

REPORT OF THE SOCIAL, ETHICS AND HUMAN RESOURCES COMMITTEE

The Companies Act No 71 of 2008 (Companies Act) requires that certain companies, of which Northam is one, constitute a social and ethics committee with statutory duties, which must report to shareholders at an annual general meeting (AGM). The company's social, ethics and human resources (SE&HR) committee is responsible for these statutory duties.

The current members of the SE&HR committee are Ms TE Kgosi (chairperson), Mr ME Beckett and Mr R Havenstein, all of whom are independent non-executive directors. Dr NJ Dlamini resigned as a member on 30 September 2013.

The main functions of the SE&HR committee are remuneration, nomination, transformation and, as set out in the Companies Act, the monitoring of the company's activities with regard to the social and ethics statutory requirements.

SE&HR COMMITTEE TERMS OF REFERENCE

The committee's terms of reference is available on the Northam website at www.northam.co.za and the aims and objectives of the committee are:

- to enable the board to establish and implement a remuneration policy which empowers the group to source, reward and retain skilled personnel;
- to advise on salaries, bonus schemes and share incentive plans;
- to ensure the appointment of competent directors and senior managers;
- to ensure that the group transforms adequately in order to comply with the Minerals and Petroleum Resources Development Act (MPRDA) and Mining Charter in a manner that will enhance the group's performance;
- to comply with the Companies Act in terms of social and ethics obligations which includes the monitoring of;

- Northam's performance as a corporate citizen, including promoting equality, prevention of discrimination, development of communities, sponsorship, donations and charitable giving;
- the impact of Northam's activities on the environment, health and public safety;
- compliance with the United Nations (UN) Global Compact's 10 principles on human rights, labour, the environment and anti-corruption;
- compliance with the Organisation of Economic Co-operation and Development (OECD) recommendations on anti-corruption;
- consumer relationships, including Northam's advertising, public relations and compliance with consumer protection laws, and
- labour and employment in terms of the International Labour Organisation's (ILO) protocol on decent work and working conditions and Northam's contribution to the training and development of its employees.

SOCIAL AND ETHICS STATUTORY OBLIGATIONS

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 business activities are required to manifest sound corporate citizenship principles, and fair labour practices.

For the financial year 2014, the committee performed its duties in terms of these obligations and confirms that:

- a) 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;
- b) social and economic development goals in terms of the 10 principles set out in the UN Global Compact are complied with;

REPORT OF THE SOCIAL, ETHICS AND HUMAN RESOURCES COMMITTEE

CONTINUED

- c) that sound corporate citizenship principles are pursued in the promotion of equality, the prevention of discrimination and the development of surrounding communities;
- d) in its activities the company has taken appropriate measures to minimise the impact of its activities and products on health, public safety and the environment;
- e) Northam seeks to promote cordial relationships with all its stakeholders; and
- f) labour and employment legislation in South Africa, and as far as possible the ILO's protocol on decent work are complied with. The OECD's recommendations against corruption have been taken into account by ensuring that management has effective internal controls.

The committee has sought to fulfil its obligations by ensuring:

- that the group's corporate governance structures are effective and all board committees report appropriately and timeously to the board;
- that the evaluation of the board, assessment of the board chairman and individual directors, the independence test prescribed by King III for directors classified as independent who have been on the board beyond nine years, and the evaluations of the board committee are undertaken annually;
- the appointment of competent directors and senior managers;
- that management is adequately qualified and equipped so that internal controls over such matters such as safety, production, financial transactions, legal obligations and environmental

monitoring procedures are implemented, monitored and effective;

- there is adequate reporting by independent external assurance providers such as internal and external auditors as well as environmental assurance providers. The main regulators, the DMR and the Department of Labour (DoL) routinely inspect various aspects of the business and/or activities which must comply with legislation; and
- Northam's participation in mining 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 STATUTORY OBLIGATIONS

The committee is charged with the oversight of the group's compliance with the Labour Relations Act (LRA), the Basic Conditions of Employment Act (BCEA) and implementation of various forms of remuneration.

Amend Social and Labour Plans (SLP) for Booyssendal and Zondereinde mines were submitted to the DMR in December 2012. Formal approvals are still outstanding, given administrative delays in the processing of these documents.

Over the past 12 months the Mining Qualifications Authority (MQA) conducted an audit at Zondereinde on Northam's systems department. The audit did not reveal any areas of non-compliance.

The committee is also responsible for the remuneration philosophy within the Northam group in terms of its mandate from the board.

