

# KING IV PRINCIPLES

Application and explanation of the King IV principles at Northam – 22 November 2018

King IV principles	Application and explanation
--------------------	-----------------------------

## LEADERSHIP, ETHICS AND CITIZENSHIP

### Leadership

**Principle 1:**

The board should lead ethically and effectively.

King IV's primary focus is on the ethics of leadership and citizenship. At Northam, the board accepts collective responsibility for defining ethics and ethical behaviour, and its implementation in the business.

The board has put in place a governance framework with appropriate structures and processes to ensure that the group conducts its business in an ethical and effective manner, taking into account its impact on the economy, society and the environment, whilst balancing the interest of its diverse stakeholders.

### Organisational ethics

**Principle 2:**

The board should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.

Responsibility for ethical, responsible leadership lies with the board and the social, ethics, human resources and transformation (SEHR&T) committee, while the board and board sub-committee charters, the code of ethics, and various internal policies and procedures are in place to both regulate and guide the group's conduct as a corporate citizen. Northam's code of ethics applies to directors and employees and, therefore, a code of conduct is not necessary, as recommended in terms of King IV.

The code of ethics is reviewed by the executive committee and any changes required must be approved by the board. The code of ethics applies to both directors and employees and governs the interaction between the group and its suppliers, contracting companies and customers respectively. It also covers the use of group assets and confidential information. A breach of the code of ethics could result in disciplinary action and/or civil or criminal action being taken against a perpetrator. The code of ethics is available on the Northam website at [www.northam.co.za/governance/policies-and-procedures](http://www.northam.co.za/governance/policies-and-procedures)

The code of ethics was most recently updated in February 2018. It articulates the group's approach to gender and racial diversity, freedom of association, bribery and corruption, compliance, insider trading, amongst others. It also encourages a culture of whistle-blowing. Various mechanisms have been put in place to

protect whistle-blowers. The fraud hotline reports are a standard audit and risk committee agenda item. Management updates the audit and risk committee members on transgressions recorded.

The group's approval framework is an internal document which governs the delegation of authority and value limits within the group and is necessary to ensure that all transactions are approved appropriately. This enables management to avoid unauthorised expenditure and to limit the potential effects of corruption on the group. The approval framework is reviewed by the executive committee and any changes required must be approved by the board.

### Responsible corporate citizenship

#### Principle 3:

The board should ensure that the organisation is and is seen to be a responsible corporate citizen.

The board and the SEHR&T committee seek to ensure that the company is a responsible corporate citizen, in compliance with the Constitution of South Africa including the Bill of Rights, and has delegated to management the responsibility for proactive stakeholder engagement, community development and environmental stewardship. Management updates the board and the SEHR&T committee on a quarterly basis on Northam's performance against the Mining Charter targets, together with progress on the accommodation and housing strategy.

For further disclosure on responsible corporate citizenship, see Northam's accommodation and housing strategy on page 60 of the [integrated report 2018](#).

The board is ultimately accountable for determining the group's tax philosophy and approach and, through the audit and risk committee, provides oversight of the group's tax governance and affairs as a responsible corporate citizen.

## STRATEGY, PERFORMANCE AND REPORTING

### Strategy and performance

#### Principle 4:

The board should appreciate that the organisation's core purposes, its risks and opportunities and sustainable development are all inseparable elements of the value creation process.

The board approves the strategy, which is aligned with the purpose of Northam, the value drivers of its business and the interests and expectations of its stakeholders. The strategy also takes cognisance of inherent risks and opportunities and the need to achieve sustainable outcomes.

Management is tasked with the formulation of the business plan and a four-year forecast, including key performance measures and targets, which are then approved by the board on an annual basis.

The board actively monitors performance against the targets to ensure the outcomes for the capitals are linked to the value creation of the group.

The board is aware of the general viability, reliance and effect of its activities on its capitals, solvency, liquidity and its going concern status.

