Corporate governance

Introduction

The board of directors (the board) of the company seeks to ensure that all deliberations, decisions and actions of the company's business and operational structures are based on good corporate governance and fundamentally sound values including but not limited to integrity, responsibility, accountability, fairness and transparency. The pursuit of good corporate governance is guided by the company's articles of association, the board charter, the listings requirements of the JSE Limited, the South African Companies Act of 1973 (as amended) (the 1973 Companies Act), the second King Report on Corporate Governance in South Africa (King II) and the third King Report on Corporate Governance in South Africa (the King III Report) and the Global Reporting Initiative (GRI) and any other applicable laws and regulations.

King III

The King III report became effective on 1 March 2010 and takes into account the new Companies Act and changes in international governance trends.

King III adopts an "apply or explain" approach to corporate governance, a change from the "comply or explain" approach that was adopted by King II. The "apply or explain" approach implies that the board of directors, in its collective decision making, may conclude that to follow a practice recommended in King III would not, in the particular circumstances, be in the best interests of the company. In the circumstances the board could decide to apply the recommendation differently or apply another practice and still achieve the objective of the overarching corporate governance principles of fairness, accountability, responsibility and transparency. In essence the explanation or rationale of the application, or otherwise of the King III principles and recommendations constitutes compliance with King III.

The key principles underlying the King III recommendations are reflected in the group's corporate governance structures, which are reviewed from time to time to take into account organisational changes and local and international corporate governance developments. Through this process of review, the directors seek to ensure that the company promotes, enhances and protects the sustainability of the economic, social and natural environment and that the interests of relevant stakeholders coincide over the long term. Furthermore, the directors seek to actively cultivate a culture where the company's business is managed on an ethical basis whilst recognising that strategy, risk, performance and sustainability are inseparable and that they must endeavour to continue to conform with internationally accepted standards and practices.

All directors and employees are required to maintain high standards of integrity and ethical behaviour to ensure that the company's business practices are conducted in an ethical manner, in good faith and in the best interests of the company and all its stakeholders. To this end the board has recently approved a revised code of ethics that incorporates the latest corporate governance trends in conducting business ethically and with integrity.

In order to ensure that the company fully understands the implications of King III on the company's business and operations and in order to be properly guided on how best to implement the corporate governance recommendations contained in King III, the board commissioned its external auditors, Ernst and Young Inc to conduct a King III Gap Analysis and provide the board with a detailed report on the areas where the company's governance and operational structures, systems, processes and procedures do not comply with the recommendations in King III, and to provide expert guidance on how the gaps could be addressed.

The King III Gap Analysis report and recommendations have recently been completed and both the board and management are studying the report and recommendations. A detailed report on this will be provided in the next annual report.

The new Companies Act

The board is aware of the provisions of the new Companies Act (Act No 71 of 2008) which was signed into law on 8 April 2008 but is yet to become effective. It is anticipated that this act will become effective before the end of 2010.

The board is cognisant of the fact that good governance and law are intricately linked and that good governance is not something that exists separate from the law. In this regard, the board seeks to ensure that the group operates within the legislative and regulatory environment of the country and has established structures and processes with appropriate checks and balances that enable directors to discharge their legal duties and responsibilities.

Together with its internal and external legal support structures, the board has begun studying the new act in order to ensure compliance with it.

JSE listing requirements

The company operates within the listing requirements of the JSE and, with the assistance and guidance of its sponsor, continues to operate within the framework of existing and evolving listing obligations of the JSE.

Stakeholders

The board is also cognisant of the fact that it derives its social licence to operate the company's business from both its internal and external stakeholders and adopts an inclusive approach towards issues pertaining to the company's stakeholders. The legitimate interests and expectations of relevant stakeholders are considered when making decisions in the best interests of the company. From time to time the board may afford the interests of shareholders and other relevant stakeholders precedence based on what the board believes serves the best interests of the company at any given point. The board seeks to determine the best interests of the company as a sustainable enterprise and as a good corporate citizen. The board therefore strives to ensure that there is dynamic and meaningful co-operation and interaction between the company and the relevant stakeholders. The stakeholder relationships are governed by clear principles of business ethics and integrity with the board ultimately striving to ensure that the company operates ethically and acts as a good corporate citizen.

A more detailed discussion of Northam's stakeholder engagement may be found on page 14 of the 2010 sustainable development report.