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 oversees and monitors the group's remuneration criteria and methods. Remuneration takes the form of:

1. appropriate salary packages, including those of the executive directors which incorporate basic pay and pension contribution benefits;
2. various bonus schemes;
3. a share incentive plan launched in 2011 which replaced a share option scheme.

The committee is also responsible for mandating management on appropriate wage increase thresholds for union negotiations and advises on the following matters:

- the appropriate composition and size of the board; and
- 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 goal 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, in particular 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 attraction and retention of core skills, such as artisans, engineers and management, for which the group must compete within the broader mining industry;
- the harmonisation of working conditions and salaries and wages throughout the group at both of its wholly-owned and managed mining operations;
- 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 in all respects.

MAIN FEATURES OF THE REMUNERATION POLICY

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 month, but for critical positions this can be extended by mutual agreement to a maximum of one year.

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

REPORT OF THE SOCIAL, ETHICS AND HUMAN RESOURCES COMMITTEE

CONTINUED

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 with 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 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 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, agreements with unions, individual contract and/or group policy and practice. In the case of retrenchment, the group's most common

policy at all job levels is to pay the contractual notice period (if not worked) and severance pay equal to two weeks for the first 10 years of service with the group and one week's remuneration per year of service with the group thereafter.

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 committee is satisfied that the group is compliant with all pertinent regulations.

EMPLOYEES COVERED BY COLLECTIVE BARGAINING

The majority of the group's permanent employees at Zondereinde are contributing members of NUM (primarily in the category 2 to 10 bargaining units). Therefore, their salary levels, annual increases, allowances and benefit packages are negotiated on a collective basis. NUM has been granted organisational rights at Booyssendal. The company's labour relations policies provide for organisational rights to any union which can meet a 15% representation threshold within a bargaining unit. When a registered union reaches a

representative threshold of 33.3% within a bargaining unit, it acquires the right to bargain for that particular unit. A small proportion of permanent employees (approximately 23%) are contributing members of NUM at Booyseindal.

The group aims to engage in good faith to reach agreement on matters such as wages, substantive conditions of service and other matters of mutual interest. See pages 102 – 105 of this report for further information.

In addition to their wages these employees also earn various forms of bonuses 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 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 the directors are disclosed in the directors' report on page 142 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 senior officials' bonus scheme

Executives and senior officials are not paid a guaranteed bonus. The bonus scheme is subject to the achievement of certain safety, production and other criteria or 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, the SE&HR committee 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 advanced;
- square metres mined;
- total tonnes milled;
- recoverable metals produced;
- cash operating costs;
- transformation (referring to social employment quotas/criteria that must be met in terms of employment legislation in South Africa); and
- personal performance.

REPORT OF THE SOCIAL, ETHICS AND HUMAN RESOURCES COMMITTEE CONTINUED

The tables below indicate the performance targets or criteria for the F2014 bonuses:

Performance criteria: Zondereinde and corporate office	Unit	Weighting %
Safety	LTIIR/TIIR	30
Linear metres	m	10
Square metres	m ²	10
Total tonnes milled	tonnes	10
Recoverable metals	kg	15
Cash operating cost	R000s	15
Personal performance	Rating	10
		100

Performance criteria: Booyseendal	Unit	Weighting %
Safety	LTIIR	20
Linear metres – decline	m	30
Square metres	m ²	10
Total tonnes milled – ROM	tonnes	5
Sweeping and vamping	tonnes	5
Recoverable metals – ROM	kg	5
Cash operating cost	R000s	15
Personal performance	Rating	10
		100

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 (BRP) for a 90% achievement of target to 125% BRP for 110% achievement of target for each key performance indicator multiplied by its relative weighting.

Payment and frequency of senior officials' bonus scheme

Bonuses are paid twice annually based on the actual results achieved for the six months ending December and June.

75% of the calculated bonus is paid for each six month period with the balance of 25% being based on the results for the full year.

Based on the cost to company (CTC), being the basic remuneration package plus pension contribution, the average group bonus paid under this scheme was 32.9% of CTC in F2014

Retention bonus scheme

In terms of this scheme, which is designed to retain employees in the highly competitive South African mining environment characterised by a dearth of skills, an amount equal to 20% of the annual BRP is paid after two years' service in which it was accumulated. Any employee who is discharged or resigns before such bonus becomes payable forfeits all amounts accumulated. On retirement or retrenchment all accumulated bonuses are payable to employees. Employees taking early retirement will receive bonuses based on the same percentages as the Share Incentive Plan rules.

