

CORPORATE GOVERNANCE

Management approach

Northam is committed to upholding and implementing principles of good corporate governance at all levels of the company. The board of directors ensures 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 new South African Companies Act (Act No 71 of 2008) which came into full effect on 1 May 2011, the third King report on Corporate Governance for South Africa (King III), the Global Reporting Initiative (GRI) and any other applicable laws and regulations.

Compliance

Integrated reporting and King III

Northam is fully committed to timeous, relevant and transparent communication of issues relevant to all stakeholders, and has adopted an integrated approach to reporting and guidance provided by King III.

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.

During the year the board commissioned a King III gap analysis by Ernst & Young Inc to ensure that the board and senior management fully understand 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 therein. Management is

currently putting action plans in place to improve corporate governance within the group in line with principles and recommendations included in King III and based on the recommendations of E&Y.

Good progress has been made with the implementation of systems to integrate sustainability data into the board reporting framework. The company once again undertook an assessment of its material sustainability issues both from the company's and stakeholders' perspectives. These issues are discussed in further detail by the chief executive officer in the chief executive's review on page 9.

The new South African Companies Act, Act No 71 of 2008

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.

The new South African Companies Act (Act No 71 of 2008), which came into full effect on 1 May 2011, has changed the corporate business landscape markedly.

Although most of the provisions of the new Companies Act apply immediately, the transitional arrangements

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Board structure

Board of directors		
Non-executive directors PL Zim (alternate: AK Gupta) MSMM Xayiya (alternate: MJ Willcox) Independent non-executive directors ME Beckett CK Chabedi NJ Dlamini (Dr) R Havenstein ET Kgosi AR Martin	Chairman: PL Zim (non-executive director) Chief executive officer: GT Lewis (executive director) Lead independent director: AR Martin	Executive directors Chief executive officer: GT Lewis Financial director: AZ Khumalo Business development and corporate strategy director: BR van Rooyen
Board committees		
Audit and risk committee AR Martin (Chairman) ET Kgosi ME Beckett R Havenstein By Invitation Corporate office management Internal audit External audit Mine management	Health, safety and environmental committee BR van Rooyen (Chairman) ME Beckett CK Chabedi NJ Dlamini (Dr) By Invitation Corporate office management Mine management	Remuneration, nomination and employment equity committee ET Kgosi (Chairman) NJ Dlamini (Dr) R Havenstein By Invitation Corporate office management

allow for a window period of up to two years, from the date the Act was signed into law, for companies to be fully compliant with the Act. Whilst many of the changes are far-reaching, the most significant two changes will require the adoption of a memorandum of incorporation to replace the current memorandum of association and articles of association, and the establishment of a social and ethics committee. The group has drawn up an action plan to ensure compliance with the Act, and will revise its other governance structures where appropriate as required by King III.

Significant legal issues or fines

Northam did not incur any fines during the year under review in respect of non-compliance with laws or regulations, and was not involved in any legal action relating to anti-competitive behaviour, anti-trust or monopoly practices. Similarly, the company is not engaged in any significant legal actions.

Leadership and oversight by the board

Northam's board has a unitary structure, and comprises 11 permanent members (and two alternates). Board

members assume overall responsibility for the company and its activities, including risk management and governance. The board is responsible to shareholders for setting the direction of the group through the establishment of strategic objectives and key policies.

The board is guided by the board charter, and is supported in its role by a number of board committees, namely:

- the audit and risk committee;
- the health, safety and environmental committee; and
- the remuneration, nomination and employment equity committee.

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 specific responsibilities of the board members collectively, and the individual roles expected of them. 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 nominations, orientation and evaluation.

The board comprises three executive and eight non-executive directors, six (55%) of whom are regarded as being independent for the following reasons:

- they are not representative of a share owner who has the ability to control or significantly influence management;
- they have not been employed by the company or the group in any executive capacity for the preceding three financial years;
- they are not members of the immediate family of any individual who is, or has been in any of the past three financial years, employed by the company or group in an executive capacity;
- they are not professional advisors to the company or the group, other than in a director capacity;
- they are not a significant supplier to, or customer of the company or group;
- they have no significant contractual relationship with the company or group; and
- they are free from any business or other relationship that could be seen to materially interfere with their capacity to act in an independent manner.

The chairman of the board, Mr Lazarus Zim, who was appointed in 2007, although non-executive, is not independent in terms of the King III recommendations. A non-executive lead independent director, Mr Alwyn Martin, was therefore appointed on 28 June 2010.

In terms of the company's articles of association, no fewer than 50% of the directors are required to be historically disadvantaged persons (HDPs) as defined in the MPRDA. To this end, the board has appointed additional non-executive directors who qualify as HDPs, thus bringing the total number of such directors to seven.