**Reporting****Principle 5:**

The board should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance on short, medium and long-term prospects.

In line with the JSE Listings Requirements and the Companies Act, Northam reports to stakeholders on both its financial and non-financial performance twice a year. The company seeks to provide information to its stakeholders which is timeous, intelligible, accurate and concise. This annual integrated report forms part of a suite of reports (see outside flap of this document which provides an illustration of this report in its context). The reporting process and the reports themselves are subject to internal scrutiny and review at board level, with approval required from both the audit and risk committee and the board.

Financial and non-financial disclosure in the group's reports to stakeholders is also subject to review and approval by external audit and assurance providers (see pages 158 and 166 of the [integrated report 2018](#) for their approval statements), whose appointment is delegated to management by the board.

The board assesses and approves management's basis for determining materiality for the purposes of information to be disclosed in the company's reports.

The board delegates to management the publication of, amongst other external reports, the annual integrated report, annual financial statements and King IV disclosures on the company's website.

**GOVERNING STRUCTURES AND DELEGATION****Primary role and responsibilities of the board****Principle 6:**

The board should serve as the focal point and custodian of corporate governance in the organisation.

The board assumes ultimate accountability and responsibility for the performance and affairs of the company, thereby effectively representing and promoting the best interests of the company and its stakeholders in a manner that is legal, ethical and sustainable.

Attendance at board and board committee meetings is recorded and disclosed on page 132 of the [integrated report 2018](#).

In terms of the board charter, members are entitled to seek independent professional advice at the expense of the company on any matter related to the company's business. The board is satisfied that it has fulfilled its responsibilities in accordance with its board charter for the year ended June 2018.

The board's leadership, integrity and judgement is required to direct the company's affairs and to achieve sustainability. Overall the board should have oversight of the company's compliance with all relevant legislation, regulations and policy. For further information on the board's responsibilities see the board charter on the website at [www.northam.co.za/governance/policies-and-procedures](http://www.northam.co.za/governance/policies-and-procedures)

**Board composition****Principle 7:**

The board should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.

The board has delegated to the nomination committee the nomination, election and appointment process for the selection of candidates to serve on the board.

The roles of chairman and CEO are separate. The chairman is responsible for leading the board, while the CEO is responsible for executing group strategy and operational management.

The board is chaired by Mr KB Mosehla, who represents Zambezi Platinum. Given that Mr Mosehla is not considered to be an independent director, the board has a lead independent director.

The functions of the lead independent director are to:

- Lead in the absence of the chairman;
- Serve as a sounding board for the chairman;
- Act as an intermediary between the chairperson and other board members if necessary;
- Deal with shareholders' concerns where contact through the normal channels has failed to resolve concerns, or where such contact is inappropriate;
- Strengthen independence on the board if the chairman is not an independent non-executive;
- Chair discussions and decision-making by the board on matters where the chairman has a conflict of interest; and
- Lead the performance appraisal of the chairman.

The board diversity policy, approved in February 2018, serves to promote an inclusive culture on the board. In terms of the diversity policy 50% of board members are required to be HDSAs and 20% should be women. Women currently make up 31% of the board, while HDSA members represent 62%.



All new directors are subject to background checks. Five of the 13 board members, including the CEO and the lead independent director, have extensive exposure and experience as CEOs in the PGM mining industry. Other board members have relevant experience in corporate finance, mergers and acquisitions and other associated disciplines.

The chairman, together with the board, determine the number of outside listed company directorships a non-executive board member may hold. The maximum number of directorships is 5 (five) listed companies, including Northam.

The board has a succession plan in place which includes identification, mentorship and training of future candidates.

The board is provided, from time to time, with briefings on legal and corporate governance developments, risks and changes in the external environment of Northam.

## Board committees

### Principle 8:

The board should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with balance of power and the effective discharge of its duties.

The board determines delegation to individual members, groups of members, standing or *ad hoc* committees.

