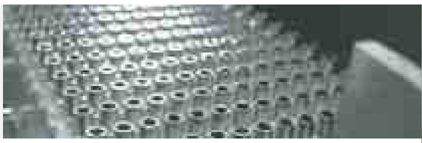
Safety, health and environment

It is regrettable that the year under review has been far from satisfactory from a safety point of view; yet it remains important to assure all of our stakeholders that the impact of this poor performance has not been lost on us, and that considerable effort has been and continues to be spent in identifying and addressing any shortcomings.

Last year we reported the death of nine of our colleagues following the devastating underground fire in September 2004. Five other employees lost their lives in separate incidents during the year. We have been profoundly saddened by the loss of our colleagues and our sincere condolences go to their families and friends.

The reportable injury incidence rate (RIIR), plateaued in the year under review after having showed a downward trend in the past six years. Of some comfort was the improved lost time injury incidence rate (LTIIR) at 1.5, a record low level.

"...demand for our products has been sustained and the basket price in South African rand terms has held up well..."



Seen against an encouraging decline in the number of dressing station cases recorded – which points to greater care being shown in the prevention of incidents that could cause injuries – the sharp rise in the severity of injuries being sustained remains particularly worrying.

Our company policies and procedures unequivocally defend employees' rights to a safe workplace, and our improved and extended training programmes focus on employees exercising these rights by identifying hazards, yet – what is apparent – is that this training is not consistently applied in working areas. Our response to this situation has been forthright and uncompromising.

We have adopted what can best be described as a 'back to basics' approach, re-focusing the attention of employees at all levels of the organization on the importance of adhering to safety standards, and, more importantly, the elimination of unsafe working practices, and in the event of non-compliance, both in terms of standards and practices, invoking disciplinary action. We have had excellent safety records in the past, and now is the time for both management and employees to make a concerted effort towards attaining those levels in the future.

After a full year of drawing on the medical services of Platinum Health, we have made steady progress on the occupational health front in effecting further improvements in measurements, data gathering and the sharing of information between the medical services and the mine's human resource management system. We have recorded higher compensable noise-induced hearing loss (NIHL) cases this year, arising in all likelihood from improved monitoring equipment and systems which will allow us to manage the incidences more effectively. We have noted the DME's thrust to eradicate silicosis and NIHL in the industry and have convened a task team comprising management, organised labour and the medical department to play a meaningful role in this worthy initiative, with a particular focus on NIHL, as employees are not exposed to silica dust at Northam.

Other occupational disease indicators remain at low levels, apart from the incidence of pulmonary tuberculosis (TB), probably associated with the incidence of HIV. Much hard work has gone into containing the spread of TB with improved monitoring of treatment regimens and with pre-leave medical examinations being implemented.

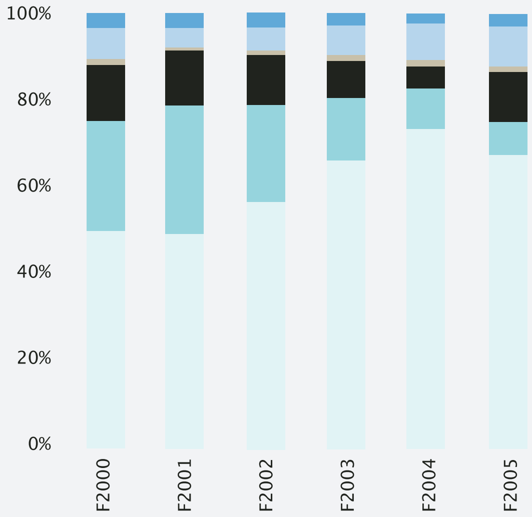
The mine's environmental performance has been at a satisfactory level throughout the year, although high summer rainfalls and the delayed start-up of operations following the Section 54 closure contributed to some isolated evaporation dam overflows. Although the quality of this discharge was generally in compliance with the mine's water permit, we are taking active steps to avoid future discharges of industrial water and are participating in local structures to establish a catchment monitoring programme for certain watercourses.