Board composition

The board operates as a unitary structure comprising 11 members and two alternates. Two of the 11 board members are executive directors viz the chief executive officer and the finance director. Nine members are non-executive and four of them are considered to be independent. The articles of association of the company require that at least 50% of board members should be historically disadvantaged persons.
The chairman of the board is a non-executive director and provides the direction necessary to ensure that the board operates effectively. Based on King III recommendations, a lead independent non-executive director has been appointed in view of the fact that the chairman is not independent.

The chairman of the board

The chairman of the board is Mr Lazarus Zim who is a non-executive director. Mr Zim represents Mvelaphanda Resources Limited (Mvela Resources) the major black empowerment shareholder of the company and, as such, is not independent.
The imperatives of black economic empowerment in South Africa dictate that Mr Zim continue as chairman. His continued chairmanship is also critical particularly at this stage as Mvela Resources considers unbundling its interest in Northam Platinum. As recommended by King III the board has appointed Mr Alwyn Martin as lead independent director.

The chairman was appointed in 2007, and is subject to retirement and rotation in terms of the company's articles of association. In terms of the 1973 Companies Act the chairman has declared his directorships and interests and, at each meeting of the board all directors including the chairman are required to declare whether or not they have a conflict of interest regarding matters pending before the board. In line with King III, the chairman will now be appointed every year.

The chairman performs his role and carries out his duties and responsibilities in terms of the provisions of King III. Amongst other things, the chairman is responsible for setting the ethical tone of the board, for monitoring how the directors function collectively and individually, and building and maintaining stakeholders' trust and confidence in the company.

The board has not evaluated the performance of the chairman in the past but will do so during the course of the next financial year.

Lead independent director

Mr Alwyn Martin was appointed as lead independent director on 28 June 2010. Mr Martin's main function is to provide leadership and advice to the board in the event that the chairman is conflicted in any matter.

His role is to support the chairman and the board without in any way undermining the authority of the chairman. Mr Martin will also chair those board meetings which deal with the succession of the chairman and the chairman's performance appraisal.

Financial director

In terms of the requirements of the JSE Mr Derek Roy Wolstenholme was appointed as financial director in an interim capacity on 4 November 2009. He held this position until 1 July 2010 when Mr Ayanda Zemini Khumalo was appointed financial director in his place. In terms of paragraph 3 184(h) of the JSE Listings Requirements, the audit committee was satisfied that Mr Wolstenholme possessed the requisite knowledge, skill and experience to be appointed as financial director. The audit committee is also satisfied that Mr Khumalo possesses the requisite knowledge, skill and experience to be appointed financial director.

Company secretary

All directors have access to the advice and services of the group company secretary, Mr Bethuel Ngwenya, who has been serving the company as such since December 2008. The board is aware that the company secretary is the gatekeeper of corporate governance and is responsible for developing and maintaining the procedures and processes required for the proper administration of board proceedings. Mr Ngwenya supports the board as a whole and directors individually with guidance on fulfilling their fiduciary duties and responsibilities in the best interests of the company. The company secretary also guides and advises the board on matters such as ethics, changes in legislation and corporate governance and plays an administrative supporting role to the group as a whole. To achieve these objectives, independent advisory services can be sought by the company secretary at the request of the board or its committees. The company secretary oversees the induction, orientation and development of new directors and senior management and is responsible for the provision of training of directors and senior management.

Board functions

The board acts as the focal point for, and is the custodian of, corporate governance in the company. The board controls and governs the company and operates in accordance with a board charter that lays down the mandate, role and responsibilities of the board. The board appreciates that strategy, risk, performance and sustainability are inseparable and it provides effective leadership based on an ethical foundation supported by a strong code of ethics that binds the board, management, employees and stakeholders.

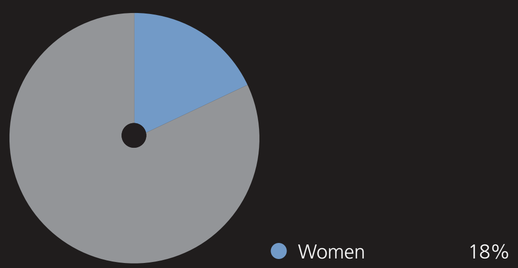
Board accountability

The board assumes overall responsibility for the company and its activities, including risk management and governance. The board is responsible for ensuring an effective risk-based internal audit function and that financial reporting carries the company's seal of integrity and compliance with regulatory requirements. The detailed responsibilities of the board are set out in the board charter.

