Corporate governance

The board affirms its commitment to the principles of openness, integrity and accountability and is committed to providing timeous, relevant and meaningful reporting to all stakeholders. It attempts to ensure that the group's business is conducted in accordance with high standards of corporate governance and with local and internationally accepted best corporate practice. These standards are entrenched in the group's established systems of internal control by its policies governing corporate conduct, with particular emphasis being placed on the qualitative aspects of corporate governance. The directors endorse the Code of Corporate Practices and Conduct (the Code) set out in the second report of the King Committee on Corporate Governance (King 2) that was released in March 2002.

The board considers that the group complies substantially with King 2, with the exception of the composition of the board, which falls short of the requirement that the chairman and the majority of the directors be independent. The directors recognise this shortcoming and are considering appropriate steps to enhance compliance with the recommendations. The key principles underlying the King recommendations as contained in the Code are reflected in the group's corporate governance structures, which are reviewed from time to time to take into account organisational changes and international developments. Through this process of review, the directors seek to ensure that the group's business is managed on an ethical basis in accordance with prudently determined risk parameters and in conformity with internationally accepted standards. The directors specifically report as follows:

Board charter

The board has adopted a board charter which 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 selection, orientation and evaluation.

The group is planning to introduce a board evaluation process during the coming year.

Risk management

The board is responsible for the total risk management process within the group. Management is accountable to the board and 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 managed effectively and the interests of stakeholders safeguarded.

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, systems and ethics are applied throughout the group to manage such risks.

The development of the framework entailed the identification of all the activities carried out in the various processes, 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 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 particularly 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 inter alia seeks 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; and
- promote beneficiation 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 can 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.

Through its association with the International Platinum Association and the Platinum Guild International the group promotes the use of PGMs in a wide range of sectors thus helping to sustain a strong demand for PGMs. The group's response to production cost pressures has been to ensure that price increases granted to suppliers remain within CPI, whilst working towards achieving greater production efficiencies in order to contain the increase on unit costs.

Ore reserve

The ore body within the group's mining lease area is characterised by potholing which, when encountered, could result in a loss of available reserves. The nature of these pot-holes 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 expectations. Compliance with changing regulatory standards and community expectations can 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, 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 regulations. 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 their employees adhere to their 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 is currently facing 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.

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 and are based on appropriate accounting policies that have been consistently applied, except where otherwise reported, and which are supported by reasonable and prudent estimates and judgements. The external auditors, whose report appears on page 65 are responsible for reporting on these financial statements in conformity with International Standards on Auditing and in the manner required by the Companies Act in South Africa.

Composition of the board of directors

The board comprises one executive and nine non-executive directors, details of whom appear on pages 57 and 58. All the directors bring to the board a wide range of professional and commercial experience and independent perspectives and judgement. Although Mr Sexwale, the non-executive chairman of the board, is not an independent director, the board is of the view that it is appropriate that, as a representative of the group's major empowerment shareholder, he assumes this position. The board is responsible to the shareholders for setting the direction of the group through the establishment of strategic objectives and key policies. The board meets quarterly, or more frequently if circumstances so require, in order to consider issues of strategic direction, approve major capital expenditure projects, review operating performance, and consider other matters having a material effect on the group. All directors are subject to retirement by rotation and re-election by shareholders at least every three years in accordance with the group's articles of association. All directors have access to the advice and services of the group secretary and, with the prior approval of the chairman, are entitled to seek independent professional advice concerning the affairs of the group at its expense.

During the year five board meetings were held, with the attendance by the directors being as indicated in the accompanying table:

The board has established three standing committees, namely the Audit Committee, the Health, Safety and Environmental Committee and the Remuneration, Nomination and Employee Equity Committee which operate within defined terms of reference laid down in writing by the board. These committees are chaired by and comprise non-executive directors.

Board meetings	3 Aug 2005	9 Nov 2005	1 Feb 2006	12 April 2006	14 June 2006
T M G Sexwale	Apologies	√	Apologies	√	Apologies
G T Lewis	√	√	√	√	√
M E Beckett	√	√	√	√	√
N J Dlamini	√	√	√	√	√
R Havenstein	√	√	√	√	√
E T Kgosi	√	√	√	√	√
R G Mills	√	√	Apologies	Apologies	√
E Molobi (Note 1)	√	Apologies	Apologies	Apologies	n/a
R H H van Kerckhoven	√	√	√	√	Apologies
B R van Rooyen	√	√	√	√	√
M J Willcox	√	Apologies	Apologies	√	√
P C Pienaar (Note 2)	√	√			√

Notes:

1) Mr E Molobi passed away on 4 June 2006.

2) Mr P C Pienaar is alternate to Mr B R van Rooyen.

Audit Committee

M E Beckett – Chairman
E T Kgosi (Ms)
R H H van Kerckhoven
M J Willcox

The Audit Committee comprises four non-executive directors one of whom is independent. The external and internal auditors have free access to this committee. The committee is scheduled to meet five times a year with management and the internal and external auditors to review the interim and preliminary reports, the annual financial statements and accounting policies, the effectiveness of the internal audit function, management information and other systems of internal control, and to discuss the auditors' findings and recommendations. In addition, the committee considers the use of the group's external auditors for non-audit services, where appropriate, and also approves the fees to be paid to the group's internal and external auditors. Although Mr M E Beckett is not regarded as an independent non-executive director (being a director of Mvelaphanda Resources, one of the group's major shareholders) the board considers that the experience and knowledge that he brings to the committee is such that it is appropriate that he continue to chair the committee.

