Social, ethics and human resources committee report

Owing to the requirements of the Companies Act No. 71 of 2008, Section 72(4) (Board Committees) (and subsequent additions under Companies Regulations No. 43 of 2011) for listed companies to have a social and ethics committee, the statutory mandate of such a committee has been added to that of the former remuneration, nomination and employment equity committee. The committee, formally established in February 2012, is now referred to as the social, ethics and human resources (SE&HR) committee.

Members of the SE&HR committee are Ms ET Kgosi (chairperson), Mr ME Beckett, Dr NJ Dlamini and Mr R Havenstein, all of whom are independent non-executive directors.

The aims and objectives of the committee are:

1. to comply with the Companies Act in terms of social and ethics obligations which includes the monitoring of:
   - compliance with the United Nations (UN) Global Compact's 10 principles on human rights, labour, the environment and anti-corruption;
   - anti-corruption measures in terms of recommendations made by the Organisation for Economic Corporation and Development (OECD);
   - Northam's performance as a good corporate citizen including promoting equality, the prevention of unfair discrimination, community development, sponsorship, donations and charitable giving;
   - the impact of Northam's activities on the environment, health and public safety;
   - consumer relationships; and
   - labour and employment in terms of the International Labour Organization's protocol on decent work and working conditions and Northam's contribution to the educational development of its employees.
2. to enable the board to establish and implement a remuneration policy that empowers the group to source, reward and retain appropriately skilled personnel;
3. to ensure that the group transforms adequately in order to comply with the Mineral and Petroleum Resources Development Act (MPRDA) and the Mining Charter in a manner that will enhance the group's performance; and
4. to ensure competent individuals are nominated and appointed as directors and senior managers of the group.

Social and ethics obligations

The committee's responsibility is to have oversight of, to monitor and where necessary to formulate group goals on environmental issues and to instil a culture of ethical behaviour within the group in line with the 10 principles set out by the UN Global Compact as well as OECD guidelines on corruption, the Labour Relations Act (LRA), Basic Conditions of Employment Act (BCEA), Employment Equity Act, the MPRDA and the Mining Charter.

In terms of its social and ethics obligations, the committee focuses on monitoring social and economic development goals and the effects of the group's activities, and ensures that these are sustainable. Group activities must display good corporate citizenship and stakeholder engagement with respect to labour and employment.

For F2012, the committee performed its duties in terms of these obligations and confirms that:

1. social and economic goals in terms of the 10 principles set out in the UN Global Compact are complied with.
2. good corporate citizenship is practised to promote equality, prevent unfair discrimination and to contribute towards the development

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of surrounding communities, in addition to sponsorships and donations.
3. the impact of Northam's activities and its products on health, public safety and the environment was minimised.
4. Northam seeks to promote cordial relationships with all its stakeholders. In the recent past the group has had to resort to the courts however to secure safe access to its property adjacent to the Booysendal mine. Further detail on this land invasion is provided in the 2012 sustainable development report.
5. labour and employment legislation in South Africa, and as far as possible the ILO's protocol on decent work are complied with. This includes the provision of housing as well as the de-densification of hostels at the Zondereinde mine. Relationships with the unions are amicable.
6. the Employment Equity report and plan were submitted and approved by the Department of Labour.
7. the OECD's recommendations against corruption have been taken into account by ensuring that management has effective internal controls.
8. generally accepted norms on the environment, labour and human rights have been adhered to. Northam is not aware nor is it complicit in any labour or human rights abuses or environmental damage.

The committee has monitored its obligations by:
- ensuring the group's corporate governance structure is effective and all board committees report appropriately and timeously to the board.
- ensuring that management is adequately qualified and equipped to ensure that internal controls over matters such as safety, production, financial transactions, legal obligations and environmental monitoring procedures are implemented, monitored and effective.
- implementing a code of ethics and 24-hour whistle blowing hotline, run by an independent party (KPMG), which employees are encouraged to use. Tip-offs are followed up and, where appropriate, disciplinary action is taken. In F2012 three reports were made on the hotline. These reports involved behavioural issues which were dealt with in line with group policies and procedures.
- ensuring there is adequate reporting by independent external assurance providers such as internal auditors, external auditors as well as environmental assurance providers. The main regulators, being the departments of mineral resources and of labour routinely inspect various aspects of Northam's business and/or activities which must comply with legislation.
- monitoring compliance with the legislative and regulatory conditions of operating a mining group in South Africa as reported in the corporate governance report.
- ensuring Northam's participation in industry initiatives undertaken by organisations such as the Chamber of Mines and the Platinum Task Team, which is convened under the auspices of the Mining Industry Growth Development and Employment Task Team (MIGDETT).

Human resources obligations

In terms of its mandate from the board, the SE&HR committee is also responsible for Northam's remuneration philosophy. Thus it is charged with the oversight of the group's compliance with the LRA, the BCEA and setting up various forms of remuneration.