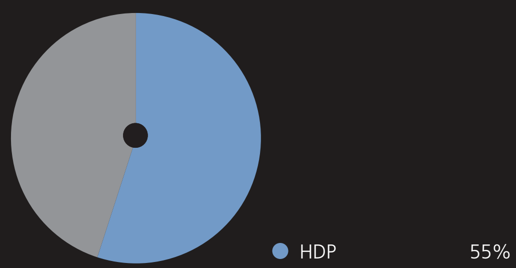
Transparency

The board is committed to providing full, accurate, relevant and timeous disclosure of information as prescribed by various policies and guidelines governing communication and conduct with stakeholders.

Board representation: women (%)



Board representation: HDPs (%)



With the prior approval of the chairman, the board (collectively or on an individual basis), is entitled to seek independent professional advice concerning the affairs of the group at the company's expense.

Sustainability

The board actively seeks to ensure that an ethical corporate culture is created and maintained. The board members constantly apply their minds in the best interests of the company regarding matters that come before them. The board acknowledges that business sustainability is a business challenge and opportunity and constantly strives to operate in an economically viable manner with due regard to long-term sustainability issues.

Board charter

The board charter regulates how business is to be conducted by the board in accordance with the principles of good corporate governance. The charter sets out the responsibilities of the board members collectively and individually. More specifically, the charter confirms the board's responsibility for the adoption of strategic plans, monitoring of operational performance and management, determination of policies and processes to ensure the integrity of the group's risk management and internal controls, as well as director selection, induction and evaluation.

Responsibility for annual financial statements

The directors are responsible for the preparation of the annual financial statements and related financial information that fairly present the financial position of the group and the results of its operations and cash flows. The annual financial statements set out in this report have been prepared in accordance with International Financial Reporting Standards. These financial statements incorporate full and responsible disclosure, are based on appropriate accounting policies that have been consistently applied, except where otherwise reported, and are supported by reasonable and prudent estimates and judgments. The external auditors, whose report appears on page 49 are responsible for reporting on these financial statements in conformity with International Standards on Auditing, the King III report and in the manner required by the Companies Act in South Africa.

Conflicts of interest

The company requires its directors, on an annual basis, to disclose details regarding their external shareholdings and directorships which could potentially create conflicts of interest while they serve as directors on the board. The declarations received by the directors in this regard are closely scrutinised by both the chairman and the group company secretary and are tabled at the beginning of each quarterly board meeting.

At each board meeting all directors are also required to declare any material conflicts of interest regarding matters pending before the board. In cases of material conflicts of interest, the director is requested not only to abstain from the relevant discussions but also to leave the meeting.

Where necessary, the company may also seek independent legal opinion regarding potential conflicts of interest in so far as these may affect specific directors, to determine whether or not a conflict of interest exists and to provide appropriate recommendations to the company to follow in dealing with these matters, which may or may not include, without limitation, directors extricating themselves from contractual relationships and/or resigning their directorships or disposing of their shareholdings.

Rotation and retirement of directors

The articles of association of the company stipulate that one third of the non-executive directors, being those longest in office, retire from office at each annual general meeting. A retiring director who is eligible and available may offer himself or herself for re-election and appointment.

Accordingly, Mr Havenstein, Mrs Kgosi and Dr Dlamini retire from office and being eligible and available, have offered themselves for re-election and appointment. Their biographical details appear on pages 46 and 47.

Corporate governance (continued)

The company's articles of association also provide that any person appointed as an addition to the board shall retain office only until the next following annual general meeting of the company and shall then retire and be eligible for re-election. Mr AZ Khumalo was appointed financial director on 1 July 2010 and, in accordance with the provisions of article 50 of the company's articles of association, retires as a director and, being eligible and available, has offered himself for re-election and appointment. His biographical details appear on page 46.

In terms of article 60 of the company's articles of association any person appointed to the board as an executive director shall hold office for a period of five years.

Mr GT Lewis was appointed to the board as chief executive officer on 1 March 2005, and in accordance with the provisions of article 60, retires from the board and, being eligible and available, has offered himself for re-election and appointment. His biographical details appear on page 46.