Through the nomination committee, the board ensures that the structures of the board are well resourced with a balance of skills and expertise. The board and board committees operate in terms of formal charters. The chairperson of each committee reports to the board at each board meeting and the minutes of all committee meetings are circulated in the board packs.

The composition of each committee, as well as a description of its charter, appear on page 127 to 134 of the [integrated report 2018](#).

**Evaluations of the performance of the board****Principle 9:**

The board should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members support continued improvement in its performance and effectiveness.

The board monitors and appraises its own performance, those of its board committees and from time to time, the individual board members to monitor performance and identify areas for improvement. The board further evaluates the independence of its independent directors, which evaluation is rigorously applied also in respect of the independent directors who have served on the board for an aggregate term exceeding nine years. The board also evaluates the performance of the company secretary in terms of her competence, qualification, experience and arm's length relationship with the board.

**Appointment and delegation to management****Principle 10:**

The board should ensure that the appointment of, and delegation to management contribute to role clarity and the effective exercise of authority and responsibilities.

The board has appointed the CEO of Northam, as well as key members of the senior management team, who function in terms of the approval framework wherein the board defines levels of materiality and delegates functions to the executive committee appropriately. The board is satisfied that the approval framework is effective.

The CEO of Northam has undertaken to hold no other listed company directorship, apart from Zambezi Platinum, Northam's BEE shareholder.

The executive committee has the role of defining strategic guidelines and frameworks; the management review committees, based at each operation, are responsible for converting strategic guidelines into well-established processes and systems.

**FUNCTIONAL AREAS OF GOVERNANCE****Risk governance****Principle 11:**

The board should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.

The board assumes overall responsibility for risk within the group, in terms of the risk management policy and framework. It has delegated this authority to the audit and risk committee.

The audit and risk committee reviews Northam's risk register, which includes legislation and regulatory compliance, to ensure that risks and opportunities are identified and mitigated or acted upon by management, and that laws and regulations are complied with accordingly.

Information on the risk management process and policies can be found on page 14 of the [integrated report 2018](#).

**Technology and information governance****Principle 12:**

The board should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.

The board assumes overall responsibility for technology and information governance and has delegated authority to the audit and risk committee to assist the board in overseeing this function.

The ISSC's responsibility is to implement and execute effective technology and information utilisation throughout the Northam group, in accordance with its terms of reference available at [www.northam.co.za/governance/policies-and-procedures](http://www.northam.co.za/governance/policies-and-procedures).

The audit and risk committee, through the ISSC exercises oversight of technology and information management and in particular, oversees that it results in the following:

- Integration of people, technologies, information and processes across the group
- Integration of technology and information risks into organisation-wide risk management
- Arrangements to provide for business resilience
- Proactive monitoring of intelligence to identify and respond to incidents, including cyber attacks and adverse social media events
- Management of the performance of and the risks pertaining to third-party and outsourced service providers
- The assessment of value delivered to the organisation through investments in technology and information, including the evaluation of projects throughout their life cycles and operational expenditure
- The responsible disposal of obsolete technology and information in a way that has regard for environmental impact and information security
- Ethical and responsible use of technology and information
- Compliance with relevant laws.

The committee exercises oversight of the management of information and in particular oversees that it results in the following:

- The leveraging of information to sustain and enhance the group's intellectual capital
- An information architecture that supports confidentiality, integrity and availability of information
- The protection of privacy of personal information
- The continuous monitoring of information security.

The committee exercises oversight of the management of technology and in particular oversees that it results in the following:

- A technology architecture that enables the achievement of strategic and operational objects
- The management of the risks pertaining to the sourcing of technology
- Monitoring and appropriate responses to developments in technology, including the capturing of potential opportunities and the management of disruptive effects on the organisation and its business model.

The committee considers the need to receive periodic independent assurance on the effectiveness of the group's technology and information arrangements, including outsourced services.

