

SOCIAL, ETHICS AND HUMAN RESOURCES COMMITTEE REPORT

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

The aims and objectives of the committee are:

- to comply with the Companies Act in terms of social and ethics obligations which includes the monitoring of:
 - Northam's performance as a good corporate citizenship including promoting equality, prevention of unfair 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;
 - 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;

- to ensure that competent individuals are nominated and appointed as directors and senior managers of the group;
- to enable the board to establish and implement a remuneration policy that empowers the group to source, reward and retain appropriately skilled personnel; and
- to ensure that the group transforms adequately in order to comply with the Mining and Petroleum Resources Development Act (MPRDA) and Mining Charter in a manner that will enhance the group's performance.

SOCIAL AND ETHICS STATUTORY OBLIGATIONS

The company has obligations, which the committee has an oversight responsibility, to perform and to monitor for compliance, 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 the OECD's anti corruption guidelines, the United Kingdom Bribery Act, 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 the financial year 2013, 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;
- c) good corporate citizenship is practiced to promote equality, prevent unfair discrimination and it contributes towards the development of surrounding communities in addition to sponsorships and donations;
- d) the impact of Northam's activities and its products on health, public safety and the environment was minimised;
- e) Northam seeks to promote cordial relationships with all its stakeholders;
- f) 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-intensification of hostels at the Zondereinde mine. The Social and Labour Plans (SLPs) for Booysendal and Zondereinde mines were submitted to the Department of Mineral Resources (DMR) together with Section 102 of the MPRDA; and
- g) the OECD's recommendations against corruption have been taken into account by ensuring that management has effective internal controls.

The committee has monitored its obligations by:

- ensuring the group's corporate governance structures are effective and all board committees report appropriately and timeously to the board;
- ensuring 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;

- ensuring 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;
- 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, the DMR and the Department of Labour (DoL) routinely inspect various aspects of Northam's business and/or activities which must comply with legislation; and
- 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 STATUTORY OBLIGATIONS

The committee is charged with the oversight of the group's compliance with the LRA, the BCEA and implementation of various forms of remuneration. Both the DoL and the DMR have inspected Northam in the last 24 months. After its inspection, the DoL made certain remedial recommendations which Northam has since complied with. The DoL has confirmed that compliance has been maintained. The DMR visited both mine operations in 2012. The visits focused on progress made against the approved SLP for each mine. These audits resulted

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in the receipt of Section 93 notices for each mine. These notices requested that key elements of the SLPs be revisited in line with the then current economic trends and social conditions in the sector. Section 102 applications to realign the current approved SLPs for each mine were requested by the DMR. These were submitted in December 2012. Approval is still awaited.

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

The aims and objections 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 supervises the following three forms of remuneration implemented by management. These are monitored for effectiveness on an on-going basis:

1. salaries and remuneration packages, including those of the 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; 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, 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 which has two mining operations, namely Booyssendal and Zondereinde;
- 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 and 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 (1) 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 an appropriate job grading system.

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 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 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 (NUM) (mainly category 2 and 8 bargaining units). Therefore, their salary levels, annual increases, allowances and benefit packages are negotiated annually or every two years, on a collective basis, between the group and the trade union that meet a representative threshold of 33.3% within a bargaining unit. The other unions, (UASA, Solidarity, and the Association of Mineworkers and Construction Union (AMCU)) do not have adequate representation to bargain on behalf of their members at present.

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

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to incentivise performance. These bonuses are implemented and monitored by management.

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 83 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;
- transformation (referring to social employment quotas/criteria that must be met in terms of employment legislation in South Africa); 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 (BRP) for a 90% achievement of target to 125% of BRP 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 30.4% of their BRP in bonuses in F2013.

The board of directors, through the SE&HR committee, determines the performance targets and objectives of the chief executive officer and the financial director, and 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 financial director 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 Incentive Plan ("the Plan") as well as the previous Northam Share Option Scheme ("the Scheme"). The Scheme was discontinued due to its dilutionary nature, although share options issued before its discontinuance are allowed to run their course. Details of the Scheme are more fully disclosed in Annexure 5 on page 178.

The Plan however 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. Options which are cash settled are regarded as having been exercised. 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.

In terms of the Plan, senior officials are allocated shares which incorporate either one or a combination of the conditional share plan (CSP) and the forfeitable share plan (FSP) annually. Under the more often used CSP, a smaller portion (approximately one-third in 2012) 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. The performance criteria is based on factors such as:

- safety;
- estimated recoverable platinum group metals (3PGM+Au) produced; and /or
- unit cash costs.

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 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 allocation, 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

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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 production 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 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 and approves the allocation of both retention and conditional performance shares per employee.

EMPLOYEE PARTICIPATION SCHEME (TORO EMPLOYEE EMPOWERMENT TRUST)

The group has entered into an agreement with the representative unions at the Zondereinde mine in terms of which the group contributes 4% of Zondereinde mine's after-tax profits to a registered trust fund (The Toro Employee Empowerment Fund), providing Zondereinde mine's unskilled and semi-skilled employees with an opportunity to participate in the profits of the mine. Eligible employees will receive payment at the end of each five year cycle, with the first five-year cycle ending in FY2013. A similar scheme may be considered for Booysendal mine employees in future.

Emily Kgosi

Chairperson
Johannesburg
27 September 2013