mineral rights, the statutory entity Booysendal together with its holding company Khumama were also acquired. A loan was issued to Booysendal by Khumama amounting to R2.4 billion. This loan was interest free and had no fixed terms of repayment and has remained unchanged for several years. During the current year, this loan was capitalised in full as part of the clean-up of the group structure.

Khumama was also a party to the guarantees that have been issued in terms of the DMTN facility.

The moteholders' consent to remove Khumama as a guarantor was obtained.

Khumama is for all intents and purposes a dormant private company. Khumama will be placed in voluntary winding-up in accordance with section 80 of the Companies Act following the unbundling by Khumama of its shares in Booysendal to Northam. Booysendal will continue as a wholly-owned subsidiary of Northam and a guarantor pursuant to the amended and restated applicable pricing supplements relating to the issued notes. The amendment will simplify Northam's group structure and remove administration costs associated with Khumama going forward.

Norplats Properties Proprietary Limited – fixed term loan

In terms of the agreement with the *Nederlandse Financierings Maatschappij voor Ontwikkelingslanden NV*, Northam Platinum Limited was previously required to fund 30% of house sales values and debt consolidation amounts, and as such the fixed-term intercompany loan could not be repaid until such time as the loan from the *Nederlandse Financierings Maatschappij voor Ontwikkelingslanden NV* was repaid in full. Accordingly a fixed-term loan facility of R34.3 million, of which R24.4 million was utilised, repayable in September 2026, was previously granted by Northam to Norplats Properties Proprietary Limited, at an interest rate of 2.0% below prime.

During the year, the loan outstanding to the *Nederlandse Financierings Maatschappij voor Ontwikkelingslanden NV* was settled in full and the fixed-term loan is therefore no longer required. The fixed-term loan was consolidated with the general loan facility.

Norplats Properties Proprietary Limited – general loan (consolidated loan in the current year)

Norplats Properties Proprietary Limited is a company which holds and operates one of Zondereinde mine's employee home ownership projects (Mojuteng project) in the town of Northam, approximately 22 kilometres from Zondereinde, assisting Northam Platinum Limited to comply with its homeowner strategy.

The general loan accrues no interest and is repayable on demand.

Windfall 38 Properties Proprietary Limited

Northam acquired Windfall 38 Properties Proprietary Limited (Windfall) during the 2010 financial year. In the same year, Windfall purchased certain freehold property for the purposes of the Booysendal mine, at a cost of R12.9 million. The consideration was funded by a loan from Northam. During the 2012 financial year, further freehold land was purchased at an additional cost of R2.1 million.

The fixed-term loan agreement with Northam incurred an interest rate of 2.0% below prime. A long-term lease agreement with Booysendal over the agricultural land was also entered into. All amounts received in terms of the long-term lease agreement were used as repayments on the outstanding loan balance. The lease commenced on 1 July 2012 and was planned to terminate on 30 June 2037. The lease was however cancelled during the current year.

Windfall will be liquidated in terms of section 45 of the Income Tax Act, whereby: a company distributes all of its assets to another company that is part of the same group of companies for tax purposes, in anticipation of its liquidation, winding up or deregistration. Both the properties and outstanding loan balances will be transferred to Booysendal. The property transfers were all concluded subsequent to year-end.

Mvelaphanda Resources Proprietary Limited

On 25 September 2014, Northam provided a guarantee to ensure that Mvelaphanda Resources Proprietary Limited would meet its financial obligations as and when they fall due as the company's liabilities exceeded its assets. The guarantee will remain in full force and effect as long as the liabilities (including contingent liabilities) exceed its assets, fairly valued, and will lapse forthwith upon the date that the assets, so valued, exceed its liabilities.

Mining Technical Services Proprietary Limited

Mining Technical Services Proprietary Limited (MTS) provides services to the group. These services are charged out to both Zondereinde and Booysendal operations in December and June of every year. Northam previously provided a loan to MTS for the investment in SSG Holdings Proprietary Limited. The loan is interest free and has no fixed terms of repayment. However, during the year, repayments were made on the outstanding balance.

Financial assistance to executive directors and/or prescribed officers of the company

At the board meeting held in February 2015, the board approved the Northam 2020 accommodation strategy (accommodation strategy).

One of the funding mechanisms of the accommodation strategy is the provision of a 10-year interest free loan repayable over a maximum period of 20 years. The loan value is linked to seniority and is expressed as a percentage of a permissible bonded amount. Repayments are made through payroll deductions.