The aims and objectives of the committee regarding remuneration are to establish and implement a remuneration policy and to ensure that competent individuals are nominated and appointed as directors and senior managers.

In order to do this, the committee has implemented the following three forms of remuneration which are monitored for effectiveness on an on-going basis:
1. salaries, including those of executive directors;
2. various bonus schemes;
3. a share incentive plan.

The committee is also responsible for mandating management on appropriate wage increase percentages for negotiation with the unions. It also advises on the following matters:
- the appropriate composition and size of the board;
- the scale of fees to be paid to non-executive directors, which are submitted to shareholders for approval.

The group's remuneration policy is designed to support its strategic goals in a way that aligns the interests of employees, managers, executives and directors with those of shareholders. The group aims to attract, retain, incentivise and reward top quality staff at all levels, particularly where scarce or critical skills are involved.

The remuneration policy is not intended to be a 'one size fits all' statement of rules and procedures, but rather to serve as the basis for a flexible approach to the variable and changing needs of the dynamic and competitive mining employment environment.

There are, however, a number of key principles that are the basis of the remuneration policy:
- the harmonisation of working conditions and salaries and wages throughout the group which has two mining operations, namely Booysendal and Zondereinde;
- the attraction and retention of core skills, such as artisans, engineers and management, for which the group must compete within the broader mining industry;
- compliance with all statutory and regulatory requirements and a commitment to applying best practice guidelines in all aspects of remuneration and benefits; and
- the offering of remuneration packages that, at all employment levels, are competitive, fair, reasonable and defensible in all respects.

Main features of the remuneration policy

The group regularly seeks and consults remuneration survey services and uses the Paterson job grading system.

Contracts of employment are prepared in compliance with employment legislation in South Africa. As a general principle, employment contracts are concluded on a permanent basis (i.e. for an indefinite period), except where business needs and prevailing circumstances dictate the use of either fixed-term or short-term temporary contracts. The notice period for the termination of employment contracts is typically one (1) month, but for critical positions this can be extended by mutual agreement to a maximum of one year.

Job grades, salary scales and employee benefit costs are benchmarked against mining industry standards and reviewed annually. The midpoints of the group's salary scales are compared to industry percentiles and adjusted annually, in line with the changing size, structure, financial performance and general circumstances of the group over time.

The group's salary scales have a range of approximately 40% (20% on either side of the midpoint) to allow for the appropriate positioning of individuals according to factors such as qualifications, experience, performance, growth, development and market imperatives. However, in

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a very competitive market where skills are scarce such as is the case of the mining industry, often market comparisons at the top of the range are considered and paid, in order to attract and keep critical staff.

The SE&HR committee approves salary increases for all categories of staff in advance each year. Any material changes to allowances, benefits, bonus schemes, or any other aspect of remuneration policy are approved by the committee prior to implementation.

The group provides a market-competitive basic salary plus compulsory medical aid and retirement fund membership at all job levels. Various fixed and variable allowances are paid at certain job levels or to certain job categories.

Severance payments upon termination of service are governed by legislation, union agreement, individual contract and/or group policy and practice. In the case of retrenchment, the group's standard policy at all job levels is to pay the contractual notice period (if not worked) and severance pay equal to one week's remuneration per year of service with the group.

The group does not provide any special retirement benefits other than the standard benefits available to employees as members of one of the group's recognised retirement funds, with the exception of those employees who were in service with the group on 31 December 1998. In respect of these employees, a contribution is made to a post-retirement healthcare fund. These contributions cease when the employee leaves the service of the group for any reason.

All components of the group's remuneration system are subject to regular internal and external audits, as well as routine monitoring by the South African Revenue Services. The group is compliant with all pertinent regulations.

Employees covered by collective bargaining

The majority of the group's employees are contributing members of the National Union of Mineworkers and Solidarity (category 9 and 10 bargaining units). As such, their salary levels, annual increases, allowances and benefit packages are negotiated annually or every two years, on a collective basis, between the group and these trade unions that meet a representivity threshold of 33.3% within a bargaining unit.

Such employees, in addition to their wages, also earn various forms of bonuses from time to time to incentivise performance.

Non-union staff and management

Members of management at both the group's corporate office and the mining operations are treated individually in accordance with their contracts of employment and the remuneration and benefit schemes and practices applicable to their job grades. Salaries are reviewed annually, effective on 1 July. Salary increases are determined individually, according to individual performance, retention and market-matching criteria.

All non-union staff, managers and executives have detailed job profiles which stipulate the key performance areas of their positions and serve as the basis for performance and management of assessments and the determination of performance-linked salary increases and bonuses.

Details of the remuneration paid to directors are disclosed in the directors' report on pages 84 to 85 of this integrated report.

Employee bonuses

The group has a variety of bonus schemes for employees graded in the C band and higher, whereby the achievement of production and other targets is rewarded.

