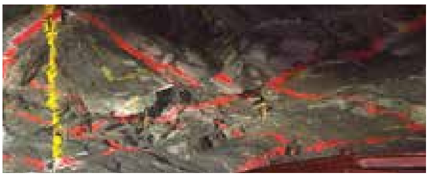
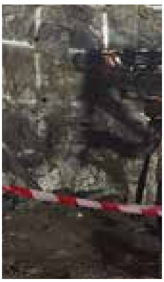
MANAGING BUSINESS RISK AND OPPORTUNITIES

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. Internal and external auditors, as well as management, continuously provide assurance on the effectiveness of internal controls. The risk assessment and management function, therefore, covers any material routine transactional or occasional risks that a mining group of the nature and size of Northam, is subjected to in the ordinary course of business.

Risk assessment is an executive management function and is overseen by the audit and risk committee on behalf of the board. In terms of the group's risk management framework, which incorporates an ongoing risk review process, the major risks of the group that may materially affect its ability to create value from business opportunities are identified, and ranked on the basis of their materiality. Inherent risk and mitigating steps are identified, so as to ensure that the level of residual risk is acceptable to management. Assessing risk includes testing the extent of compliance with applicable legislation, and is performed by completing the regulatory compliance scorecard.

The board of directors appreciates that sustainability is an ethical and economic imperative for business in the 21st century – in terms of risk management and the opportunities it presents. The relationship between good governance, good leadership and excellent financial performance is evident, and entails defining strategy, providing direction and establishing the ethics and values that will influence and guide practices and conduct with regard to sustainability performance.





Booysendal is a shallow, fully mechanised UG2 mining operation

MANAGING BUSINESS RISK AND OPPORTUNITIES CONTINUED

RISKS IDENTIFIED

COUNTRY REGULATORY RISK	MANAGEMENT RESPONSE
The South African mining environment is governed by legislation to redress some of the social and economic imbalances resulting from the discriminatory policies and practices of the past. The Mineral and Petroleum Resources Development Act No 28 of 2002 (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% BEE interest in the equity of mining companies by April 2014.	Northam has previously advised shareholders of a decrease in these equity levels which stood at 4% as at 30 June 2014.

LABOUR AND SOCIO-POLITICAL RISK	MANAGEMENT RESPONSE
Since the tragic events at Marikana in 2012, the industrial relations climate throughout the mining industry has been volatile and uncertain. Labour relations is governed by several pieces of legislation, the main one being the Labour Relations Act No. 66 of 1995 (LRA) which amongst other things, favours union majoritarianism, a factor which has been challenged by the emergence of unions such as AMCU. Inter-union rivalry and militancy, especially between the NUM and AMCU has increased the spectre of violence especially in the Rustenburg platinum belt. Northam's Zondereinde mine was badly impacted by 11 weeks of strike action called by the NUM, the majority union on the mine. The strike started on 3 November 2013 and terminated on 21 January 2014. This strike was immediately followed by a five-month strike, the longest in South African labour relations history, called by rival union AMCU, which affected the operations of Anglo American Platinum Limited (Amplats), Impala Platinum Holdings Limited (Implats) and Lonmin plc (Lonmin). This strike is further evidence of the complex social and labour climate in post-apartheid South Africa.	In recognition of employees' freedom of association, Northam's policy is to grant organisational rights to any union with representation of 15% or more of a relevant category of employees. Management maintains open channels of communication with its labour force, both directly and with representative union structures. For bargaining rights, a union is required to prove 33.3% representation of its relevant constituency. In addition, management consults with any legitimate worker representatives or committees to resolve any concerns which may arise. Northam has also responded to government's call on mining groups for more proactive socio-economic engagement in employee communities, and to improve employee housing and related infrastructure. Among a number of improvements, and in line with the company's Social and Labour Plans (SLPs) (which effectively serve as the company's licence to operate) at Zondereinde, Northam has sold 359 houses to employees as part of an affordable housing scheme, while the traditional hostels are being de-intensified to relieve overcrowded conditions. Northam is engaged in a number of other initiatives to benefit employees and their communities, and publishes these in the social capital section of this report (page 113). These initiatives are currently being evaluated and fast tracked where there are shortfalls.

HEALTH AND SAFETY RISK	MANAGEMENT RESPONSE
The occupational illnesses associated with underground mining operations are those caused *inter alia*, by 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.	Underground mining is inherently hazardous and requires full compliance with health and safety regulations, compulsory safety training and the use of personal protective equipment. Non-compliance with safety standards may lead to costly mine stoppages. 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 treatment (ART) for those affected. At Zondereinde, the use of hydropower itself largely eliminates the presence of dust in the workings. The group has adopted a zero tolerance policy towards safety infringements. All infringements are investigated, and employees may face disciplinary hearings, which may lead to suspension or dismissal. In addition, the group undertakes continuous training campaigns for its employees. Mining standards are meticulously and constantly revised in order to facilitate compliance. Where possible mechanisation is favoured and implemented as a mining method given its improved safety record.