Going forward, in order to enable the executive directors and/or prescribed officers to benefit from the accommodation strategy, it will be necessary to comply with the financial assistance provisions of the Companies Act. Approval will therefore be sought at the upcoming AGM, to authorise the company to make loans to executive directors and/or prescribed officers and persons related or interrelated to them in terms of the accommodation strategy, up to a maximum of R600 000 per executive director and/or prescribed officer.

Solvency and liquidity test

Taking into account, the twelve-month cash flow forecasts (including the letter of support/guarantees issued), the board has assessed that the various statutory entities will continue as going concerns for the foreseeable future.

The company therefore believes that it has satisfied the solvency and liquidity test, as contemplated in section 45 of the Companies Act and detailed in section 4 of the Act, and determined that post such assistance the company was solvent and liquid and the terms under which this assistance was provided were fair and reasonable to the company.

Dematerialisation of shares (share transactions totally electronic) STRATE

Shareholders who have not already dematerialised their shares (certificated shareholders) are once again urged to do so as soon as possible (unless it is their explicit intention not to do so) in order to enable them to trade in such shares. It is most important for certificated shareholders to note that their shares may not be traded on the JSE unless the shares have been dematerialised.

DIRECTORS' REPORT CONTINUED

Directorate

At the date of this report the board comprised the following directors;

Director	Position	First appointed	Standing for re-election and election	Elected or re-elected at the last AGM
PL Zim	Non-executive chairman	25 April 2007	N/A	√
R Havenstein	Lead independent director	1 July 2003	√	N/A
PA Dunne	Chief executive officer	1 March 2014	N/A	N/A
AZ Khumalo	Chief financial officer	1 July 2010	N/A	N/A
CK Chabedi	Independent non-executive director	22 June 2009	N/A	√
HH Hickey	Independent non-executive director	1 January 2016	N/A	√
TE Kgosi	Independent non-executive director	1 November 2004	√	N/A
KB Mosehla	Non-executive director	19 August 2015	√	N/A
TI Mvusi	Independent non-executive director	1 January 2016	N/A	√
JG Smithies	Independent non-executive director	1 January 2017	√	N/A

Mr JG Smithies was appointed as an independent non-executive director on 1 January 2017.

Mr AR Martin retired from the board of directors at the conclusion of the AGM held on 9 November 2016. Ms HH Hickey has replaced Mr Martin as chairman of the audit and risk committee on 9 November 2016.

Ms PB Beale is the company secretary.

Board diversity

Gender	2017	2016
Male	80%	80%
Female	20%	20%

Nationality	2017	2016
Black South African	6	6
Coloured South African	–	1
Indian South Africa	–	–
White South African	2	2
Non-South African	2	1

Independence	2017	2016
Executive	2	2
Non-executive	2	2
Independent non-executive	6	6

Directors' fees

In terms of the MOI the fees for services as directors are determined by the company and approved at the AGM.

It is proposed to increase certain fees of non-executive directors by an average of 8.0% per annum in line with market norms.

However, the SE&HR committee commissioned an independent firm in 2016 to conduct a benchmarking exercise on non-executive directors' fees against a peer group of JSE mining companies. The results indicated that the majority of directors are paid within acceptable ranges to the median; however, some of the directors' fees lag the market considerably. In an attempt to ensure internal parity, it is proposed fees for these directors are adjusted by 10%. In considering the adjustment, affordability was considered.

At the forthcoming AGM, members will accordingly be requested to consider a special resolution providing for the increase in the fees for the year ending 30 June 2018 as set out below:

	Proposed fee 2018 AGM (per annum)	Approved fee at the previous AGM (per annum)
	R	R
Board		
Board chairperson	402 800	366 100
Lead independent director	349 700	323 600
Board members	307 000	284 100
Audit and risk committee		
Committee chairperson	189 000	171 800
Committee members	148 400	137 300
Health, safety and environmental committee		
Committee chairperson	133 160	121 000
Committee members	100 600	92 900
Social, ethics and human resources committee (SE&HR)		
Committee chairperson	134 640	122 400
Committee members	100 600	92 900
Nomination committee		
Committee chairperson	77 400	70 300
Committee members	47 500	43 100
Other board appointed committees		
Committee chairperson	112 310	102 100
Committee members	82 300	76 000
Ad hoc fees - per hour	3 630	3 360

DIRECTORS' REPORT CONTINUED

Directors' remuneration

The directors' remuneration for the year ended 30 June 2017 is as follows:

	Fees	Re-muneration package	Performance bonus	Benefits	Gain on share-based payments	Total
	R000	R000	R000	R000	R000	R000
Executive						
PA Dunne	–	7 291	6 217	191	–	13 699
AZ Khumalo	–	3 555	3 018	168	3 158	9 899
Non-executive						
PL Zim	409	–	–	–	–	409
R Havenstein	825	–	–	–	–	825
CK Chabedi	624	–	–	–	–	624
HH Hickey	418	–	–	–	–	418
TE Kgosi	732	–	–	–	–	732
AR Martin*	245	–	–	–	–	245
KB Mosehla	515	–	–	–	–	515
TI Mvusi	284	–	–	–	–	284
JS Smithies**	164	–	–	–	–	164
	4 216	10 846	9 235	359	3 158	27 814

The directors' remuneration for the year ended 30 June 2016 is as follows:

	Fees	Re-muneration package	Performance bonus	Benefits	Gain on share-based payments	Total
	R000	R000	R000	R000	R000	R000
Executive						
PA Dunne	–	6 165	4 353	834	–	11 352
AZ Khumalo	–	3 006	2 436	441	3 707	9 590
Non-executive						
PL Zim	412	–	–	–	–	412
R Havenstein	717	–	–	–	–	717
CK Chabedi	496	–	–	–	–	496
HH Hickey***	209	–	–	–	–	209
TE Kgosi	609	–	–	–	–	609
AR Martin	565	–	–	–	–	565
KB Mosehla	357	–	–	–	–	357
TI Mvusi***	154	–	–	–	–	154
ME Beckett****	247	–	–	–	–	247
	3 766	9 171	6 789	1 275	3 707	24 708

** Mr Martin retired from the board of directors at the conclusion of the AGM on 9 November 2016.*
*** Mr Smithies was appointed as an independent non-executive director on 1 January 2017.*
**** Mrs Hickey and Mr Mvusi were appointed as independent non-executive directors on 1 January 2016.*
***** Mr Beckett retired from the board of directors on 11 November 2015.*

An analysis of the non-executive fees in respect of the board and board committee services for the 30 June 2017 financial year is as follows:

	Board	Audit and risk committee	Health, safety and environ-mental committee	Investment committee	Social, ethics and human resources committee	Nominations committee	*Ad hoc* fees	Total
	R000	R000	R000	R000	R000	R000	R000	R000
PL Zim	366	–	–	–	–	43	–	409
R Havenstein	367	137	121	86	–	87	27	825
CK Chabedi	327	–	93	76	128	–	–	624
HH Hickey	284	134	–	–	–	–	–	418
TE Kgosi	327	138	–	–	157	60	50	732
AR Martin	115	91	–	11	–	28	–	245
KB Mosehla	327	–	–	60	128	–	–	515
TI Mvusi	284	–	–	–	–	–	–	284
JS Smithies	164	–	–	–	–	–	–	164
	2 561	500	214	233	413	218	77	4 216

An analysis of the non-executive fees in respect of the board and board committee services for the 30 June 2016 financial year is as follows:

	Board	Audit and risk committee	Health, safety and environ-mental committee	Investment committee	Social, ethics and human resources committee	Nominations committee	*Ad hoc* fees	Total
	R000	R000	R000	R000	R000	R000	R000	R000
PL Zim	340	–	–	–	–	72	–	412
R Havenstein	300	129	112	80	3	93	–	717
CK Chabedi	268	–	87	56	85	–	–	496
HH Hickey	154	55	–	–	–	–	–	209
TE Kgosi	268	129	–	–	113	72	27	609
AR Martin	273	160	–	56	–	76	–	565
KB Mosehla	219	–	–	53	85	–	–	357
TI Mvusi	154	–	–	–	–	–	–	154
ME Beckett	108	72	42	–	25	–	–	247
	2 084	545	241	245	311	313	27	3 766

Service contracts

Mr PA Dunne, the chief executive officer, has a service contract with the company, which is subject to a notice period of 1 year. Mr AZ Khumalo, the chief financial officer, has a service contract with the company, which is subject to a notice period of three months.

DIRECTORS' REPORT CONTINUED

Directors' interest

According to information available to the company after reasonable enquiry, the interests of the directors and their families in the shares of the company at 30 June 2017 were as follows:

	Direct beneficial holding	Indirect beneficial holding	Total
PA Dunne	26 050	–	26 050
AZ Khumalo	12 500	–	12 500
KB Mosehla	–	64 000	64 000
KB Mosehla*	–	5 116 974	5 116 974
CK Chabedi*	–	204 000	204 000
TE Kgosi*	–	635 000	635 000
PL Zim*	–	17 547 097	17 547 097
	38 550	23 567 071	23 605 621

The interests of the directors and their families in the shares of the company at 30 June 2016 were as follows:

	Direct beneficial holding	Indirect beneficial holding	Total
AZ Khumalo	7 500	–	7 500
KB Mosehla	–	64 000	64 000
KB Mosehla*	–	5 116 974	5 116 974
CK Chabedi*	–	204 000	204 000
TE Kgosi*	–	635 000	635 000
PL Zim*	–	17 547 097	17 547 097
	7 500	23 567 071	23 574 571

** Pursuant to the Northam BEE transaction, Mr Chabedi, Ms Kgosi, Mr Mosehla and Mr Zim acquired beneficial interests in the ordinary share capital of Zambezi Platinum (RF) Limited. This resulted in them and their associates acquiring an effective interest in Northam shares.*

At 30 June 2017, Mr Khumalo also held 500 Zambezi Platinum (RF) Limited preference shares (2016: 500 preference shares).

There have been no changes in these holdings from 30 June 2017 to the date of the annual financial statements.

Analysis of shareholders

Shareholding range	Number of shareholders 2017	Total of shareholding 2017	Percentage holding (%) 2017
1 – 5 000	4 293	3 298 030	0.65
5 001 – 10 100	228	1 692 532	0.33
10 001 – 50 000	331	7 755 452	1.52
50 001 – 100 000	104	7 689 199	1.51
100 001 – 1 000 000	248	78 404 892	15.38
1 000 001 and more	66	410 941 107	80.61
	5 270	509 781 212	100.00

Geographical analysis of shareholders	Total shareholding 2017	Percentage holding (%) 2017
Australasia	96 927	0.02
Europe and United Kingdom	5 640 752	1.11
North America	29 971 495	5.88
Far East	61 676	0.01
South Africa	467 262 948	91.66
Other	6 747 414	1.32
	509 781 212	100.00

Major shareholders	Number of shares 2017	Percentage holding (%) 2017
Owner		
Zambezi Platinum (RF) Limited	159 905 453	31.37
Fund manager		
Coronation Asset Management	144 189 262	28.28
Public Investment Corporation	51 392 191	10.08
Foord Asset Management	22 912 956	4.49
Kagiso Asset Management	21 123 736	4.14
Clients of Allan Gray	16 868 031	3.31

Shareholder spread	Number of shareholders 2017	Percentage holding (%) 2017
Public	5 263	68.61
Zambezi Platinum (RF) Limited	1	31.37
Directors	6	0.02
	5 270	100.0

DIRECTORS' REPORT CONTINUED

Northam share option scheme (the scheme)

The scheme was established on 4 January 1995 with the objective of attracting and retaining employees with appropriate levels of ability and expertise who make a significant contribution to the operations of the group.

The scheme was discontinued in 2011 owing to its dilutionary nature, although share options issued before its discontinuance will be allowed to run their course until 2017.

Options were offered at the volume weighted average price at which Northam shares traded on the JSE on the trading day immediately preceding the offer date. Options not exercised within seven years of the offer date shall lapse.

In March 2013 the JSE approved a change to the rules of the scheme in terms of which option holders may elect, at the time of exercising their option, to receive either the shares over which an option has been granted or a cash payment equivalent to the difference between the volume weighted average price at which Northam shares traded on the day preceding the exercise date and the exercise price.

A summary of the options held at 30 June 2017 is as follows:

Earliest and latest exercise date	Price per share in R	Total number of options
5 November 2011 and 4 November 2016	36.95	265 000
12 October 2012 and 11 October 2017	46.57	1 795 000
Claw back rights options	40.00	80 767
Number of options held at 30 June 2016		2 140 767
Number of options forfeited during the year		(12 997)
Number of options exercised during the year – cash settled options		(1 917 332)
Number of options held at 30 June 2017		210 438

At 30 June 2017 the outstanding options were exercisable as follows:

Earliest and latest exercise date	Price per share in R	Total number of options	Options	Options vested at 30 June 2017 at claw back offer price of R40.00
12 October 2012 and 11 October 2017	46.57	210 438	202 500	7 938
		210 438	202 500	7 938

A summary of the options held at 30 June 2016 is as follows:

Earliest and latest exercise date	Price per share in R	Total number of options
27 November 2010 and 26 November 2015	32.38	70 000
5 November 2011 and 4 November 2016	36.95	380 000
1 July 2012 and 30 June 2017	45.59	125 000
12 October 2012 and 11 October 2017	46.57	2 050 000
Claw back rights options	40.00	102 916
Number of options held at 30 June 2015		2 727 916
Number of options forfeited during the year		(337 740)
Number of options exercised during the year – cash settled options		(249 409)
Number of options held at 30 June 2016		2 140 767

At 30 June 2016 the outstanding options were exercisable as follows:

Earliest and latest exercise date	Price per share in R	Total number of options	Options vested at 30 June 2016	Options vested at 30 June 2016 at claw back offer price of R40.00
5 November 2011 and 4 November 2016	36.95	275 390	265 000	10 390
12 October 2012 and 11 October 2017	46.57	1 865 377	1 795 000	70 377
		2 140 767	2 060 000	80 767

Full details of the cash settled options exercised during the year are set out in the annual financial statements and are summarised as follows:

Grant date	Number of options exercised including claw back shares	Exercise price R	Total gain paid to participants R000
5 November 2011 and 4 November 2016	262 399	49.94	3 409
12 October 2012 and 11 October 2017	1 654 933	53.59	11 624
	1 917 332		15 033

The cash settled options exercised during 30 June 2016 are set out in the annual financial statements and are summarised as follows:

Grant date	Number of options exercised including claw back shares	Exercise price R	Total gain paid to participants R000
5 November 2009	119 508	58.52	1 380
12 October 2010	129 901	48.50	393
	249 409		1 773

DIRECTORS' REPORT CONTINUED

Northam share incentive plan (SIP)

The SIP was approved in 2011 when shareholders approved that the Northam share option scheme be discontinued and replaced by the SIP, as the scheme no longer served the primary purpose of attracting and retaining employees.

The SIP is a full share-type plan which incorporates a combination of a conditional share plan (CSP) and a forfeitable share plan (FSP).

The key features that are common to both the CSP and the FSP are as follows:

- All senior officials and executives, including executive directors, in job grade D1 and above are eligible;
- Non-executive directors are not eligible to participate;
- Employees will not be required to pay for shares granted to them;
- In the event of a change of control of the company, all awards will vest;
- In the event of a variation in share capital such as a capitalisation issue, subdivision of shares, consolidation of shares, liquidation etc., employees will continue to participate in the SIP. The committee may make such adjustment to awards or take such other action to place employees in no worse a position than they were prior to the happening of the relevant event, and to ensure that the fair value of awards immediately after the event is materially the same as the fair value thereof immediately before the event;
- The issue of shares as consideration for an acquisition or a vendor consideration placing will not be regarded as a circumstance that requires any adjustment to awards;
- Any adjustments made will be reported in the company's annual financial statements in the year during which the adjustment is made.

In order to avoid any future dilution, all shares will either be cash settled or equity settled through purchases in the open market.

Key features of the CSP and FSP are as follows:

CSP

- Shares will be awarded or granted to employees once a year;
- The number of conditional shares awarded, and the extent to which they will be subject to performance conditions, will primarily be based on the employee's annual salary, grade, performance, retention requirements and market benchmarks or some combination thereof;
- Both the retention shares and the performance shares will vest after three years; and
- Performance conditions will be set by the SE&HR committee before an award is made, and will be based on appropriate company performance measures at the time.

FSP

- Shares, which have no performance conditions attached, can only be awarded or granted in exceptional circumstances, approved by the SE&HR committee, for purposes of attracting key new employees;
- The number of forfeitable shares to be made to an employee will primarily be based on the employee's annual salary, grade, performance and retention or attraction requirements;
- The forfeitable shares will be delivered to the employees, free of charge, subsequent to the award date, with them enjoying all shareholder rights from inception;
- Awards will, however, be subject to restrictions that will prevent the forfeitable shares from being disposed of, ceded, transferred or otherwise encumbered before vesting; and
- Vesting of the forfeitable shares will only be subject to the particular employee remaining in the employment of a group company for predetermined vesting period. No company performance conditions will apply.

In respect of awards of conditional shares made, prior to 2016, previously a participant was entitled to elect to receive the settlement amount in lieu of receiving the conditional shares. After 2016, the SE&HR committee shall be entitled to determine that a participant shall receive the settlement amount in lieu of receiving the conditional shares (including BEE transaction conditional shares) on settlement.

The SE&HR committee, which is charged with overseeing the group's remuneration policy, reviews the performance criteria annually and revises them as economic and operational circumstances dictate.

No shares were allocated under the FSP during the year under review, whilst the details of the shares allocated under the CSP are set out below.