All officials within the D3 Patterson grading and higher are eligible to participate in the scheme. Bonus payments are not pensionable.

The board of directors, through the SE&HR committee, determines the performance targets and objectives of the chief executive and the chief financial officer, conduct their performance assessments and decide the quantum of their performance bonuses. The chief

executive also has input into the evaluation of the chief financial officer.

The chief executive and the SE&HR committee determine the performance targets and objectives of the chief financial officer and senior managers, conduct their performance assessments and determine 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 Incentive Plan (the Plan) as well as the previous Northam Share Option Scheme (the Scheme). The Scheme has been discontinued owing to its dilutionary nature, although share options issued before its discontinuance will be allowed to run their course. Details of the Scheme are more fully disclosed in Annexure 5 on page 260. The Plan was 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 committee approves the annual allocation of shares as well as any changes to the Plan rules.

In March 2013 the JSE approved a change to the rules of the Scheme and the Plan. Option holders may elect to receive either the shares over which an option has been granted or a cash payment equivalent to the difference between the volume weighted average price at which Northam shares traded on the day preceding the exercise date and the exercise price. Participants in the Plan may elect to receive either the shares that have vested or an amount equal to the volume weighted average price on the day preceding the settlement date.

REPORT OF THE SOCIAL, ETHICS AND HUMAN RESOURCES COMMITTEE CONTINUED

At the forthcoming annual general meeting shareholders will be asked to approve certain changes to the rules of the Plan, the principal ones being to change the maximum number of shares that may be awarded under the Plan is limited to 5% (previously 10%) of the issued share capital, equating to approximately 19.9 million shares, the maximum number that may be awarded to any single employee in any cycle is limited to 0.5%, equal to approximately 2.0 million shares.

In addition

- in order to avoid any future dilution, all shares will either be cash-settled or equity settled through purchases in the open market;
- retention shares will vest after three years (increased from two years);
- retention shares will be limited to no more than 25% (decreased from 33.3%) of total awards or grants going forward;
- measurement of performance conditions on share awards for F2015 and thereafter will be made over a three year period rather than split in three-year lots measured on an annual basis; and
- performance conditions or criteria for the F2015 awards and thereafter will include one or two rate-of-return related target/measures (Total Shareholder Return and or Return On Investment or related target) with a weighting of no less than 30%.

In terms of the Plan, which incorporates a combination of the conditional share plan (CSP) and the forfeitable share plan (FSP) senior officials are awarded shares annually. Under the more often used CSP, a combination of retention and conditional shares are awarded. The smaller portion (no more than 25% of total award) of the shares are awarded or granted, known as “retention” shares and are awarded 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 three-year period. The larger portion of the shares awarded, known as “conditional” shares (at least 75% of the total award), 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 also 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. The performance criteria are based on factors such as:

- safety;
- estimated recoverable platinum group metals (3PGM+Au) produced, and/or
- unit cash costs; and
- rate of return measures/targets (for the F2015 and thereafter awards).

Each of these factors is weighted with targets set for a three-year period. For staff to earn their allocation, each factor's target must be measured over the three-year period. For each three-year period's award, the 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 25%;
- for unit cash costs, the target may be achieving the budgeted unit costs for the current year with a weighting of 20%;
- estimated recoverable metals production may then, in this example, be weighted at 25%;
- from F2015, a rate of return measure (such as Total Shareholder Return and or Return On Investment or related target), with a weighting of at least 30%; and
- with the sum of the weightings totalling 100%.

On measurement of the achievement of these targets, each factor's "achievement" rank depends on the extent of achievement for each factor over the three-year period, 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; and
- this rises up 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 committee, with the assistance of management, assesses the allocation of both retention and conditional performance shares per employee.

The first three-year cycle post the launch of the Plan in 2011 will only be completed in November 2014 at which time the performance conditions will then be finalised, with the result determining the allocations of shares that can then vest. The retention awards of F2011 have however vested.

EMPLOYEE PARTICIPATION SCHEME (TORO EMPLOYEE EMPOWERMENT TRUST)

The group operates an employee profit share scheme for eligible employees at the Zondereinde mine in terms of which 4% of Zondereinde mine's after-tax profits are contributed to a registered trust fund (The Toro Employee Empowerment Fund). Eligible employees who form part of categories 2 – 10 receive payment at the end of each five year cycle, with the first payments having been made in F2013. Consideration is being given to extending the scheme to the Booysendal mine employees.