

MANAGING THE RISKS TO THE BUSINESS

BUSINESS AND RISK ENVIRONMENT – 2013

The board is ultimately responsible for ensuring that the group's system of internal control is effective to guard against any loss of the group's assets. The risk assessment and management function therefore covers any routine transactional risks that a mining group, the nature and size of Northam, is subjected to in the ordinary course of business.

Risk assessment is an executive management function in the group, and is overseen by the audit and risk committee on behalf of the board. In terms of an ongoing risk review process the major risks facing the company are identified, ranked on the basis of their inherent risk and mitigating steps identified, so as to lead to an acceptable level of residual risk. The risk register includes legislation and the extent of regulatory compliance.

COUNTRY RISK

REGULATORY RISK

South African mining is characterised by laws which have been legislated to redress some of the social and economic imbalances resulting from the discriminatory policies and practices of the past. The MPRDA and the Mining Charter (revised in 2011) create the framework for the transformation of the mining industry. A key aspect of this legislation is the vesting of all mineral rights in the state and promoting more equitable ownership of South Africa's mineral resources, by requiring a

26% black economic empowerment (BEE) interest in the equity of mining companies by 2014.

Northam has advised shareholders of reductions in these equity levels, which, at the date of this report, are at the 4% level. Shareholders are referred to the announcement dated Friday, 3 August 2012 wherein they were advised of a proposed restructure of the group's BEE shareholding.

The group has made certain proposals to the DMR, more fully disclosed in the directors' report, aimed at restoring the group's BEE shareholding.

SOCIO-POLITICAL RISK

Since the tragic events at Marikana in 2012, the industrial relations climate throughout the mining industry has been volatile and uncertain. The advent of the annual wage negotiation season in the middle of the calendar year has once again put the spotlight on the difficulties associated in the industrial relations arena. This is dominated by inter-union rivalry between the National Union of Mineworkers (NUM) and the Association of Mineworkers and Construction Union (AMCU), which has pitted worker against worker and employers are caught in the crossfire. The majority of workers at the company's Zondereinde mine operation are members of NUM; however AMCU has made inroads at the mine, although its members there are not yet sufficient in number for recognition. There has also been a trend for

employees to select leaders among their rank and file locally, without union representation.

Northam's policy is to grant organisational rights to any union with representivity of 15% or more of a relevant category of employees. Management maintains open channels of communication with its labour force and representative unions. For bargaining rights, employees are required to prove 33.3% of its relevant constituency. In addition, management consults with legitimate worker representatives or committees to resolve any concerns which may arise.

In line with the government's call on mining groups to improve the hostel housing system, and for increased available accommodation, the group has built affordable houses for employees at the Zondereinde mine, and to date 337 houses have been sold to employees. Hostels are also being de-intensified to relieve employees from over-crowding.

HEALTH AND SAFETY

The occupational illnesses associated with deep-level underground mining operations are those caused by, *inter alia*, excessive exposure to heat, dust, noise, radiation and gases. Consequently, the mining industry is subject to stringent health and safety laws and regulations. In certain cases amendments to health and safety legislation could result in the group incurring additional costs in

order to comply with new laws and regulation. In addition, the industry as a whole is experiencing the negative effects of medical pandemics such as HIV/Aids and TB. These medical conditions adversely affect productivity and costs.

The group seeks to comply fully with applicable health and safety legislation and to ensure that all the employees adhere to group safety standards. HIV/Aids and TB have been aggressively targeted with a strong focus on prevention, through education initiatives and community involvement, as well as the implementation of a monitored employee wellness programme which includes the provision of anti-retroviral therapy (ART) for those affected.

At Zondereinde the use of hydropower itself gives rise to a significant reduction in dust in the workings.

Deep-level underground mining is inherently hazardous and requires full compliance with health and safety regulations, safety training and the use of personal protective equipment. Non-compliance with safety standards can lead to costly mine stoppages. The group has adopted a zero tolerance policy towards safety infringements. All infringements are investigated, and employees can face disciplinary hearings which can lead to suspension or dismissal. In addition, the group undertakes continuous training campaigns for its employees.

ENVIRONMENTAL AND SOCIAL RISK

In keeping with the rest of the mining sector in South Africa, the group has to ensure that it complies with constantly changing environmental laws and regulations and that it effectively manages the increasing risk associated with community and social obligations and aspirations. Compliance with changing regulatory standards and community expectations may result in increased costs which would negatively impact cash flows and earnings.

The group's approach in this regard is to engage with its various stakeholders on an ongoing basis in order to develop sound relationships with those affected by its mining operations. In addition the group seeks to comply with all environmental legislation, in order to ensure the sustainability of its operations.

MARKET, FINANCIAL AND FINANCING RISK

The risks of metal price fluctuations and exchange rate are inextricably linked with the business of Northam. As a PGM producer the group is a price taker and thus has no control over the commodity

prices which are denominated in US dollars. The company provides investors with full exposure to the PGM markets, and does not hedge either its currency or commodity price risk.

The group's mining operations are exposed to the effects of increases in mining input costs which are denominated in South African rands. As a PGM producer, the group is a price taker and the higher than inflation increases in labour and power costs in South Africa has squeezed the profitability of all mines in the last decade.

In order to fund the development of its second mine, Booyssendal, the group has borrowed from a bank and the debt capital markets, and is therefore exposed to financing risk associated with the debt market and interest rates. In order to mitigate and contain this risk the company is committed to repaying such debt as expeditiously as possible. This is underpinned by a continued focus on optimising operational performance and cost containment.

HUMAN RESOURCE SKILLS AND CAPACITY

Global competition for expertise and skills, particularly in the technical field as well as the

proximity of the mines to major urban centres, have put pressure on the group to attract and retain appropriate technical prowess. In addition, the poor standard of education in South Africa has led to low levels of skills.

The group has developed appropriate remuneration policies and practices to retain its technical competitive edge in the industry. Other mitigation measures include intensive skills upliftment programmes, in-house training and learnerships.

GEOLOGICAL AND ORE RESOURCE RISK

Zondereinde mine is the deepest platinum mine in the world and its geology is challenging. It is associated with difficult mining conditions which can result in ore reserve losses. Geological and mining conditions are constantly monitored to reduce the associated risk.

Mitigation measures include finding conformable and less complex ore reserve and reef. The deepening project at Zondereinde will help to alleviate some of the challenges associated with mining the Merensky reef, while Booyssendal mine provides further geographic diversification and access to a less complex, shallower ore body.

INFRASTRUCTURAL SERVICE SUPPLY RISK

The group is dependent on the reliable supply of power in order to conduct its operations. South Africa's national electricity utility, Eskom, currently has very little surplus generating capacity and has required the mining industry in South Africa to achieve reductions in the overall power consumption.

The group has engaged with Eskom so that it is given advance warning of any possible outages in order to secure employees' safety and protect its assets. It is not always possible to determine the cost of power disruptions, which are likely to persist until at least 2014. The group has put a number of measures in place to reduce its maximum demand as well as its total power consumption.

OPERATIONAL RISKS

The group is currently involved in the completion of the construction of the Booyssendal mine and the deepening project at the Zondereinde mine, both of which present challenges.

By employing a multi-disciplinary approach to the planning and execution, the group will be better equipped to identify and resolve problems.