

# **WESCOAL**

**WESCOAL HOLDINGS Ltd**  
**Registration Number: 2005/006913/06**

**REMUNERATION POLICY STATEMENT**  
**AS AT 31 MARCH 2020,**  
**including information for the 2021**  
**financial year**

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## Introduction

The remuneration policies that were formalised in 2020 to govern remuneration practices of the Group during the 2021 financial year are defined under the headings contained in the table of contents.

### 1 The governance of remuneration

- 1.1 The Remuneration Committee (“RemCo”) is responsible in an advisory and oversight capacity for the development and administration of remuneration policy at all levels within the group in terms of its mandate from the Board of Directors (“the Board”) of Wescoal Holdings Limited (“Wescoal” or “the Company”).
- 1.2 The primary source of reference as to the responsibilities of RemCo is its mandate from the Board.
- 1.3 These responsibilities extend to an oversight of the implementation of remuneration policy within all business units and subsidiary companies and of proper governance of remuneration across the organisation.
- 1.4 This responsibility is discharged by the dissemination of this Remuneration Policy Statement to directors serving on RemCo annually in advance and by the adoption of policies in line with it by the Boards of Directors of all companies within the Wescoal group of companies (“the Group”).
- 1.5 The remuneration policy of a subsidiary company may differ from the Group policy where this is considered by the board of that subsidiary to be necessary or desirable in order to respect the interests of the minority shareholders of the subsidiary company, or to take account of local conditions and best practices in the particular sector of activity.
- 1.6 The responsibility for the fair and equitable implementation of remuneration policy within each subsidiary company lies with the Chief Executive Officer (“CEO”) of that company, assisted by its human resources executive.
- 1.7 RemCo is required to observe the specific requirements of the King Report on Corporate Governance (2016) (King IV) insofar as these relate to remuneration practices in South Africa.

### 2 The remuneration philosophy

- 2.1 The Company has put together a competent team of senior executives and professional staff during the past few years and in particular the last 12 months. These employees need to be retained in order to implement the new Company strategy that was introduced during the 2019 financial year, and the retention policy must recognise this. The dispensation that is offered to them must also be reinforced by the financial reward system itself, which must be built on a platform of sound remuneration policies which are designed to attract, motivate and retain employees of the calibre that are needed to achieve its objectives on an ongoing and sustainable basis.

- 2.2 As the Company focuses on scaling its coal resource to better its competitive position in coal production, and being a low-cost producer, the Company requires the best and most efficient human resources. The Company's objectives include absorbing the "best-in-class" into a "best-in-class" environment.
- 2.3 A primary principle to be observed is that remuneration policies at the senior executive level must be defined on the basis of a substantial dependency on satisfactory financial results, but with a focus too on the concomitant environmental, social and governance factors that are identified by the Social and Ethics Committee of the Company during the year, which may include the Broad Based Black Economic Empowerment (B-BBEE) project.
- 2.4 Compliance with safety regulations will continue to be recognized as an absolute condition for all operations, and breaches of safety regulations may result in the forfeiture of bonuses.
- 2.5 Another feature of the Wescoal remuneration philosophy is the focus on both individual and team-based performance, recognizing the dual roles of leadership and team support within the context of a production environment. Both are considered important and both are recognised and rewarded at all levels.
- 2.6 Incentives are defined independently with reference to the short-term and the long-term, recognising that there are these different time-linked perspectives when assessing the performance of a production facility such as a mine.
- 2.7 With effect from the 2021 financial year, all incentive schemes include malus and clawback provisions that will enable the Company to recover incentive scheme pay-outs where misstatements, or any corruption or fraud, have occurred.
- 2.8 Finally, RemCo will take steps in relation to each business unit at periodic intervals to confirm that it has a retention strategy in place – ensuring that it will always have a fully competent top management team at its helm at all times.
- 2.9 This remuneration philosophy is extended into the Group subsidiary companies by the representation of group executives on the boards of directors and standing committees of the subsidiary companies.

