

Chairman's statement



P Lazarus Zim, *chairman*

This message to shareholders comes to you after a year of dramatic changes in the world of Northam. It is with an enormous sense of pride that I endorse this account of the various aspects of our business to all our stakeholders. I hope that the developments which we have delivered during the year, and the emergence of a solid and healthy growth trajectory will go some way in vindicating that nucleus of loyal shareholders who believe that Northam, as a mid-tier, independent and integrated PGM company, continues to occupy an important position in the South African PGM landscape.

That the company's operating mine in Limpopo province, the Zondereinde mine, managed not only to weather the worst of the economic crisis of 2008 and 2009, and still managed to remain profitable is testimony to the tireless efforts of a dedicated, focused executive and management team. We will be relying on these same qualities and similar expertise as we develop the Booyssendal project and grow the company over the next couple of years. I have no doubt that Northam will emerge a stronger and more resilient, multi-asset, PGM company.

Apart from having to negotiate the very real physical demands of deep-level mining, which often include inhospitable and even hazardous conditions, executive management also has to contend with the broader social, economic and legislative environment which impacts their jobs and their lives. The matter of mineral rights and ownership is something that has recently received a lot of air time in South Africa, and has, predictably, elicited a fairly nervous response from investors, both locally and abroad. I am keen to reassure investors:

- that the ownership of Northam's mining rights at both its mining properties is not in any doubt;
- that we at Northam have had ongoing positive engagement with the Department of Mineral Resources (DMR);
- that our applications for conversion are being dealt with; and
- just to be absolutely clear about the scope of these rights - all our applications specify PGEs and base metals.

I am optimistic that the DMR's moratorium on new mining prospecting bids will be short-lived and that the results of the overhaul of these mining laws will be positive for the industry.

The cost pressures that we face have already dented our operating margin, which has fallen from 25.7% to 20.0%. The main contributors to these increases over the year were labour, steel and electricity. If these, and other cost drivers continue to escalate at these levels, it is completely plausible that our operating margin will slip further during the next reporting year.

Northam does not have the luxury of closing difficult and underperforming assets in order to achieve healthier margins. What our management teams have to ensure is that tonnages are sustained at levels which will translate into more moderate unit cost increases on the one hand, while continuing to achieve the high grades and extract the excellent recoveries we have gained throughout our metallurgical infrastructure.

Another issue which has been top of mind, and will remain so, is the matter of mine safety. Mining is inherently a hazardous activity and, when safety procedures and standards are not rigorously applied, accidents will continue to happen, and in severe cases, people will die. I would like to thank mine management and employees for their unwavering attention to this critical area and for the successes achieved on this front. In spite of these important successes, it is with a sense of sadness that we remember Mr Sebenzile Ketile who died on 13 May this year in a drilling accident, and also Messrs Cossa and Chithango, who lost their lives as a result of a fall of ground after the financial year-end.

It is a tribute to the support and efforts of the safety inspectorate of the DMR that the imposition of safety stoppages, in the past frequently representing a source of frustration for managers, are now completely differently perceived. Some good will have come of all of this if we can sustain this sense of common purpose.

We believe that Northam continues to represent a sound investment in the PGM sector:

- Northam is evolving from a lease-bound, single asset company with limited expansion opportunity to a geographically diversified, multi-asset group;
- Northam is the only PGM company whose growth lies in shallow ounces;
- Booyssendal represents a multi-million ounce resource with potential for further value extraction;
- Zondereinde mine has a track record of generating cash;
- Northam has a strong balance sheet and no debt.

On behalf of the board I would like to welcome Mr Ayanda Khumalo, appointed as finance director on 1 July 2010, and also to thank Mr Derek Wolstenholme who served the board well in this position in a temporary capacity.

After the recent global financial storm, I doubt that Northam's prospects would look as good were it not for the commitment and determination of the management team. Finally, to my fellow directors, I am grateful for your support in what has been a difficult time.

P Lazarus Zim
Chairman
16 September 2010