During the year five meetings were held, with the attendance by the directors being as follows:

Audit Committee meetings	29 July 2005	2 Sept 2005	8 Nov 2005	12 Jan 2006	11 April 2006
M E Beckett	√	√	√	√	√
E T Kgosi (Ms)	√	Apologies	Apologies	√	√
R H H van Kerckhoven	√	√	√	√	√
M J Willcox	Apologies	Apologies	Apologies	Apologies	√

Internal audit function

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 in the effective discharge of 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. The internal audit function is undertaken on commercial terms by Anglo Platinum Management Services (Proprietary) Limited.

Internal control

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 installing 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 as to the reliability of the annual financial statements, that assets are safeguarded and that the risk of error, fraud or loss is reduced in a cost effective manner.

Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls has occurred during the year under review. Accordingly the financial records may be relied upon for preparing the financial statements and maintaining accountability for assets and liabilities.

Non audit services

The Audit Committee is required to approve the provision of non audit services by the group's external auditors.

Health, Safety and Environmental Committee

B R van Rooyen – Chairman
M E Beckett
N J Dlamini (Dr)
R G Mills (Alternate: F A Uys)

The Health, Safety and Environmental Committee comprises four non-executive directors. The committee, which is scheduled to meet four times a year, is tasked with overseeing compliance by the group with the various health, safety and environmental laws that affect the group, as well as advising the board on issues relating thereto.

Although Mr B R van Rooyen is not an independent non-executive director (being a director of Mvelaphanda Resources, one of the group's major shareholders) the board considers that the experience and knowledge that he brings to the committee is such that it is appropriate that he continue to chair the committee.

During the year four meetings were held, with the attendance being as follows:

Remuneration, Nomination and Employee Equity Committee

E T Kgosi (Ms) – Chairperson
N J Dlamini (Dr)
R Havenstein
T M G Sexwale

The Remuneration, Nomination and Employee Equity Committee comprises four non-executive directors and is scheduled to meet three times a year. On 14 June 2006 Ms E T Kgosi was appointed to the committee as chairperson following the death of Mr E Molobi.

The committee, in consultation where necessary, with management, ensures that the group's employees are fairly rewarded for their contribution to the group's performance. The group's remuneration philosophy is to ensure salaries and related benefits are competitive relative to other mining companies. Specifically, the committee, on behalf of the board, approves the employment contracts and remuneration packages of senior management, ratifies the appointment of senior management other than directors, and approves any short-term incentive schemes and bonuses, including the offer of options in terms of the rules of the Northam Share Option Scheme.

HSE meetings	2 Aug 2005	9 Nov 2005	31 Jan 2006	11 April 2006
B R van Rooyen	√	√	√	√
M E Beckett	√	√	√	√
N J Dlamini (Dr)	√	√	√	Apologies
R G Mills	√	√	√	Apologies
J R Johnston (Dr) (Note 1)				n/a
F A Uys (Note 1)	n/a	n/a	√	√

Notes

1) Alternate to Mr Mills. Mr Uys replaced Dr Johnson as Mr Mill's alternate with effect from 1 February 2006.

The group operates a number of short-term incentive schemes for its employees. In the case of senior employees, including any executive directors, the payment of bonuses is subject to certain safety, production and financial targets being exceeded. No bonuses are paid to non-executive directors.

In addition, the committee approves the mandate in regard to negotiations with trade unions and oversees implementation of and compliance with the requirements of the Employment Equity Act and the administration of the group'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.

Ms E T Kgosi, the committee chairperson is an independent non-executive director.

During the year three meetings were held, with the attendance by the directors being as indicated in the accompanying table.

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 recognition of the environment as a strategic asset;
- Applying the highest ethical standards in its dealings with customers and suppliers;
- Improving the quality of community life;
- Creating a climate free of conflict, discrimination and harassment;
- Engaging constructively and creatively with government bodies, labour organisations and non-governmental organisations (NGOs);
- Providing a channel through which grievances or breaches of the code can be dealt with without fear of victimisation.

*The unabridged code of ethics appears on the group's website: www.northam.co.za

Employees who contravene the Code are liable to face disciplinary action and depending on the nature of the contravention may also face civil or criminal action.

During the year the group took action against 80 employees for violations of the Code. This led to 44 dismissals and 14 cases referred to the SAPS. In three cases the charges were withdrawn. The remaining cases were dealt with in terms of the group's disciplinary procedures.

Communication

The group has a policy of communicating openly and regularly with its shareowners, employees and other stakeholders. 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 regular communication channels.

Closed periods

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

Remuneration, Nomination and Employment Equity Committee

Date of meeting	21 October 2005	5 May 2006	2 June 2006
E T Kgosi (Note 1)	n/a	n/a	n/a
E Molobi (Note 2)	Apologies	Apologies	Apologies
N J Dlamini	√	√	√
R Havenstein	√	√	√
T M G Sexwale	Apologies	√	√

Notes:
1) Ms E T Kgosi was appointed to the committee with effect from 14 June 2006.
2) Mr E Molobi passed away on 4 June 2006.

T M G Sexwale
Chairman

M E Beckett
Chairman –
Audit Committee

Johannesburg
15 September 2006