ENVIRONMENTAL AND SOCIAL RISK	MANAGEMENT RESPONSE
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. Please see the stakeholder engagement section on page 82 of this report.	The group's approach 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	MANAGEMENT RESPONSE
1. The risks of metal price fluctuations and exchange rates 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.	1. The company provides investors with full exposure to the PGM markets, and does not hedge either its currency or commodity price risk.
2. The group's mining operations are exposed to the effects of mining input cost increases, which are denominated in South African rand. As a PGM producer, the group is a price taker, and the higher than inflation increases a number of input costs, including labour and power in South Africa has squeezed the profitability of all mines in the last decade.	2. The group's response to production cost pressures is to ensure, as far as practicably possible, that price increases granted to suppliers remain within the consumer price index, while working towards achieving greater production efficiencies in order to contain unit cost increases. Through its association with the Platinum Guild International, the group promotes the use of PGMs primarily in the jewellery sector, thus helping to sustain a strong demand for PGMs.
3. Protracted and repeated industrial action resulting in the lack of production is a threat to the viability of mining in South Africa.	3. Northam participates in the Chamber of Mines' efforts to maintain good relations with all union structures and employees.
4. In order to fund the completion of its second mine, Booysendal, 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.	4. 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	MANAGEMENT RESPONSE
Global competition for expertise and skills in the technical field as well as the distance of the operations from major urban centres, have put pressure on the group to attract and retain appropriate technical skills. 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 and aims to keep abreast of developments in this area. Other mitigation measures include intensive skills upliftment programmes, in-house training and learnerships.

GEOLOGICAL AND ORE RESOURCE RISK	MANAGEMENT RESPONSE
The Zondereinde mine is the deepest platinum mine in the world and its geology is challenging. It is associated with difficult mining conditions, which may result in ore reserve losses. Geological and mining conditions are constantly monitored to reduce the associated risk.	Mitigation measures include developing less complex ore reserve. The deepening project at Zondereinde will help to alleviate some of the challenges associated with mining the Merensky reef, by improving Merensky ore availability while Booysendal mine provides further geographic diversification and access to a less complex, shallower ore body that can be mined mechanically. Plans are in place to increase the exploitation of the more conformable and planar UG2 reef at Zondereinde, thereby also increasing the life of mine.
INFRASTRUCTURAL SERVICE SUPPLY RISK	**MANAGEMENT RESPONSE**
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 is struggling to provide a reliable service to the industry in South Africa. Eskom has sought to limit power consumption by large users such as mines during peak hours, by up to 10%.	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 in the medium term. The group has instituted a number of measures in order to reduce its maximum demand as well as to lower its total power consumption.
OPERATIONAL RISKS	**MANAGEMENT RESPONSE**
The group is currently involved in the ramping up of production at the Booysendal mine to steady state and the deepening project at the Zondereinde mine, to improve the availability of Merensky ore, both of which present challenges. The group currently operates a single stream process of smelting, base metal removal and refining.	By employing a multi-disciplinary approach to the planning and execution, the group is better equipped to identify and resolve problems. The group maintains good relations with third party toll smelters. There are long term plans to increase smelting capacity at Zondereinde using a different technology that will process higher chrome content ore.

RISK FINANCING

Risk financing forms an integral part of the group's risk management philosophy. In this regard, the group ensures that it has adequate insurance cover to safeguard it against major losses. The cover is arranged in respect of material damage and business interruption, and is split between the South African and international insurance markets. Should the group suffer a major loss, future earnings could be affected.

HEALTH AND SAFETY

The board-appointed health, safety and environment committee is ultimately responsible for ensuring compliance with legislation and monitoring performance with regard to health and safety. The committee, comprising three non-executive directors, meets on a quarterly basis.

Overall co-ordination of the safety function vests with the best practice manager who reports directly to the general manager. The best practice department is tasked with the overall training and optimisation function. Risk management is an integral part of this structure, and the risk management processes are used to drive the revision of standards and updating of training material. Safety officers audit the requirements as defined by the standard procedures and the training of employees as specified by the training material.

A best practice manager, a safety co-ordinator, two chief safety officers and six additional safety officers fulfil safety functions across the Zondereinde mine, while safety and training coaches/instructors are involved in cross-auditing working areas for hazard identification. They are supported by a risk and standards co-ordinator and a risk officer. Appropriate safety staff man the mechanised Booysendal mine which is inherently less risky owing to the mechanised mining methodology.

Although the total injury incidence rate has shown a discernible downward trend over the years at Zondereinde, the severity of injuries has increased. Booysendal has an excellent safety record to date.

INTEGRATED REPORTING AND DISCLOSURE

Policies, practices and performance relating to sustainable development form an integral part of the management of the group. Responsibility for these matters lies with the board. The audit and risk committee assists the board in approving the disclosure of sustainability issues in the annual integrated report. This document provides extensive discussion on the operational and financial performance of the group and the material environmental, social and governance (ESG) issues that underpin the group's business performance, thus enabling stakeholders to make an informed assessment of the economic viability of the group and the sustainability of its business.

COMBINED ASSURANCE

The audit and risk committee must ensure that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities, in particular ensuring that the assurance received is appropriate to address all the significant risks facing the company, and monitoring the relationship between the external assurance providers of the company.