Board evaluation

The board recognises that improved performance and effectiveness may only be achieved through regular and timely appraisals both of the board as a collective and of its individual members and will evaluate itself and individual members during the course of the next financial year.

Board meetings

Five meetings were held during the year. The attendance by directors is shown in the table below.

Board meetings: directors' attendance

	12 Aug 2009	4 Nov 2009	19 Feb 2010	23 Apr 2010	28 Jun 2010
PL Zim	✓	✓	✓	✓	✓
ME Beckett	✓	✓	✓	Apology	✓
GT Lewis	✓	✓	✓	✓	✓
DR Wolstenholme	N/A	N/A	✓	✓	Apology
NJ Dlamini	✓	✓	Apology	✓	✓
ET Kgosi	✓	✓	✓	✓	✓
R Havenstein	✓	✓	✓	✓	✓
BR van Rooyen	✓	✓	✓	✓	✓
MSM Xayiya	✓	Apology	Apology	Apology	✓
KC Chabedi	✓	✓	✓	✓	✓
AR Martin	✓	✓	✓	✓	✓
A Gupta	✓	N/A	✓	N/A	✓
MJ Willcox	Apology	✓	Apology	Apology	Apology

Notes:

1. *Mr Wolstenholme was appointed financial director on 4 November 2009 and resigned on 1 July 2010.*
2. *Mr Gupta attended some meetings although he is an alternate director and is only required to attend meetings in the absence of Mr Zim.*
3. *Mr Willcox attended some meetings although, as an alternative director he is only required to attend meetings in the absence of Mr Xayiya.*

Board committees

The board has established three standing committees namely, the audit committee, the health, safety and environmental committee and the remuneration, nomination and employment equity committee, all of which operate within defined terms of reference laid down in writing by the board. These committees are chaired by and comprise non-executive directors. Members of management, including the chief executive, are invited to attend the committee meetings as appropriate.

Audit committee

The audit committee is chaired by an independent non-executive director and comprises four suitably skilled and experienced non-executive directors, three of whom are independent. In terms of the 1973 Companies Act, the audit committee is appointed annually and also acts as the audit committee for the company's subsidiaries.

Members of the Committee are:

- Committee chair: Mr AR Martin (independent non-executive)
- Mr R Havenstein (independent non-executive)
- Ms ET Kgosi (independent non-executive)
- Mr M Beckett (non-executive)

Although Mr Beckett cannot be considered to be independent owing to his association with Mvelaphanda Resources, his skills and previous experience on the committee are considered to be invaluable.

The board considers that the members of the audit committee are suitably qualified and experienced and possess the necessary levels of financial literacy and the requisite knowledge of financial risks, financial and sustainability reporting, internal controls and corporate law based on practical experience that has a bearing on, and is relevant to, the matters that the committee has to deal with. The board is satisfied that the audit committee has the necessary understanding of International Financial Reporting Standards, South African Statements of Generally Accepted Accounting Practice, Global Reporting Initiative standards or any other financial reporting and control framework that may be applicable to the company.

The audit committee operates according to established terms of reference approved by the board. The committee meets at least four times a year with management and the internal and external auditors in order to:

- review the interim and preliminary announcement of annual results;
- review the annual financial statements and accounting policies;
- review the sustainable development report and systems;
- review the risks areas of the company's operations to be covered in the scope of internal and external audits;
- monitor the integrity and completeness of the company's financial reporting;
- discuss the auditors' findings and recommendations;
- discuss and implement the company's policy regarding whistleblowing and fraud procedures;
- nominate the internal external auditor for appointment;
- consider the effectiveness of internal audit and report to the board on the assessment of the internal audit on the adequacy of the internal controls; and
- approve the fees to be paid to the group's internal and external auditors.

The audit committee also determines and carefully monitors the use of the external auditors for non-audit-related services, and is guided by a formal policy that precludes the external auditor from providing services which would impair audit independence. Prohibited services include:

- performing any internal audit or internal audit outsourcing services for the company or any of its subsidiaries;
- performing any valuations on any business assets of the company, or any of its subsidiaries, for which the external auditors will be required to subsequently issue an audit opinion;
- dispensing corporate finance advice, assistance or services to the company or any of its subsidiaries;
- providing any legal or information technology (design or implementation) consulting services to the company or any of its relevant subsidiaries; and
- conducting any due diligence exercises for and on behalf of the company or any of the company's subsidiaries which utilises the company's external auditor for audit-related services.

