

Message from the Chairman and CEO



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Lazarus Zim (left), chairman and Glyn Lewis, chief executive

To our shareholders

Financial 2007 has been another bumper year for Northam shareholders. Revenues above the R3.7 bn level, earnings of 560 cents per share, and a total dividend of 525 cents in respect of the year, reflect an excellent performance from Northam. Although it would be disingenuous to ignore the positive effects of the sustained platinum group metal (PGM) price environment, Northam's performance, against the background of its single mine status, has been nothing short of remarkable over the past seven years.

The 'clean metal' epithet enjoyed by PGMs in the industrialised world is clearly a function of the growing consciousness among industry and government leaders globally of our responsibility to the planet and her resources. The unique properties of the metals we mine, which lend themselves to a plethora of industrial and environmental applications, from catalytic converters in

the automobile industry to alternative energy generation in fuel cell technology, augur well for sustained fundamental PGM demand into the future.

Specifically, the platinum price spiked during the financial year at US\$1 390 in November 2006. Although this was soon followed by a pronounced correction, in January 2007, the metal continued to trade above the US\$1 000 level, and has, during the second half of the financial year maintained its buoyant trend. We remain confident that continuing strident platinum demand, combined with the potential for supply-side shortfalls and the absence to date of any significant production from junior producers, will continue to underpin the price at recent levels which now appears to have established a floor above the US\$1 000 mark.

Less spectacular perhaps was the performance of palladium, which during the year traded in a range between US\$295 and US\$382/oz, but nevertheless continues to attract

sound demand as a substitute for platinum in the autocat sector. Going forward further growth should arise from the electronics sector ensuring good support for prices.

Revenue for Northam of R1.1bn from rhodium during the year, representing 29% of total revenue contributions, was especially significant, seen particularly against the 5% contribution only three years ago. Prices ranged from a low of US\$4 300 in July last year to a high of US\$6 475 in April earlier this year as demand for physical metal, notably in the vehicle manufacturing sector, trended ahead of supplies.

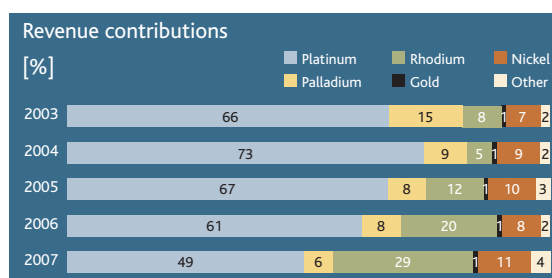
Solid revenues also accrued from sales of Northam's so-called 'by-product' metals, notably ruthenium, nickel and copper, which benefited from a strong dollar price in combination with a 12.1% weakening of the South African rand against the US dollar. The prices achieved for these metals saw year-on-year increments of 282%, 195% and 33% respectively.

In line with the rapidly growing trend both in South Africa and globally, we are, for the third consecutive year now, reporting on our sustainable development initiatives and impacts. This is not because we feel compelled or pressurised to do so, but because we as management recognise, at a fundamental level, the inextricable link between societal and environmental issues on the one hand, and the financial performance of the business. In parallel with the international investment community's growing scrutiny of issues surrounding safety, health, environment and the sustainability of economic development, we are deeply conscious of our responsibility to enhance these aspects of our business. Our inclusion, therefore, in the JSE Limited's (JSE) Socially Responsible Index (SRI) is something we strive to maintain and consolidate. In line with the increasing reporting

requirements in the area of sustainable development, Northam is working towards continuous improvement in reporting, as recommended by King II. For us, a deep-level mining company, the health and safety of our employees remains the primary area of concern when looking at our societal impact. Our approach to safety and health has two legs – the first focuses on efforts to develop and refine technologies which improve working conditions encountered underground; the second is people-focused – raising levels of awareness around safety by way of training, discipline and effective supervision. On two occasions over the past 13 months we reached the one million fatality free shifts milestone, a significant and morale-boosting achievement. However, despite what achievements like these do for our health and safety statistics, we cannot ignore the fact that people continue to sustain injuries at work, and some even losing their lives. We are deeply saddened by the loss during the year of Messrs Meque Matsinhe, Sello Ntsinyi and Isaac Selekyane, and extend our condolences to their loved ones. Our resolve to stop casualties at work has not faltered, and the year ahead will see further focus on this critical aspect of our operation.

Operating as we do in South Africa, our sustainable initiatives have a bearing also on our Mining Charter Scorecard as required by the Minerals and Petroleum Resources Development Act, promulgated in 2002. Management has made excellent progress in many of the components of the Social and Labour Plan, a critical requirement for the conversion of old order mining rights to new order rights. The submission for our licence conversions to the South African Department of Minerals and Energy (DME) during the course of 2006 met with a favourable response at the time, and we now keenly await the resolution of this final legislative hurdle in securing our licence to continue to operate.