Grant date	Details	Total number of shares	Retention shares	Performance shares
Balance at 1 July 2016		6 489 400	1 412 000	5 077 400
8 November 2016	Shares awarded	2 177 000	550 400	1 626 600
	Shares forfeited	(296 800)	(75 100)	(221 700)
	Shares cash settled	(1 457 500)	(141 600)	(1 315 900)
Balance as at 30 June 2017		6 912 100	1 745 700	5 166 400

At 30 June 2017 the following awards were outstanding:

Grant date	Details	Total number of shares	Shares to be settled in F2018	Shares to be settled thereafter
4 November 2014	Retention shares	527 700	527 700	–
4 November 2014	Performance shares	1 561 100	1 561 100	–
11 November 2015	Retention shares	709 100	–	709 100
11 November 2015	Performance shares	2 100 700	–	2 100 700
8 November 2016	Retention shares	508 900	–	508 900
8 November 2016	Performance shares	1 504 600	–	1 504 600
Balance as at 30 June 2017		6 912 100	2 088 800	4 823 300

Below is the details of the shares allocated under the CSP for the 30 June 2016 financial year:

Grant date	Details	Total number of shares	Retention shares	Performance shares
Balance at 1 July 2015		5 690 000	1 345 200	4 344 800
11 November 2015	Shares awarded	3 527 900	890 300	2 637 600
	Shares forfeited	(587 200)	(178 000)	(409 200)
	Shares cash settled	(2 141 300)	(645 500)	(1 495 800)
Balance as at 30 June 2016		6 489 400	1 412 000	5 077 400

At 30 June 2016 the following awards were outstanding:

Grant date	Details	Total number of shares	Shares to be settled in F2017	Shares to be settled thereafter
15 November 2013	Performance shares	897 000	897 000	–
4 November 2014	Retention shares	600 200	–	600 200
4 November 2014	Performance shares	1 775 100	–	1 775 100
11 November 2015	Retention shares	811 800	–	811 800
11 November 2015	Performance shares	2 405 300	–	2 405 300
Balance as at 30 June 2016		6 489 400	897 000	5 592 400

Full details of the shares granted during the year are set out in the annual financial statements.

DIRECTORS' REPORT CONTINUED

Lock-in and incentive mechanism (LIM)

At the AGM on 9 November 2016 shareholders approved amendments, including a modification to the rules of the Northam share incentive plan for the introduction of the new incentive mechanism, comprising the BEE incentive plan (BIP) and the cash incentive bonus (CIBB) in respect of the BEE transaction (collectively the LIM). In terms of the modification, any allocation or award under the new long-term BEE transaction incentive plan will be subject to a maximum allocation of 5 000 000 shares, which number is included in the existing total SIP allocation limit of 19 879 000 shares and not in addition thereto. The LIM was designed to incentivise the performance of the company's key executives, so as to, *inter alia*, mitigate certain financial risks arising from the BEE transaction and retain the skills and expertise of the key management team.

Northam was requested by certain of its key institutional shareholders to consider the creation of a mechanism which would appropriately incentivise Northam's senior management to address the financial risks associated with the guarantee provided by Northam in favour of the Zambezi preference shareholders (guarantee). A lock-in and incentive mechanism (LIM) which is specifically structured to incentivise the mitigation of those risks introduced by and unique to the guarantee, as well as, retaining key members of Northam's senior management as employees until the redemption of the Zambezi Platinum (RF) Limited preference shares (preference shares) in May 2025 was approved.

During the course of F2015 the company concluded a BEE transaction in terms of which Northam provided the guarantee to the holders of the preference shares issued by Zambezi for purposes of funding the BEE transaction.

The preference shares will, subject to early redemption in certain instances, be redeemed on 18 May 2025 and Zambezi will therefore be required to redeem the preference shares and settle any dividends accumulated in respect of the preference shares that remain unpaid after making adequate provision for or paying any taxes arising in relation to the redemption of the preference shares.

Subject to certain exceptions, Zambezi may settle the redemption amount by distributing, disposing of and/or raising external funding encumbering the Northam ordinary shares held by it. Zambezi's ability to settle the redemption amount is therefore highly dependent upon the share price on or about the preference share redemption date (redemption date) and, therefore, the share price growth over the period preceding the redemption date.

To the extent that the value of the shares held by Zambezi amounts to less than the preference share liability and Zambezi is unable to raise external funding to settle the redemption amount, Northam will be required to settle the balance of the redemption amount on behalf of Zambezi by either: (i) capitalising Zambezi by way of a subscription for shares in Zambezi; or (ii) making payment and/or issuing new shares to the preference shareholders (guarantee liability).

The guarantee liability may be settled in cash or, subject to certain exceptions, by the issue of new shares. Accordingly, if a guarantee liability arises, the value of shares may be diluted by a further issue of new shares or reduced by the related payment of cash to settle the guarantee liability.

The SIP incentivises Northam's management over the short to medium term (three years) and is primarily focused on motivating the achievement by management of various technical and financial targets. Although these measures are appropriate and essential to the viability of the group, the SIP does not allow for performance measures relating to the guarantee liability. This requires a long-term incentive mechanism premised on the exact variables which will determine the guarantee liability.