The permitted and/or qualified non-audit-related services which the external auditor is permitted to render to the company include:

- tax compliance services in relation to, for and on behalf of the company and/or its subsidiaries;
- assurance related work excluding implementation consulting work which may result in the impairment of the external auditors independence; and
- opinion work not relating to or associated with any of the prohibited services referred to above.

During the year the audit committee also considered and confirmed the independence of the internal audit function. The committee is satisfied that the company's finance division has the required expertise, resources and experience to handle the financial affairs of the company. The audit committee is also satisfied that management regularly monitors compliance with the company's code of ethics and approved amendments to align it with current corporate governance principles.

The audit committee recognises the need to consider information technology (IT) risk as a crucial element of the oversight of risk management of the company. As such, the committee plays an oversight role regarding IT risks and controls, business continuity, integrity and availability of the functioning of the IT systems, authentication of system information, data recovery related to IT and information security and privacy.

During the year five meetings were held.

Audit committee: directors' attendance

	12 Aug 2009	18 Sept 2009	2 Nov 2009	15 Feb 2010	20 Apr 2010
AR Martin	✓	Apology	✓	✓	✓
ET Kgosi	✓	✓	✓	✓	✓
ME Beckett	✓	✓	✓	Apology	Apology
R Havenstein	✓	✓	✓	✓	✓

Notes:
1. *Mr Martin was appointed to the board on 22 June 2009 and was appointed the chairman of the audit committee on 16 November 2009.*
2. *Mr Havenstein was appointed a member of the audit committee on 22 June 2009.*

External audit
The external auditors have unrestricted access to the Audit Committee. The Audit Committee is satisfied that the external auditors are sufficiently independent and objective in the performance of their duties and responsibilities. The Audit Committee is required to approve the provision of non-audit services by the group's external auditors.

Internal audit function
The company's internal audit function is undertaken on an outsourced basis by KPMG Services (Proprietary) Limited.

The internal auditors provide an independent appraisal function with specific responsibility for examining and evaluating the group's systems of internal control in mitigation of identified business risks. The objective is to assist members of management to effectively discharge their responsibilities.

The scope of the internal audit function includes:
- reviews of the reliability and integrity of financial and operating information;
- the systems of internal control; and
- the means of safeguarding assets.

The internal auditors report to the audit committee and have unrestricted access to its chairman.

Internal financial controls
The directors are responsible for maintaining adequate accounting records and have general responsibility for taking reasonable steps to safeguard the assets of the group and instal systems to prevent fraud and other irregularities. To enable the directors to meet these responsibilities, management has been delegated with the responsibility of setting standards and implementing systems of internal control aimed at providing reasonable assurance for the preparation of reliable annual financial statements, that assets are safeguarded and that the risk of error, fraud or loss is reduced in a cost-effective manner.

Financial statements

The audit committee has reviewed the financial statements, the accounting policies adopted and applied by the group and the internal controls of the company and is satisfied that the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Policies (GAAP).

Health, safety and environmental (HSE) committee

The HSE committee comprises four non-executive directors.

Members of the Committee are:

- Committee chair: Mr BR van Rooyen (non-executive)
- Mr ME Beckett (non-executive)
- Dr NJ Dlamini (independent non-executive)
- Mr CK Chabedi (non-executive director)

The committee is tasked with overseeing the company's compliance with the various health, safety and environmental laws and regulations that affect the group, and advising the board on associated issues such as sustainable development matters.

Four meetings were held during the year.

HSE committee: directors' attendance

	11 Aug 2009	2 Nov 2009	16 Feb 2010	20 Apr 2010
BR van Rooyen	Apology	✓	✓	✓
ME Beckett	Apology	✓	Apology	Apology
NJ Dlamini	✓	✓	✓	✓
CK Chabedi	✓	✓	✓	✓

Remuneration, nomination and employment equity committee

The remuneration, nomination and employee equity committee (Remcom) is made up of four directors.

Members of the committee are:

- Committee chair: Ms ET Kgosi (independent non-executive)
- Mr R Havenstein (independent non-executive)
- Dr NJ Dlamini (independent non-executive)
- Mr BR van Rooyen (non-executive)

The committee functions in accordance with established terms of reference approved by the board.

