BUSINESS AND RISK ENVIRONMENT

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. This caters for any routine transactional risks that any group of its nature and size is subjected to in the ordinary course of business. The group operates in a South African business environment characterised by the following specific major business risks:

- country risk;
- market, financial and financing risk;
- geological and ore reserve risk; and
- health, safety and environment risk.

Country risk

The South African mining landscape is characterised by various pieces of legislation which have been put in place to redress some of the imbalances created by the discriminatory polices and practices of the past. The MPRDA and the Mining Charter (revised in 2011) create the framework for the transformation of the mining industry, and focus on the following key aspects:

- The vesting of all mineral rights in the state and promoting more equitable ownership of South Africa's mineral resources;
- Onerous commitments to community, employees and training when applying for new order mining rights;
- The promotion of previously disadvantaged individuals and women into management positions;
- Downstream beneficiation; and
- Encouraging home ownership.

Northam's operations continue to make progress against some of the onerous targets of the legislation and the Mining Charter and are implementing policies that foster the achievement of these national priorities, thereby retaining their licence to operate, both in the legal and the social sense. All the group's old order mining rights have been converted to new order mining rights.

Human resource capacity and skills

Global competition for human resource expertise and skills, particularly in the technical field, has put pressure on companies like Northam to attract and retain appropriate technical prowess. The company has developed appropriate remuneration policies and practices to retain its technical competitive edge in the industry.

Infrastructure supply constraints

South Africa suffers from certain infrastructural supply constraints arising for various reasons. The most vulnerable services for Northam's operations are:

- water resources; and
- electricity supply.

Disruption and/or shortages of these services occasionally affect the business of the company. However, the company has put a number of measures in place to mitigate the risk arising from any such potential disruption.

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 company is a price taker and thus has no control over the commodity prices which are denominated in US dollars. On the basis that investors prefer to have full exposure to the PGM markets, the company does not hedge either its currency or commodity price risk.

Northam's mining operations are exposed to the effects of increases in mining input costs which are denominated in South African rands. The costs of a number of these mining inputs, notably labour and power, have risen at a faster rate than inflation. Northam continues to proactively monitor and manage its cost base.

Northam has had no exposure to financing risk to date. With the development of the Booysendal mine, Northam is looking to supplementing its internal cash resources with borrowings. In a high interest environment, this could expose the company to some finance risk in the short to medium term.

Geological and ore resource risks

The geology at the group's Zondereinde mine is challenging, and associated with difficult mining conditions, which could result in ore reserve losses. Geological and mining conditions are constantly monitored to reduce the associated risk.

Health, safety and environmental risk

The occupational hazards of mining in South Africa include noise and dust pollution, high numbers of accidents, infection from HIV/AIDS and tuberculosis. Levels of education are low amongst South African mineworkers.

The MPRDA and the Mine Health and Safety Act have a wide range of regulations to be complied with by mining companies. The company complies with all legislation and regulations by ensuring mining procedures are documented, medical facilities sufficiently equipped and staffed and education and training programmes are run continuously for employees.