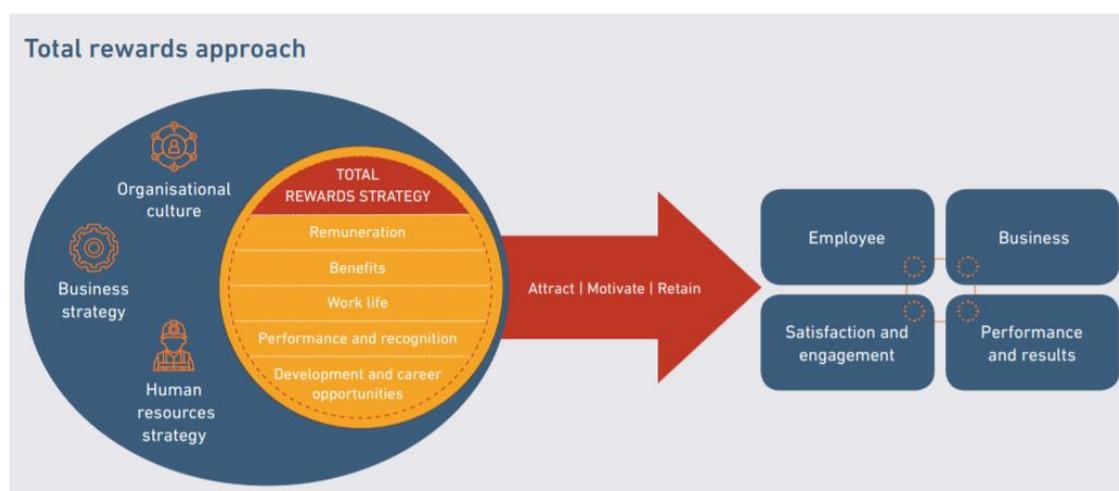
### **3 The development of the remuneration policy**

- 3.1 With reference to the remuneration philosophy, the following principles are observed by the RemCo in the development of remuneration policy:
- Remuneration offered to employees at all levels must be fair and market-related and defined within packages that are successful in motivating and retaining key employees in key positions;
  - Variable pay should be on a meaningful scale so as to influence behaviour and reward any special contribution by employees but should, at the same time, achieve an appropriate balance between organisational goals and environmental, social and governance factors in the economy; and
  - There should be a policy focus on both individual and team-based performance, recognising

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the dual roles of leadership and team support within the context of a production environment.

- 3.2 Remuneration policies will continue to evolve from year to year on the basis of interaction between the most senior Human Resources (“HR”) executives within business units and the group HR executive on the one hand and the Group CEO on the other.
- 3.3 A major change precipitated by King IV is the requirement that “remuneration policy at all levels” should be approved by the boards of all affected companies and submitted to shareholders for a non-binding vote. This means in effect that all forms of incentives and profit-sharing require are to be approved in principle by shareholders in advance. No discretionary bonuses are permitted unless that discretion is exercised objectively and within the rules of a formally approved performance management system.
- 3.4 In addition, in the spirit of the requirement of King IV for advance approval of the senior executive dispensation, the Company Secretary will be requested to approach investors who cast a dissenting vote at the 2020 Annual General Meeting (AGM) – in order to ascertain whether their objections can be answered to their satisfaction. They will be invited to attend a special meeting to be chaired by the chairperson of RemCo. It is anticipated that ongoing interaction of this kind with shareholders in the future will help RemCo to develop remuneration policies which conform to international standards in every respect.
- 3.5 Finally, RemCo, or the RemCo of subsidiary companies will be permitted to appoint outside consultants in order to establish market benchmarks, and/or grade employee positions, and/or advise on particular aspects of remuneration policy, at the discretion of the committee concerned.
- 3.6 The total rewards approach could be depicted as follows:



## 4 Forms of remuneration

- 4.1 Three different forms of remuneration may be negotiated with employees, including:
- a guaranteed pay (“GP”) package, which includes retirement funding and medical aid benefits, and is used as the base for other forms of remuneration;

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- a performance-based short-term incentive in the form of a performance bonus or a production bonus; and
- a long-term share-based incentive.