In this annual report for the first time we have included a detailed review of our progress in sustainable development initiatives. Further information on the management and performance of health, safety and environment is included in this review on pages 18 to 40 of this annual report.

Market overview

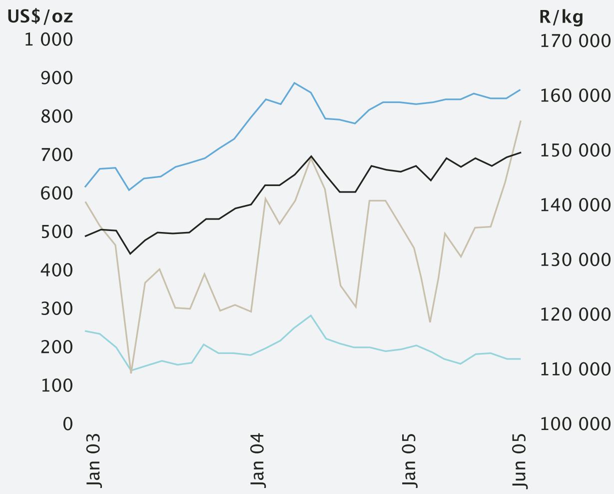
Individual markets – and thus prices – for the metals we produce have performed quite variably in the year under review. However, demand for the basket of our products has been sustained and the basket price in South African rand terms has held up well against South African rand strength and US dollar weakness.

There has been continuing strong demand for platinum from the auto catalysis industry, driven by ever more stringent environmental controls in the industrialised nations and the growing popularity of diesel-powered vehicles, notably in Europe. Despite higher prices the global market for platinum



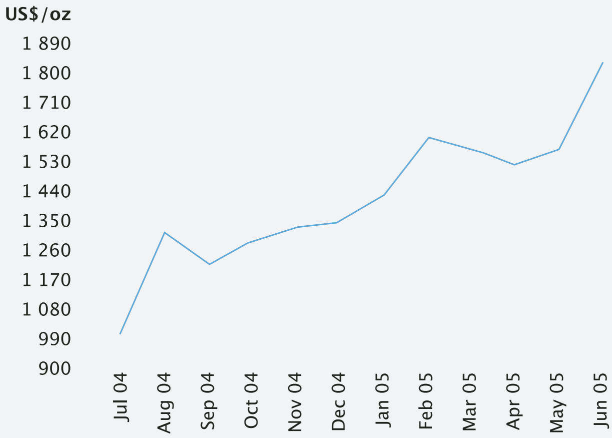
Revenue contributions by metal

Other · Gold · Palladium · Nickel · Rhodium · Platinum



Basket price

Platinum (US$/oz) · Palladium (US$/oz) · US$ Basket price · R/kg Basket price



US$ monthly average rhodium price
Period average $1 403.47
Source: Johnson Matthey

has generally proven to be resilient, although the threat of substitution posed by palladium and white gold jewellery manufacture, particularly in China, continues to present challenges.

Overall robust demand has meant the platinum price in US dollar terms has held its own during the financial year, trading at levels of US$776/oz at the beginning of July 2004, and by the end of June this year reaching US$897/oz. This has provided welcome buffering for South African producers from the full, negative impact of the rand's strength on locally produced commodities. After the end of the reporting period the platinum price spiked at US$924/oz on 12 August, before coming off and currently trading at levels of around US$890/oz.

The palladium market remained well supplied during the year, this situation arising both from higher production as mines in South Africa and Russia have expanded supplies and from lacklustre global demand. Consequently, palladium traded in a narrow range from a high of US$234/oz in October 2004 to a low of US$178/oz in February 2005.

Nickel, which makes a significant contribution to our revenue stream, has enjoyed historic price highs on the back of increasing demand, and copper prices have remained strong. At the beginning of the 2004 calendar year the rhodium price was at US$500/oz, and by August 2004 was trading above the US$1 260/oz level. Thereafter, underpinned by tight availability of physical metal, the rhodium price climbed steadily to US$1 833/oz at the end of the 2005 financial year. As a result the average price realized for rhodium rose by 118% to R269 682/kg for the year. Demand has been fuelled mainly by higher rhodium loadings in the autocatalyst sector to meet more stringent emission standards. In Asia and the Far East, there has also been a marked expansion in glass production, lending further support to rhodium demand.