It is further recognised that Northam's market position relative to its peers has altered significantly with Northam having become a sizable and respected market participant. This success increases the risk of Northam losing members of its senior management, making it a strategic imperative for the company to retain management and prevent the loss of critical skills before the redemption date.

In the circumstances, Northam and the relevant committees of its board of directors have resolved to amend the rules to incorporate the LIM, with a view to appropriately incentivising the management team in order to prevent the guarantee liability from materialising and simultaneously lock-in their skill-set until the redemption date. This objective is consistent with the interests of Northam's shareholders.

The LIM comprises two separate mechanisms structured with specific reference to the terms of the BEE transaction and, more specifically, the potential guarantee liability:

Long-term BEE transaction incentive plan (BIP)

The BIP addresses the long-term incentivisation and retention of its participants by aligning their interests with shareholders through equity participation. The BIP was implemented through the SIP, which has been amended to incorporate the specific elements of the BIP. The BIP was implemented in addition to the SIP and was not a replacement nor did it affect the SIP.

Short-term cash incentive bonus in respect of the BEE transaction (CIBB)

In light of the exceptionally long term of the BIP incentive (i.e. 10 years) and the benefit of compounded growth in the share price over this period, the CIBB considers the short-term incentivisation of management to continuously maintain the long-term objectives introduced by the BIP. Importantly, the CIBB also acts as a strong retention tool by financially penalising CIBB recipients that leave the employ of the group.

The combination of the BIP and CIBB provide the company with an effective mechanism for addressing the guarantee liability risk, motivating shareholder value creation over the long term and retaining essential skills in a competitive market.

The company will limit participants in the BIP to the key members of Northam's current and future key executive management team including, the chief executive officer (CEO), chief financial officer (CFO), chief commercial officer (CCO), chief geologist (CG), chief technical officer (CTO), executive officer HR (EHR) and the senior general managers of Booysendal and Zondereinde mines (GM) (participants). The positions of the CG and CTO have not been filled and remain subject to the employment of suitable candidates by the group and the BEE CPS allocated to these positions will not be issued in the event that they are not filled.

The CEO has been allocated 1 500 000 BEE CPS, the CFO has been allocated 700 000 BEE CPS, each of the CCO and the EHR have been allocated 500 000 BEE CPS and each GM has been allocated 200 000 BEE CPS. At 30 June 2017 a total of 3 600 000 BEE CPS were issued.

The aggregate number of BEE CPS issued represents less than 1% of Northam's current issued share capital and may be settled in cash or shares at the election of the independent committee of the board responsible for administering the SIP at that time.

Vesting will be subject to the satisfaction of the performance condition that Zambezi: fully settles the redemption amount; and fully settles or makes adequate provision for all its tax liabilities arising from settlement of the redemption amount, on the basis that no guarantee liability will arise and no member of the group will be required to give any direct or indirect financial assistance for the purposes of or in connection with the settlement of the redemption amount.

Vesting of BEE CPS will occur 30 business days after the date on which the BIP performance condition is fulfilled (which is expected to be 18 May 2025) or, in the event that vesting of the BEE CPS is accelerated in certain exceptional instances, as set out in the current rules in relation to conditional shares, including a change of control of Northam or an earlier date determined in accordance with the rules.

In the event that the BIP performance condition is not satisfied, the BEE CPS will, subject to certain exceptions, not vest. If BEE CPS do not vest, they will not be settled and no value will accrue to participants.

Upon vesting, BEE CPS may be settled either through the issue of no more than the 5 million shares or in cash at the election of the committee. If cash settlement is elected the settlement amount will be established using the 60 day volume weighted average price (VWAP) of a share calculated on the day preceding settlement.

In the event that the preference shares are redeemed before the expected redemption date (i.e. 18 May 2025) and if the BIP performance condition is satisfied at that time, the BEE CPS will vest pro rata to the number of years of the performance period that has been completed at that time. Those BEE CPS that do not vest in such circumstances will lapse.

In the event that Northam undergoes a change of control, all the BEE CPS that have not vested will be treated in the same manner as other conditional shares and vest in full at that time irrespective of whether the BIP performance condition has been met or not. This is consistent with the existing rules.

In order to retain key management, BEE CPS will lapse if a participant leaves the employ of the group before the vesting date unless their employment is terminated by reason of a no fault termination or early retirement.

No fault termination includes, *inter alia*, termination of employment by reason of a participant's death, retrenchment, retirement, ill health, injury, disability or any reason that is not a fault termination. A fault termination comprises termination of employment by reason of, *inter alia*, resignation or dismissal.