4.2 The Paterson job evaluation and grading system is used to grade positions and regulate remuneration policy. To this end, the total cost of employment of each employee, which includes both fixed and variable components of pay, is controlled based on pay-scales that are reviewed annually and aligned with the medians given by market surveys.

4.3 As a general rule, variable pay (“VP”) will be granted on a greater scale to employees who put more of their guaranteed pay at risk in relation to the achievement of targets compared to others. The following table depicts the approved target profile of package structures for the 2021 financial year:

Element of package (% of TCE)	Executive directors	Other senior executives	Senior line managers and professional staff	Technical specialists	Admin support staff	Workers
Paterson grade (bands)	F	D5 and E	D2 to D4	C	C	A and B
Annual total package	60	70	80	92	92	92
STI at target	40	30	20	8	8	8
Total cost of employment	100	100	100	100	100	100
Maximum STI	80	60	40	16	16	16*
Fair value of LTI on date of grant	40	30	20	-	-	-

\*Subject to negotiation

4.4 Individual performance is recognised by a performance management system which is linked to the financial reward system through the graduation of performance ratings above and below approved target levels.

4.5 In addition, a merit increment grant policy formally allows for employees to be appointed at levels of pay below median, but they receive additional increases above the general increase every year provided they meet expectations until their pay is in line.

4.6 Employees earning at or above median levels may be granted additional increases to the extent that specialised skills are developed or special contributions made exceeding expectations.

## 5 Guaranteed pay policy

5.1 The employment of an employee within the Wescoal Group will be the subject of open and fair negotiations. It will be regulated contractually and made subject to standard terms and conditions approved by the RemCo of the board of the company concerned. These terms and conditions should in turn be approved by the labour lawyers of the company.

5.2 For the purposes of the employment contract, GP should be defined on the basis of an Annual Total Package (“ATP”) inclusive of company contributions to pension and medical aid funds and of travel allowances.

5.3 All subsidiary companies within the Group are expected to adopt a grading system for the

purposes of determining and controlling GP in a fair and equitable way. The system to be adopted should be the formally approved Wescoal grading system; alternatively, a grading system that is selected by the CEO of the subsidiary company in conjunction with a table by which the grades of that system can be correlated with those of the Wescoal system.

5.4 GP should be maintained at market-related levels in order to serve as a base figure for the fair measurement of pension fund contributions and variable pay. To this end the following five principles will be observed:

- In the case of senior executives as defined, the ATP negotiated upon appointment or renegotiated at the commencement of each financial year, should be fixed at a level recommended by the Group CEO (and approved by RemCo) which is considered to be fair and equitable in relation to other incumbents having the same grade, using the median level of GP based on a reliable salary survey as the link to a competency-based table with notches above and below the median for this purpose.
- A merit increment grant policy will be observed in terms of which an incumbent who is being remunerated at a level below the median will receive a notch increase for every year of service in relation to which he or she receives a performance rating of having met expectations until he or she reaches the median; whilst an incumbent being remunerated above the median will receive a notch increase for every year of service in relation to which he or she receives a performance rating of having exceeded expectations.
- In the case of other employees, the same principles will be observed, save that
  - (a) employees may be appointed at levels of GP lying below the median where they are to participate in a training programme, and
  - (b) the level of GP to be negotiated will require to be approved by the Group CEO and not by the RemCo.
- General increases in level of GP may be proposed by the Group CEO on an annual basis coinciding with the financial year-end of the Company to the RemCo, but will be subject to the approval of the Board, whilst merit-based increases will be considered during the month of July in every year after the financial records of the company for its previous financial year have been audited and the corporate performance targets of the Company for previous financial year confirmed.
- Agreements concluded with a recognized trade union or bargaining forum will be respected and implemented and will override the above principles where in conflict therewith.
- Benchmarking should be undertaken in the case of senior executives as defined at annual intervals. For these purposes, RemCo should decide on the appropriate remuneration survey to be used and define whether the comparisons should be at the level of total remuneration inclusive of incentives at target, or alternatively at the level of GP with incentives then separately benchmarked. Peer comparisons may be used by RemCo in order to study the levels of pay of particular competing organisations but should not be used on account of the low level of statistical reliability as the basis for establishing the ATP of individual senior executives.