The committee's objectives are to assist the board in determining conditions of employment and to review and approve remuneration policies and practices for executive directors and senior management. The committee is also responsible for establishing the policy for, and operation of, the group's share incentive scheme. The committee is satisfied that executive directors are remunerated based on their responsibilities and performances, and in line with the market.

The company operates a bonus scheme for its senior executive directors and managers which is based on certain safety, production and financial targets being met. The committee approves the parameters for this scheme and any bonuses payable are limited to 40% of an individual's basic remuneration package. No bonuses are paid to non-executive directors and they are not entitled to receive any share options.

The company also operates a number of short-term incentive schemes for other employees. In addition, the committee approves the mandate with regard to negotiations with trade unions and oversees compliance with the requirements of the Employment Equity Act, No 55 of 1998, the King III Report and the administration of the company's share incentive scheme.

The committee is also tasked with advising the board regarding the size, composition and effectiveness of the board and board-appointed committees, as well as advising the board regarding the appointment of proposed candidates to serve on the board.

Remcom: directors' attendance

	12 Aug 2009	5 Nov 2009	16 Feb 2010	8 Mar 2010	29 Mar 2010	19 Apr 2010	26 May 2010	24 Jun 2010
ET Kgosi	✓	✓	✓	✓	✓	✓	✓	✓
R Havenstein	✓	✓	✓	✓	✓	✓	Apology	✓
NJ Dlamini	✓	✓	✓	✓	✓	✓	✓	✓
BR van Rooyen	✓	✓	✓	✓	✓	✓	✓	✓
AR Martin	N/A	N/A	N/A	✓	✓	N/A	N/A	N/A

Notes:
Mr Martin is not a member of the committee but attended those meetings of the committee relating to the selection and appointment of a financial director.

Code of ethics

The group is committed to the highest ethical standards in its dealings with all its stakeholders, and to this end has adopted a code of ethics (the Code) which governs the relationship between the group and its employees, the group and the environment, the group and its suppliers and customers, as well as the group and the community. In promoting the code, the group is committed to:

- defending the right of employees to a safe and healthy working environment;
- conducting its business in such a way that promotes the sustainability of the environment;
- applying the highest ethical standards in its dealings with customers and suppliers and protecting whistle blowers when dealing with fraud and corruption;
- improving the quality of community life;
- creating a climate free of conflict, discrimination and harassment of whatever nature;
- engaging constructively and creatively with government bodies, labour organisations and non-governmental organisations (NGOs); and
- providing a channel through which grievances or breaches of the code can be dealt with without fear of victimisation.

The board recently approved a revised code of ethics that has been updated to align it with current corporate governance trends and approaches to ethical business behaviour. The code of ethics applies to all directors, management, contractors and employees who deal with the company's stakeholders.

The revised code of ethics is available on the group's website (*www.northam.co.za*).

Communication

The company is committed to transparent, comprehensive and impartial communications with its stakeholders. The company maintains a website, which provides timeous, relevant and accurate information regarding the company's operational and sustainability performance and its financial results. Communications with shareowners exceed the statutory requirements and include press releases, briefings and a website. Briefings, newsletters, posters and other appropriate media are used to communicate with employees. The group encourages proactive two-way engagement with stakeholders by way of hosting visits, open days, conducting surveys and through other communication channels.

Dealings in the group's shares and closed periods

The group maintains a closed period prior to the publication of its interim and final results. During this time, and other such periods as determined by the company, directors and employees are precluded from dealing in the company's shares. Outside of any closed periods, directors and employees are required to obtain approval prior to dealing in the company's shares.

Risk management

The company's risk management function is based on an inclusive, team-based approach to effective application across the company. Management is accountable to the board for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities of the company. Through management the board has established various systems of internal control to manage significant risks. These systems support the board in discharging its responsibility for ensuring that the range of risks associated with the group's operations are mitigated and managed effectively and the interests of stakeholders safeguarded. Through the audit committee the board oversees the process of risk management and regularly reviews the adequacy and effectiveness of the company's risk management processes and internal controls. The internal audit function, which is outsourced, tests the group's internal controls in accordance with an agreed annual audit plan and reports quarterly to the audit committee on the adequacy and effectiveness of the controls, systems, processes and procedures.

The group has developed an integrated risk management framework which identifies the significant risks facing the group, as well as factors in mitigation thereof, in order to further assist the board in the discharge of its responsibilities. While the operating risks cannot be fully eliminated, the group endeavours to minimise them by ensuring that appropriate infrastructure, controls and systems are applied throughout the group to manage such risks.