In the event that a participant leaves the employ of the group by reason of no fault termination or early retirement before the vesting date, and such date is: prior to 18 May 2020, then the BEE CPS which have not vested will lapse immediately; or after 18 May 2020, the participant will retain a proportionate amount of their BEE CPS which have not vested, calculated by reference to what proportion of the period from 18 May 2020 to 18 May 2025 has elapsed prior to the termination of employment.

DIRECTORS' REPORT CONTINUED

This provision is further illustrated in the table below:

Termination of employment between years:	Percentage of BEE CPS retained
0 – 6	0
6 – 7	20
7 – 8	40
8 – 9	60
9 - 10	80

BEE CPS retained in these instances will remain subject to the BIP performance condition and will only vest and be settled on the vesting date, together with BEE CPS held by other participants. In the event that a participant's employment is terminated as a result of death, injury or ill-health, and the committee is of the reasonable opinion that the BIP performance condition is likely to be fulfilled, it may, in exceptional circumstances, allow that participant's BEE CPS to vest and be settled immediately.

The rationale for retention by a participant of a portion of their BEE CPS after year 6 is that the key strategic decisions and actions affecting the value of a share over the BIP performance period are likely to be made during the first 5 years of this period. Thereafter, value delivery will depend upon, amongst other factors, the successful execution of such decisions as planned. Accordingly, it is deemed appropriate to allow for continued participation post year 5 notwithstanding termination of employment.

In the event that a participant leaves the employ of the group before the vesting date by reason of fault termination, that participant's BEE CPS that have not vested will lapse.

The CIBB is intended to comprise an incentive mechanism and a retention mechanism and further aligns management with the interests of Northam's shareholders.

Participants in the CIBB will include the participants noted previously and may include, from time to time, other employees of the group deemed to be critical to the group's operations and strategy. Participants in the CIBB, other than participants, will be required to be recommended for participation by management subject to approval by the committee.

Payments under the CIBB will be made annually, subject to the fulfilment of the CIBB performance conditions, as set out below, as at the 31st trading day following the publication of the company's financial results for each financial year.

Participants will receive, on an annual basis, 15% of their cost to company remuneration excluding performance bonuses, if the value of a share at the condition date (calculated as the 60 day VWAP of a share) is equal to or greater than the redemption amount per preference share.

Furthermore, participants will receive, on an annual basis, an additional 15% of their cost to company remuneration excluding performance bonuses, if the aggregate value of the shares held by Zambezi at the condition date (using the 60 day VWAP of a share) is sufficient to, in addition to fully settle the redemption amount, fully settle or make adequate provision for all of Zambezi's tax liabilities arising from settlement of the redemption amount, on the basis that no guarantee liability will arise and no member of the group will be required to give any direct or indirect financial assistance for the purposes of or in connection with the settlement of the redemption amount.

This will effectively incentivise achievement of the CIBB performance conditions on an annual basis.

For the avoidance of doubt, no CIBB payment will be made unless the CIBB performance conditions are achieved in that year.

The CIBB will also act as a robust employee retention mechanism. In the event that a CIBB recipient leaves the employ of the group within 12 months of receiving a CIBB (restraint period) for reason of a fault termination, that person will be required to repay to the company, before the deduction of PAYE, the pro rata amount of the CIBB received (calculated according to the number of months remaining in the restraint period). The CIBB refund penalty will dissuade CIBB participants from leaving the employ of the group by financially penalising them if they leave.

The CIBB will be terminated upon settlement or lapse of the BEE CPS.

Special resolutions

The following special resolutions were passed by the shareholders at the AGM in November 2016:

- Approval of amendments to the existing MOI: fractional entitlements;
- Approval of amendments to the existing MOI: distributions;
- Approval of non-executive directors' remuneration for the year ending 30 June 2017;
- Financial assistance; and
- General authority to repurchase issued shares.

Going concern

The board believes that the company and group have adequate financial resources to continue operating for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis.

The board is not aware of any material changes that may adversely impact the company and group or any material non-compliance with statutory or regulatory requirements.

Events after the reporting date

Subsequent to year-end, an agreement was entered into to purchase a suite of PGM recycling equipment and the associated premises from A-1 Specialized Services Inc., a recycler of PGMs. The business is located in the state of Pennsylvania, United States of America. The total value of the transaction amounts to USD10.7 million in cash.

In addition to the above, the section 102 Ministerial Consent relating to the approval for the purchase of the Tumela block mineral resources from Anglo American Platinum Limited for R1.0 billion was obtained.

Apart from these transactions, there have been no other events subsequent to the year-end, which require additional disclosure or adjustment to these financial results.