## 6 Performance review process and variable pay policy

- 6.1 Competitive remuneration linked to performance and shareholder value creation underpins the Company's high-performance culture philosophy.
- 6.2 In 2020, the Company approved terms of reference to effect amendments to be in line with the Company's improvements. In a predefined framework, the Company monitors performance across a range of predetermined, contracted objectives that are structured into the variable pay policy.
- 6.3 Management is remunerated for achieving the following:
- Zero harm and licence to operate conditions;
  - Financial and shareholder value sustainability;
  - Operational and customer sustainability; and
  - Transformation.
- 6.4 For the 2021 financial year, strategic emphasis and priority is placed on enabling the business to operate at a steady state level, focusing on stability (sustained and predictable performance levels), sustainability (achieve licence to operate and zero harm) and scalability (growth).
- 6.5 These business imperatives are embedded in a performance contract framework that concentrates on:
- stabilising the business while setting the capacity and capability to move towards the future role of the Company;
  - increased ownership as all strategic initiatives are allocated to an executive or manager and he/she is contracted accordingly; and
  - increased accountability – performance will be measured and periodically reviewed.
- 6.6 The DNA of the variable pay policy for the 2021 financial year is anchored by:
- market P50 as a determining variable;
  - the incorporation of a short- and long-term incentive combination;
  - performance-based metrics differentiated by output and capped; and
  - the clawback clause in the phantom share LTI scheme in alignment with best practice.
- 6.7 The remuneration packages of senior executives are benchmarked annually by the committee on the basis of a reputable salary survey. The benchmarking in the year under review was undertaken through PE Corporate Services Proprietary Limited ("PE Corporate Services"), based on the Willis Towers Watson SA Senior Executive Salary Survey.
- 6.8 The following steps will be undertaken annually in future in this annual review process:

- The total pay of each senior executive will be benchmarked against the market on the basis of a reliable survey prior to the financial year-end;
- The Group CEO will submit recommendations to RemCo concerning changes to be introduced in the next financial year affecting the guaranteed pay package of each senior executive, excluding his own;
- In the case of the remuneration of the Group CEO, RemCo will submit its recommendations to the Board and these will be approved by the Board; and
- The GP package increase of each senior executive to apply in the next financial year will be agreed with him or her before the commencement of the year.

6.9 Performance-based pay is used by all business units within the Wescoal Group to supplement GP. It should in the process positively influence the behaviour of employees in two respects – securing better goal-orientation on the part of employees towards the objectives of the enterprise (called motivational alignment) and also the retention of key managers and staff in the long-term.