Markets – outlook and prospects

After the recent spike in the platinum price, underpinned by the revaluation of the Chinese currency with speculative buying pushing up the price, it has since come off to trade below the crucial US$900/oz level. It is difficult to see how the small appreciation of the yuan can sustain the large increase in the platinum price, and consequently, it is quite likely that platinum will trade back to its recent range for the foreseeable future. Strong demand in the autocatalyst sector on the back of tightening emissions legislation will continue, but will be offset by any downturn in the overall level of vehicle sales.

In the face of growing substitution by less expensive gold and white metal alternatives in the jewellery market, demand for platinum pieces, particularly in China, has strong potential to be a significant swing factor in the platinum market over the next 12 months.

The platinum market's net supply/demand deficit has now shrunk from a high of 500koz in 2002 to only 80koz in 2004. Over the past three years, demand has grown by a compounded annual rate of 1.4%, while supply has grown by 3.5%. Consequently, the market is expected to be more or less balanced in calendar 2005 with perhaps a slight supply surplus. There is a further view that platinum cannot escape a widely anticipated cyclical downturn in commodity strength. Overall however, the fundamentally positive outlook remains unchanged, supported by sound demand and ongoing uncertainty about South African mine expansions in the face of the strong rand.

Palladium continues to trade in a narrow range, with minimal volatility. Substantial speculative long positions have been developed, but this has done little to prevent the price from softening to levels below $200/oz. Fundamentals for palladium thus remain bearish in the near term. The metal appears set to remain in persistent oversupply, whilst there is potential for demand strength in both the jewellery and the autocatalyst sector.

Given its recent uptrend, rhodium is likely to remain buoyant in the face of solid fundamental demand in the autocatalyst and industrial glass sectors. The metal plays an integral role in the efforts made by autocatalyst producers to meet ever-tightening emissions standards. This is likely to continue and prices should remain firm, even more so if South African production expansions are stalled by the impact of a strong rand.

Since early 2003, nickel has shown a steady price uptrend. In the face of continued tightness for physical metal, price volatility still remains one of nickel's key characteristics, and this is expected to persist until such time as sufficient new production capacity comes on stream to provide the market with enhanced and sustained security of supply.

After exceptional stock tightness in 2003, market fundamentals have eased. Downward pressure on prices will stem from the stainless steel capacity cuts to date in China and the Far East, combined with increasing substitution by low nickel content ferritic stainless steels and an increase in scrap recycling.

Nevertheless, the market appears set to remain tight. Longer term Chinese stainless steel production expansions are likely, and it remains to be seen whether the major nickel producers can fill the nickel supply shortfall. The anticipated start-up of Voisey's Bay in the second half of 2005 will be a significant factor.

We expect that the fundamental health of the South African economy will continue to underpin the performance of the local currency in the near to medium term. Nonetheless we cannot discount the potential impact of global developments, including the view that the currencies of the major export-commodity producing countries could depreciate once commodity prices show signs of having peaked.

Operating and financial performance

Both operationally and financially, it has been a year of two halves.

The closure of the mine for six weeks in the first half, following the underground fire, meant that approximately 23% of available shifts were lost; obviously this had a profoundly negative effect on operating and financial performance for the period. Total production of precious metals in concentrate (3PGE+Au) dropped by 18% to 4 649 kilograms compared with the same period the previous year and net income was 39.7% lower at R62 708 000.