Over the past 24 months, measures have been implemented to ensure that various aspects of the group's IT infrastructure and information management are enhanced from a security perspective and incorporated in the Northam IT security strategy.

In 2017, management implemented the SAP enterprise resource planning system throughout the Northam group. The SAP system has significantly contributed to safer and more effective management of information.

Campaigns targeting the group's user community have been launched to ensure awareness regarding IT security from both a company and private perspective. Other actions taken include continuous engagements with Northam's internal and external auditors ensuring that effective and sufficient controls are in place.

The CFO chairs the ISSC meetings and reports to the audit and risk committee on the committee's deliberations, as referred to on page 128 of the [integrated report 2018](#).

The ISSC meets on a quarterly basis and is responsible for the maintenance and protection of the group's technology and information resources, in terms of the information systems policy.

**Compliance governance****Principle 13:**

The governing body should govern compliance with applicable laws and adopt non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.

The Northam compliance policy together with the risk management policy and framework are the foundational reference points that assist the group to operate as an ethical and good corporate citizen.

Compliance with all material laws, legislation and regulations applicable to the group are monitored and reported to the board and to each board committee for their area of responsibility.

The health, safety and environmental committee monitors compliance with its health, safety and environmental policies and further disclosure on this can be found in the [integrated report 2018](#), beginning on page 69.

As a listed entity, Northam is required to comply with the JSE's Listings Requirements and certification of this is submitted to the JSE. Northam's submissions are currently up to date.

**Remuneration governance****Principle 14:**

The board should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium, and long term.

The board has delegated this authority to the SEHR&T committee. The committee assists the board in overseeing all aspects of remuneration practices for the organisation to ensure employees are remunerated fairly, responsibly and transparently.

Details of the executive directors' service contracts can be found on page 139 of the [integrated report 2018](#).

Fair and competitive reward processes are embedded in the group. These processes seek to encourage the achievement of the group's strategic objectives and positive outcomes in the short, medium, and long term.

The group's remuneration policy and implementation report can be found on page 135 to page 157 of the [integrated report 2018](#), and are tabled annually for separate non-binding advisory votes at the annual general meeting (AGM).

At the Northam AGM held on 6 November 2018, the group's remuneration policy was passed by a majority of 89% of votes cast in favour. The group's remuneration implementation report was passed by a majority of 88% of votes cast in favour. Both votes were based on a 93.7% shareholder participation rate.

**Assurance****Principle 15:**

The board should ensure that assurance services and functions enable an effective control environment and that these support the integrity of information for internal decision-making and of the organisation's external reports.

The combined assurance policy and framework for the group provides an analysis of all the assurance activities within the group. It is the responsibility of the board, through the audit and risk committee, executive and senior management, to identify additional areas that may require assurance on an ongoing basis.

The audit and risk committee has ensured that internal audit performed an independent assurance function and monitored the effectiveness of the internal audit function in terms of its assurance scope, executing its plan, independence and overall performance of the function.

The audit and risk committee has ensured coverage of the audit universe by approving the audit plans and budgets for internal audit and has confirmed the competence of the internal audit function as a whole. A chief audit executive (CAE) position has not been provided for in the arrangements relating to internal audit. The internal audit function has been outsourced to KPMG Services Proprietary Limited (KPMG). The responsibilities normally associated with that of a CAE have been allocated to the director in charge of the internal audit function.

**Stakeholder relations****Principle 16:**

In the execution of its governance roles and responsibilities, the governing body should adopt a stakeholder inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.

Northam's stakeholder policy regulates the process of engaging and communicating with all defined stakeholders who include, amongst others, both shareholders and employees.

For further information on stakeholder engagement see page 75 of the [integrated report 2018](#).

Along with the print and electronic publication and dissemination of results on a half-yearly basis, the company regularly hosts visits, presentations, briefings and meetings with interested shareholders, institutions and other stakeholders. Feedback is a critical element of such engagement processes and is communicated through the executive committee for discussion at board level.