## **7 The short-term incentive (“STI”) bonus scheme**

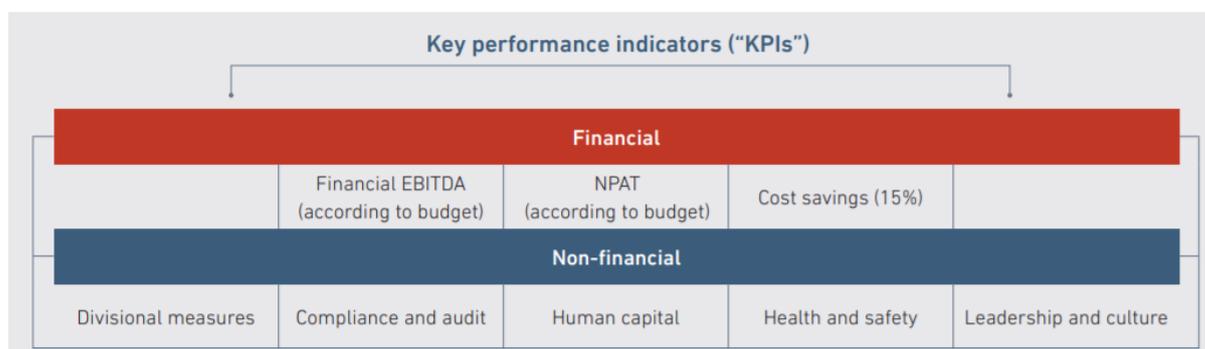
- 7.1 All permanent employees who have served for longer than six months during the financial year and remain in employment on the last day of the financial year will participate in the short-term incentive schemes as set out in this section.
- 7.2 A table defining a scale of eligibility to the short-term incentives at different grades will be approved at the commencement of each financial year.
- 7.3 The short-term bonus will comprise an individual performance bonus that is regulated by rules that have been approved by the board. These will provide for the accrual and payment of the bonus to an employee on the following basis:
- A performance rating of the employee measured by the key performance indicators (“KPIs”) for the period served during the year under the performance management system agreed with the employee at the beginning of the financial year expressed as a number of points out of five rounded to the nearest one decimal will serve as the basis for the award to him or her of an annual bonus payable in the case of non-bargaining employees in relation to whom corporate performance is used as a KPI within 120 days of the financial year-end and in the case of other employees (who are represented by the labour bargaining forum) within such period agreed to between the Company and labour bargaining forum of each company from time to time on the scale of factors set out in the performance bonus scheme rules.
  - A separate document will be circulated which provides managers with guidelines as to the appropriate KPIs that should be used in the measurement of the performance of subordinates in different roles.
- 7.4 The performance bonuses may be adjusted on the basis set out in the rules of the performance bonus scheme if the company has not achieved its target financial results.
- 7.5 In support of the short-term strategy, objectives are set for the individual executives participating in the short-term incentive scheme which is discretionary. Changes to policies

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regarding the short-term and long-term incentive schemes have been approved by the Board in 2020.

- 7.6 The Group Chairman, in consultation with RemCo, set the measures for the Group CEO and the CFO.
- 7.7 The Group CEO and CFO, in consultation with RemCo, determine the individual measures and objectives for the rest of the executive team and senior management.
- 7.8 All senior executives are eligible to receive a performance bonus at the end of the financial year based on a scorecard of corporate (financial) and personal or job-related (non-financial) performance criteria that are approved by the Group CEO at the commencement of the financial year.
- 7.9 The performance criteria applying to the Group CEO are approved by RemCo in liaison with the Group Chairman. An equal weight will be applied to financial and non-financial criteria in the 2021 financial year.
- 7.10 The non-financial criteria to be applied in the 2021 financial year will, in the case of senior executives, be a rating by the Group CEO of pre-agreed strategic and job-related objectives and, in the case of the Group CEO, a rating by the Board of his leadership effectiveness.
- 7.11 Key performance indicators for senior executives can be depicted as follows:



- 7.12 The awards will be modified and reduced if any fatalities occur on any of the excavation sites.
- 7.13 The accrual of the STI bonuses is subject further to an affordability condition that net profit before bonuses, interest, depreciation and taxation for the year must exceed 80% of budget.

*Note:* No short-term incentives were granted in respect of FY20.

*Note:* The implementation report included in the 2020 Integrated Annual Report contains information as to short-term incentives paid during August 2019 in respect of FY19 performance.

## **8 Long-term incentive ("LTI") bonus scheme**

- 8.1 Senior executives as defined will be eligible to receive an annual grant of shares or of the equivalent in the form of share rights which are to be cash-settled.