Executive and management bonuses

Executives and management are not paid a guaranteed bonus. The short-term cash bonus scheme is subject to the achievement of certain safety, production and other targets as well as individual performance.

In terms of the rules of the bonus scheme, executives may earn a bonus based on the extent to which they have achieved the targets and objectives set for them during the financial year by the chief executive officer and the board of directors. Bonuses are payable half-yearly.

Typically, the bonus scheme will be based on a combination of targets such as:

- safety,
- linear metres achieved,
- square metres achieved,
- total tonnes milled,
- recoverable metals produced,
- cash operating costs per unit, and
- personal performance.

Such key performance areas are weighted to total 100% and the bonus is payable on the basis of the extent of achievement of each of these targets, starting at 90% of achievement up to 110%. Depending on the extent of achievement, bonuses payable range from 5% of basic remuneration package for a 90% achievement of target to 125% for 110% achievement of target for each key performance indicator multiplied by its relative weighting.

BRP represents the remuneration paid to senior employees excluding the 12.5% pension contribution paid by the group. On average, executive directors and senior managers were paid 37% of their BRP in bonuses in F2012.

The board of directors, through the SE&HR committee, determines the performance targets and objectives of the chief executive officer and the financial director, conducts their performance assessment and decides the quantum of their performance bonus. The financial director's performance is evaluated with the input of the chief executive officer.

The chief executive officer and the SE&HR committee determine the performance targets and objectives of the executive directors and managers, conduct their performance assessments and propose the quantum of performance bonuses for approval by the board of directors.

Long-term executive retention scheme and plan

The group operates the Northam Share Option Scheme (the scheme) as well as the Northam Share Incentive Plan (the plan), details of which are more fully disclosed in Annexure 5. The scheme has been discontinued owing to its dilutionary nature although share options issued before its discontinuance will be allowed to run their course. The plan however is a newer incentive plan introduced in 2011, in line with current market trends of attracting, incentivising and retaining skilled senior managers. The target group for the plan includes all senior officials and executives in job grades D1 and above. The SE&HR committee approves the annual allocation of shares as well as any changes to the plan rules.

THE SCHEME

In terms of the scheme, options were offered at the volume weighted average price at which Northam shares traded on the JSE on the trading day immediately preceding the offer date. In terms of the rules of the scheme, option holders may exercise 50% of their options two years after the offer date and 100% of their options three years after the offer date. Options not exercised within seven years of the offer date shall lapse.

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THE PLAN

In terms of the new plan, senior officials are allocated shares in terms of the share incentive plan which incorporates a combination of the conditional share plan (CSP) and the forfeitable share plan (FSP). Under the more often used CSP, a smaller portion (approximately one-third in 2011) of the shares is allocated to senior employees. These are known as 'retention' shares and are allocated with no performance conditions attached. These are received by the employee, who does not have to pay for them, and may be exercised after a two-year period. A larger portion of the shares allocated, known as 'conditional' shares, have performance conditions attached to them, and these conditions must be met, fully or in part, before they can be allocated. These conditional shares are also free to the employee. The conditional shares vest after a three-year period. The key features common to both the CSP and FSP are outlined in detail in the directors' report.

As mentioned above, the final number of conditional performance shares allocated to senior officials and management are subject to certain performance criteria which must be met fully or in part. These performance criteria are based on factors such as:

- safety,
- estimated recoverable platinum group metals (3PGM+Au), and
- unit cash costs.

Each of these factors are weighted with targets set for a three-year period. For staff to earn their allocation, each factor's target must be measured per year, over a three-year period. Allocations are made annually, depending on the extent of the targets met in that year.

However, for each three-year period, the SE&HR committee may set different factors, targets and weightings as appropriate. A typical target for safety might be an improvement of 10% over the previous financial year's safety record, with a weighting of say 30%. For unit cash costs, the target may be achieving the budgeted unit costs for the current year with a weighting of 30%. Estimated recoverable metals may then, in this example, be weighted at 40%, with the sum of the weightings totalling 100%.

On measurement of the achievement or not of these targets, each factor's achievement rank depends on the extent of achievement for each factor and for that year, ranging from a ranking of 1 (which represents a 90 to 100% achievement of target). This could mean, for example, a 100% award of conditional shares. This rises to a ranking of 4, which, for example might be an achievement of over 105%, which may equate to a share award of up to 135%. An achievement of less than 90% of target results in no shares being allocated at all. Every year the SE&HR committee, with the assistance of management, assesses the allocation of both retention and conditional performance shares per employee.

Employee participation scheme (Toro Trust)

The group has entered into an agreement with the representative unions at Northam's Zondereinde mine in terms of which the group contributes 4% of its after-tax profits to a registered trust fund (The Toro Employee Empowerment Fund), providing the unskilled and semi-skilled employees of Zondereinde with an opportunity to participate in group profits. Eligible employees will receive payment at the end of each five-year cycle, beginning in F2013.

Emily Kgosi, chairman

Johannesburg

28 September 2012