The development of the risk management framework entailed the identification of all the activities carried out in the various processes of the company, the assessment of the impact of the inherent risks within those activities and/or processes and measures taken or to be taken to mitigate such risks. The risk matrix is subject to annual review by management in conjunction with the group's internal auditors.

The board continuously reviews its risk management structures, systems, processes and procedures to ensure that these are aligned to the principles contained in King III. The board appreciates the important role played by internal audit in the process of risk management and endorses the need for internal auditing to be risk-based in addition to being compliance-based.

The major risks and steps taken to mitigate and/or manage these risks are listed below:

Country regulatory risk

The mining sector in South Africa is subject to changes in regulatory requirements, potentially resulting in financial demands being made on the group. These changes could include but are not limited to beneficiation provisions, royalties, health levies and other taxes and licences. The group is conscious of these dynamics and ensures that there is ongoing dialogue and relationship building with both governmental and non-governmental stakeholders. Sectoral lobbying and stakeholder expectation management is further handled via industry bodies. In addition, South African operations are subject to the requirements of the Mining Charter which seeks, *inter alia*, to:

- promote equitable access to South Africa's mineral resources for all people in South Africa;
- substantially and meaningfully expand opportunities for historically disadvantaged South Africans (HDSAs), including women, to enter the mining and minerals industry and to benefit from the exploration of South Africa's mineral resources;
- utilise the existing skills base for the empowerment of HDSAs;
- expand the skills base of HDSAs in order to serve the community;
- promote employment and advance the social and economic welfare of mining communities and areas supplying mining labour;
- promote benefication of South Africa's mineral commodities beyond mining and processing, including the production of consumer products.

Whilst the group believes that it has made significant progress towards meeting the charter requirements, any regulatory changes to these, or failure to meet existing requirements, could adversely affect its ability to convert its old mining rights to new order mining rights in South Africa.

Financial and market risk

As a producer of platinum group metals, the group is subject to market fluctuations in both commodity prices and exchange rates. These fluctuations may have an adverse impact on the group's earnings and cash flows. Rising prices for raw materials, driven by strong global demand for fuel, steel and certain chemicals, have also impacted on production costs. The group's response to production cost pressures is to ensure that price increases granted to suppliers remain within the consumer price index (CPI), whilst working towards achieving greater production efficiencies in order to contain the increase on unit costs.

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.

Infrastructural services 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 requires the mining industry in South Africa to achieve a 10% reduction 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 2013. Northam has put a number of measures in place to reduce power consumption. The most significant of these are:

- the reduction of underground water consumption and the consequential reduction in power consumption for pumping and refrigeration;
- the intermittent use of diesel-powered fans to replace electrical powered surface fans as required;
- various initiatives to reduce domestic power consumption in the mine offices, hostels and the village.

Ore reserve

The ore body within the group's mining lease area at Zondereinde is characterised by potholing which, when encountered, could result in a loss of available reserves. The nature of these potholes is such that they cannot be reliably predicted.

The highly competent geological staff constantly monitors the geological conditions to attempt to predict potholes ahead of the face.

Environmental and social

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 as well as increasing community and social obligations. 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 has been 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, particularly new legislation, in order to ensure the sustainability of its operations.

Health

The occupational illnesses associated with 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 that are subject to change from time to time. In the event of changes to health and safety legislation the group may incur additional costs in order to comply with any new laws and regulation. In addition, the industry as a whole is experiencing the 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 a monitored employee wellness programme which includes the provision of anti-retroviral therapy (ART) for those who are affected.

Human resources

On a global basis the mining industry continues to face a contraction in the availability of required skills. This may have a negative impact on both productivity and employment costs.

The group pursues a broad-based strategy with regard to attracting and retaining appropriate skills, encompassing highly competitive compensation models, attractive career development opportunities and skills development programmes.

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 both 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.

Integrated reporting and disclosure

The board appreciates that sustainability is both an ethical and economic imperative for business in the 21st century, both in terms of risk and the opportunities it presents. The relationship between good governance, good leadership and excellent financial performance are 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.

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

The separate sustainability report which is published alongside this document deals with specific ESG issues in sufficient detail to satisfy the needs of a broader group of stakeholders.