Operational statistics

Merensky reef	F2005	F2004
Development metres	8 218	10 713
Square metres mined	280 635	322 451
Tonnes milled	1 434 198	1 541 234
Head grade (g/t)	6.2	6.0
PGMs in concentrate produced	7 645	8 190
Ore reserve availability (months)	18	15

UG2 reef	F2005	F2004
Development metres	2 913	1 690
Square metres mined	110 258	113 754
Tonnes milled	715 946	691 353
Head grade (g/t)	4.4	4.3
PGMs in concentrate produced	2 470	2 402
Ore reserve availability (months)	18	24

Combined reefs	F2005	F2004
Development metres	11 131	12 403
Square metres mined	390 893	436 205
Tonnes milled	2 150 144	2 232 587
Head grade (g/t)	5.6	5.5
PGMs in concentrate produced	10 115	10 592

Metals produced in concentrate	F2005		F2004	
	kg	oz	kg	oz
Platinum	6 297	202 459	6 594	212 006
Palladium	3 056	98 255	3 200	102 884
Rhodium	547	17 619	573	18 423
Gold	215	6 881	225	7 234
Total (3PGE+Au)	10 115	325 214	10 592	340 547
Other pgms	1 649		1 507	
Copper (tonnes)	953		1 015	
Nickel (tonnes)	1 677		1 816	

Refined metal sales	F2005		F2004	
	kg	oz	kg	oz
Platinum	6 098	196 056	7 365	236 792
Palladium	2 937	94 420	3 379	108 648
Rhodium	687	22 093	742	23 849
Gold	200	6 423	247	7 950
Total (3PGE+Au)	9 922	318 992	11 733	377 239
Other pgms	1 451		1 398	
Copper (tonnes)	958		983	
Nickel (tonnes)	1 626		1 801	

In the second half of the year (H2), tonnes milled were 17.2% higher at 1.2Mt than the 989 883 tons achieved in the first half (H1), and also 13.7% higher than the 1 Mt achieved in H2 of the previous year. Production of precious metals in concentrate was 17.5% higher at 5 466 kg than in H1 and 11.6% up on the 4 898 kg produced in the comparable period in F2004. Cash costs in H2 were R102 208/kg, down by 14.6% on H1, and 0.2% lower than in H2 of F2004.

The notable recovery in operating and financial performance in the second half was instrumental in the achievement of the acceptable results for the year, given the poor start. Year on year tonnes milled were 3.7% lower at 2 150 144, compared with 2 232 587 tonnes, while production of precious metals in concentrate was 10 115 kg compared with 10 592 kg. The strength of the rand resulted in a 9.9% lower average exchange rate realized in the year of R6.22/US$, largely offsetting the effects of the sustained strength of the platinum price and the US dollar basket price, and translated into a rand basket price which was only 5.1% higher. This, combined with lower sales volumes, reflecting primarily the lower output, contributed to the 9.6% decline in revenue to R1.6 billion.

Nonetheless, net income for the period was maintained at R249 million, which includes an amount of R75.9 million, received before year-end from the company's insurers in settlement of the claim for losses associated with the underground fire. Early settlement of this claim was facilitated by the company's provision of prompt and accurate supporting information. We have retained a healthy cash balance of R506 million while profit attributable to shareholders was largely unchanged at R249 million and headline earnings of 107.3 cps was reported.

The board has declared a final dividend of 45 cents per share (cps) for the period, bringing the total dividend for the year to 70 cps, or 47 cents less than headline earnings for the year. In line with our published policy of paying excess cash to shareholders after having provided for growth and working capital, an amount of R90 million was retained to cover the cash component of the Booysendal transaction.

The extent of the recovery in performance in the second half of the year can be attributed to the successes we achieved in mining the UG2 reef, and maintaining the production of Merensky ore at satisfactory levels, with good grade control in particularly difficult mining and ground conditions. At the same time a drive to contain costs by lobbying suppliers of various goods and services for better pricing, reduction of wastage, and better management of utilities, has contributed to a bottom line that would otherwise have been less healthy.

Development

Potholing and poor ground conditions accounted for the loss of 1.2 km of mining face during the year. The ore reserve availability on the Merensky Reef increased from 15 months to 18 months, still below the ideal of 24 months, but nevertheless providing some flexibility.

In total, development metres were 10.3% lower than the previous year at 11 131 metres, reflecting the delays experienced in traversing the 20 line fissure to the west of the mine. However, progress has been made with water sealing and the installation of secondary support, thus successfully traversing this major geological feature on 3, 5 and 8 levels. By all accounts, it would appear that this fissure line and the Big John Dyke are the same geological feature, which bodes well for the development programme to the west of current workings in the future.