2003	2004	2005	2006	2007
1 471 999	1 720 399	1 554 501	2 386 326	3 739 805



Message from the Chairman and CEO (continued)

The annual wage negotiations were concluded early in August, and were characterised by a refreshing, co-operative approach from the National Union of Mineworkers (NUM). This followed a seven-day strike earlier in the year. We are encouraged that the acrimonies that prevailed during that time have now largely dissipated, and we continue to work at improving labour relations.

The past year has seen the successful commissioning of the first phase of our refining partner W.C. Heraeus's precious metals refinery in Port Elizabeth. The Heraeus Refinery S.A. (HRSA) is a unique South African facility with the capability to integrate directly with the downstream fabrication of value-added PGM products. The introduction of a new, independent refinery in the South African PGM landscape was forged through excellent collaborative efforts with Mintek, the DME and the Department of Trade and Industry (DTI), and secures for Northam the continued independence of its metal supply and creates an opportunity to make a percentage of our metal available for downstream beneficiation. The unique modular design of this refining plant (see page 16) – which has the capacity for phased expansion in tandem with Northam's growth profile – contributes also to the creation of an enabling competitive environment for other smaller players to enter this exciting sector of the economy.

The reality of an independent refinery in South Africa has further strengthened Northam's submissions to the National Treasury with regard to the proposed Royalty Bill, which, as it stands, proposes a 6% levy on unrefined exported metals. Our interaction with the authorities has been fruitful, and we remain confident that Northam will not be disadvantaged when the final version of the Bill is published in 2009.

Shareholders in Northam have demonstrated remarkable patience in anticipating growth for the company, thereby diversifying its operational asset base, and liberating the company from the potential risk associated with being a single mine operator. The Northam mine is now at a mature stage. The persistently challenging geological conditions, particularly on the Merensky reef, have not abated and, although going deeper should help maintain the life of mine ($\pm$ 2 years for every level after 15), this remains subject to the complex rock mechanics and geology. Furthermore, The NP2 upper transition zone encountered to the east of the mine has effectively sterilised half the mine on the Merensky reef horizon.

This in itself will have a negative impact on mining this reef.

The proposed acquisition (subject to regulatory and shareholder approval) of the Booyssendal project on the eastern limb of the Bushveld Complex, as announced to shareholders on 4 September 2007, is therefore both timely and appropriate. The proposed transaction promises to transform the company into the first independent, black-owned and controlled, fully integrated PGM producer, with a substantial life. Although the delay in concluding this transaction first mooted three years ago in 2004 has been frustrating, the proposed revised transaction brings additional benefits to Northam shareholders, viz the acquisition of an estimated 112 million (3PGE + Au) ounce resource, (currently the subject of an independent review by the Mineral Corporation) securing for Northam full operational control of Booyssendal (previously mooted as a JV) and full control of metal from mine to market. This in itself brings benefits such as rapid decision-making, which will allow us to optimally manage the implementation schedule. Furthermore, as a sole operator of the asset, we plan to bring this mine into production at the lowest possible capital and operating costs. The technical team has already done a significant amount of work in planning what promises to be a flagship PGM mine on the eastern limb. Current projections indicate that Booyssendal will require capital of some R4.8bn which we intend to fund through a combination of retentions from the cash generative Northam operation, with debt and/or equity, depending on market conditions at the time. Moreover, Northam's ungeared balance sheet provides a useful platform for funding growth. Shareholders will be kept informed of developments as we progress a bankable feasibility study, with first production planned in 2010.

We have in the past made it clear that shareholders will be returned the cash in excess of our operational and growth

Northam mine: Merensky/UG2 production ratio				
[Tonnes milled]				
2003	2004	2005	2006	2007
1 582 421	1 541 234	1 434 198	1 424 160	1 341 057
			878 924	928 149
636 717	691 353	715 946		

Merensky UG2

requirements. As our growth initiatives start materialising, we will inevitably need to retain more cash, but we do not foresee another dividend drought for shareholders, merely a possible reduction in distributions.

Looking ahead to F2008, demand for PGMs is likely to remain robust in the year ahead – seen particularly against the background of possible supply-side shortfalls. Overall, a very positive outlook remains for Northam's basket of metals, while the softening of the rand against the US dollar also bodes well for earnings to be at levels very similar to those of the current year. Looking further to the future, Northam's prospects now seem brighter than at any stage in the past, and we look forward to reporting to shareholders in the coming year on further corporate activity to put us on a secure growth path, and to deliver on our continued quest to create sustainable value for all our stakeholders.

Our thanks go to management and all Northam employees for their continued efforts, contributing to these strong results for the company. During the year we bade farewell to Mr Tokyo Sexwale, chairman of the board since 2000.

Mr Sexwale's unique leadership style will be missed, and we wish him well for the future. Other changes to the board were the resignation of Mr Roeland van Kerckhoven during the year, and after year-end both Messrs Robin Mills and Mark Willcox tendered their resignations. We thank these gentlemen for their valuable contributions over many years. On the other hand, we welcome Mr Norman Mbazima, who brings to the board a wealth of finance experience in the mining sector.

Lazarus Zim
Chairman
12 October 2007

Glyn Lewis
Chief executive officer

The Booyesendal project