The board recognises that improved performance and effectiveness may be achieved through regular and timely appraisals both of the board as a collective and of its individual members. The board ensures that the remuneration of both board members and senior executives reflect the overall performance of the company as a whole, including financial and non-financial performance indicators. At an operational level, this includes performance relating to transformation, environmental management and safety and health. Safety performance forms a fundamental part of the calculation of remuneration for operational management and employees.

A board evaluation was undertaken during the year in which board members reviewed their own, and fellow committee members' performance through a questionnaire-based process. Findings will be considered by the audit committee and the board and will be used to determine areas of performance improvement going forward.

Specific areas covered in the board's evaluation include:

- composition of the board and board committees;
- effectiveness of each board member;
- effectiveness of board meetings;

- relationship between senior management and the board;
- board transparency and accountability; and
- performance criteria and succession.

Sustainability leadership

Policies, practices and performance relating to sustainable development form an integral part of the management of the company. While overall responsibility for sustainability lies with the board, specific oversight of various areas of sustainability issues have been delegated to the audit and risk committee, the health, safety and environmental committee and the remuneration, nomination and employment equity committee.

These committees function in accordance with established terms of reference approved by the board and material matters, particularly issues related to safety, are escalated to board level for consideration. Transformation and compliance with the MPRDA and the Mining Charter are considered by the board as a whole and are a standard agenda item.

The audit and risk committee, which is chaired by lead independent director Mr Alwyn Martin, comprises four independent non-executive directors. The health, safety and environmental committee, under the chairmanship of Mr BR van Rooyen, comprises three non-executive directors. Until recently the chairman of this committee, Mr BR van Rooyen, was a non-executive director. As a result of his appointment as an executive director on 6 June 2011, this position is under review. The committee met on four occasions in F2011.

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.

In addition, all directors are required to declare any material conflicts of interest regarding matters pending before the board at each board meeting. 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. These recommendations may or may not include, without limitation, directors extricating themselves from

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contractual relationships and/or resigning their directorships or disposing of their shareholdings.

Business and risk management

Northam's risk management function is based on an inclusive, team-based approach to effective application across the company. The board is responsible for the oversight of risk management within the group and continuously reviews its risk management structures, systems, processes and procedures to ensure that these are aligned to the principles contained in King III.

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.

Extensive systems of internal control are in place to identify and manage significant risks. These systems support the board in discharging its responsibility of ensuring that the range of risks associated with the group's operations are managed effectively and that the interests of stakeholders are safeguarded.

Northam has developed an integrated risk management framework which identifies the significant risks facing the group, as well as factors in mitigation thereof including:

- all activities carried out in the various processes;
- the assessment of the impact of the inherent risks with those activities; and/or
- processes and measures taken or to be taken to mitigate such risks.

The following specific major risks have been identified by Northam and are discussed in further detail on page 5 of the Northam integrated annual report:

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

A risk matrix is subject to quarterly review by management in conjunction with the group's internal auditors.

While the operating risks cannot be fully eliminated, the company has put in place appropriate infrastructure, controls and systems applied throughout the group to manage such risks.

Northam engages with underwriters and assurers on an ongoing basis and a significant portion of the company's operational risk is underwritten.

Code of ethics

Northam is committed to the highest ethical standards. The company's code of ethics governs relationships between the group and its stakeholders. During early

F2011, Northam revised the code of ethics in alignment with corporate governance trends and practices. The mended policy was approved by the board and rolled out at a group level in October 2010.

The code applies to the directors and employees and governs the interactions between these and the group's suppliers, contractors and customers and extends to the use of company assets and the treatment of confidential information. Contravention of the code may result in disciplinary action and, depending on the nature of the contravention, may also result in civil or criminal action.

Donations and gifts

It is a policy of the Northam board not to make political donations of any kind. Employees are not permitted to accept gifts, hospitality or favours from suppliers or contractors of more than nominal value. All gifts and entertainment details are noted in a register for record purposes. During F2011, no donations were made by or on behalf of Northam.

Insider trading

In terms of both the insider trading rules of the JSE and the company's rules on share investments, neither directors nor employees are allowed to deal in the company's shares if they are in possession of non-public information or during closed periods. This directive also applies to close relatives of directors and employees. Directors and employees are required to obtain prior approval for dealing in the company's shares. In addition, employees are periodically advised of closed periods.

Whistle-blowing

Employees and other parties are encouraged to anonymously report corrupt and fraudulent activity or any other issues to senior management at the company's corporate office by way of a 24 hour ethics hotline. The hotline, which is administrated by an external party, operates 24 hours a day in all official languages. All whistle-blowers are protected against any form of victimisation provided disclosures are made in accordance with the provisions of the Protected Disclosures Act, No 26 of 2000.

The Northam hotline number is: 0800 15 25 39.

Awards and recognition

The company was admitted to the JSE's Socially Responsible Investment Index (SRI) for the fourth consecutive year. Northam was also rated a top performer and reporter on the JSE's Carbon Disclosure Leadership Index (CDLI) and was rated in the top ten of the Ernst & Young 2011 Excellence in Sustainability Reporting awards.