# 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.

Risk management is an executive management function, and is overseen by the audit and risk committee. In terms of an ongoing risk review process the major risks facing the company have once again been reviewed and ranked. Residual risk indicates the level of risk remaining after the application of any mitigation measures.

## 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 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, requiring a 26% black economic equity interest in mining companies by 2014. Northam has recently advised shareholders of reductions in these equity levels, which, at the date of this report, are at the 11.2% level. The company is engaged in discussions with the DMR in order to find ways of increasing these levels, so as to secure its mining licences. Northam's operations continue to make progress against some of the other 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.

As a mining company governed by the MPRDA, the Mines Health and Safety Act, and the Labour Relations Act amongst others, operations are subject to interruptions owing to DMR-imposed stoppages, and industrial action which may be sanctioned by existing legislation. A safe working environment is obviously in the interest of all stakeholders and is a key management focus area.

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 company seeks to comply 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.

The industrial relations climate remains volatile in South Africa. Management maintains close relations with employee bodies and unions in order to deal proactively with issues which could arise and result in industrial action.

## Market, financial and financing risk

The risks of metal price fluctuations and exchange rate are inextricably linked with the business of Northam. As a PGMs producer the company 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 PGMs markets, and 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

# Business and risk environment

**continued**

and power, have risen at a faster rate than inflation. Northam continues to proactively monitor and manage its cost base.

Owing to a number of developments in the macro economic environment, Northam has, for the first time, been 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 reduction.

## 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. Other mitigation measures include intensive skills upliftment programmes, in-house training and learnerships. However, much residual risk remains given the challenges associated with the national education system.

## 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. 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 Booysendal provides further geographic diversification and access to a less complex orebody.