Metallurgical processes

The metallurgical plants continued to operate satisfactorily during the year under review, although there was a marginal drop in the average recovery rate of the Merensky concentrator to 88.3% (F2004: 88.4%) owing primarily to mineralogical variations in the reef types mined which resulted in marginally lower concentrations of base metal sulphides which normally assist PGM recoveries.

Our ongoing research and development initiatives have yielded a very positive development in the UG2 concentrator plant, where the introduction of an external sparger column cell as a final concentrate cleaner has contributed to recoveries improving from 79.8% in F2004 to over 81% by the end of F2005. Also associated with this development is the reduction of the total chromite (Cr_2O_3) in the feed to the smelter plant. (For further information on the external sparger column cell technology, see page 23.)

During the year 76 058 tonnes of concentrate, including 1 520 tonnes of custom material was fed to the smelter plant, some 15.7% lower than the previous year. The base metals removal plant (BMR) performed in line with expectations. A total of 6 883 tonnes of nickel sulphate containing 1 677 tonnes of nickel metal, as well as 953 tonnes of copper cathode were produced.

Labour relations

It is pleasing to report that labour relations – understandably strained in the immediate aftermath of the underground fire – have been restored to a constructive level. The 2005 annual wage negotiations were successfully concluded early in September.

Scorecard performance

During the year we continued to make progress against the requirements of the South African Mining Charter. With the appointment of a dedicated social responsibility and development manager we intend to align our community development programme more closely with the local economic development and integrated development plan (IDP) to work towards poverty eradication and upliftment of communities surrounding our operations. Our efforts in the past year have targeted mainly primary education, health care, and providing care for needy children.

Against the background of fierce competition for technical skills in the industry our training programmes are proving to be a valuable tool in skilling our employees and training learners from tertiary institutions in attempting to establish a pool of talent from which we can draw in the future. With our single-operation status, achieving equity targets at a middle to senior management level remains a challenge, but we believe that, with representivity growing to 27% during the year, we should be in a position to achieve the required levels within the given time frame.

The pace at which we have recruited women to work underground has perhaps been slower than we would have liked. Nevertheless, there has been some progress in this area, which will need to be stepped up in the coming year. At a share-ownership level the conclusion of the Booysendal transaction will lift our historically disadvantaged South African (HDSA) equity level to 34%, and I am confident that we will achieve the credits required for the conversion to new order mining licences.

In order to maintain our independent metals supplier status, we have renewed our precious metals refining contract with the internationally respected precious metals refining and manufacturing group W.C. Heraeus GmbH (Heraeus). With Heraeus's construction of a precious metals refinery in the Eastern Cape Province, Northam's platinum and palladium will be more easily accessible to the South African chemical and autocatalyst manufacturing plants for local beneficiation. Our base metal by-products, notably nickel sulphate and copper, continue to be sold in the domestic market for beneficiation of nickel, and various copper applications, respectively.

Senior management appointment

In July this year Mr Matthews Nzimande joined the company as general manager. He joins Northam after having gained broad-ranging exposure to deep-level mining at various operations within the AngloGold Ashanti group. Matthews brings a fresh approach at a senior level, and we look forward to his contribution to the company.

Looking ahead

In the year ahead, it will be necessary to consolidate the recovery made in the second half of 2005 and to further improve operating and financial performance without any further reversals in respect of safety.

We look forward with considerable enthusiasm to the prospect of greenfields growth for the first time. A further announcement in respect of the acquisition from Mvelaphanda Resources of its 50% interest in the Booysendal Project with Anglo Platinum is expected soon. Extensively drilled, awaiting a comprehensive feasibility study and mine planning, Booysendal, with a total resource of 124 million PGM oz, presents an incomparable opportunity for shallower, lower cost mining into the future.

With the alternatives now presented to us in terms of local metals refining, and the prospect of continued buoyancy for our basket of products, we are better positioned for growth than we have been in the company's 17 year history.

Glyn Lewis
Chief executive
9 September 2005