- 8.2 The grants will be equal in terms of their fair value on the date of grant to the percentage of ATP shown on Annexure A.
- 8.3 Separate rules will regulate these incentive plans and will define whether performance vesting conditions will apply to them.
- 8.4 Share-based incentives will be reintroduced in the 2021 financial year, with all senior executives, all line managers and senior professional staff qualifying. The objective of this incentive is to encourage and reward the achievement of long-term strategic goals and to retain key employees over the long-term in order to influence the financial earnings capacity of the group.
- 8.5 These incentives take the form of three-year full-value conditional share rights, granted as follows and subject to the following performance vesting conditions:
- 50% of the package entitlement will be allocated on the basis that there are no performance vesting conditions attaching to them (called "retention shares"); and
  - 50% on the basis that there are performance vesting conditions (called "performance shares").

*Note:* No share-based rights or other long-term incentives were granted during FY20.

## **9 Senior executive remuneration in relation to that of other employees**

- 9.1 RemCo remains committed to monitor and control the broader income gap within the organisation.
- 9.2 Since pay-scales are based on a grading system that recognises the responsibility level of every position, and on regular and systematic benchmarking, the system itself to a large extent ensures that the remuneration of every employee is market-related and equitable.
- 9.3 While this is the case, the income gap as it is may narrow as a result of changes from year-to-year attributable to the recognition by the remuneration system of enhanced skills assimilated by staff as a direct result of the company's skills development programmes during the same period.
- 9.4 Top management costs (Paterson F band) accounts for 20% of total employment costs.

## **10 Special contractual arrangements**

- 10.1 As a general rule fixed term contracts should not be utilised to retain senior executives, senior line managers or senior professional staff unless specific succession planning risks have been identified.
- 10.2 Fixed-term contracts should not be entered into for periods exceeding three years, nor contain any severance conditions that are in conflict with the recommendations of the King Committee.

## 11 Contracts, severance and termination

- 11.1 Executive directors and prescribed officers have employment contracts which include notice periods of a minimum of 30 days.
- 11.2 There are no balloon payments on termination, automatic entitlement to bonuses or automatic entitlement to share-based payments other than in terms of the company's approved share options incentive trust rules.
- 11.3 Remuneration packages, including entitlement to long-term incentives, are contracted with incumbents annually with effect from the beginning of each financial year in order to realign their commitment to the interests of shareholders.
- 11.4 Employment can be terminated following three months' notice, however, in the case of the Group CEO, a notice period of six months applies.
- 11.5 Malus and clawback conditions are included in all variable pay incentive scheme rules for the first time in order to facilitate the recovery of losses in situations where there have been fraud or bad faith on the part of senior executives.
- 11.6 No special severance arrangements apply to any senior executive currently. Restraint payments may, however, be approved from time to time in the future – this when a term employment contract is negotiated in order to ensure that there is a payback on the company's outlay.

## 12 Non-executive directors' fees

- 12.1 As recommended by King IV, the non-executive directors' fees include a base, fixed retainer fee and a meeting attendance fee, which are competitive to attract and retain suitably qualified individuals to complement the skill mix requirements of the board and its subcommittees.
- 12.2 The fees are reviewed biannually by an independent remuneration advisor for approval by the board and the ratification of the shareholders at the annual general meeting.
- 12.3 In early 2020, an independent review of the non-executive directors' fees was conducted by PE Corporate Services. From the results of the review it transpired that the non-executive directors' fees varied, in some instances markedly, and in almost all instances negatively, against the median fee dictated by the market. It was also noted that the fees have not been adjusted since 2017. The fees have been adjusted in accordance with the PE Corporate Services recommendations and will be tabled at the 2020 AGM for approval by shareholders.
- 12.4 The remuneration of the Chairman and other non-executive directors is reviewed annually by RemCo and the Nomination Committee and is compared to the median of selected peer companies and sector benchmarking.
- 12.5 Remuneration will continue to be offered in the form of an annual fee (or retainer) plus attendance fees per meeting.
- 12.6 Approval for the tariff covering scheduled meetings for the year, together with and approved annually in advance for ordinary membership of the board of directors and of every subcommittee of the board, will again be sought at the forthcoming annual general meeting.

- 12.7 A higher fee is fixed and approved in the same way for the Chairman of the Board and for the chairpersons of each subcommittee in recognition of the additional time involvement that they have in preparing for each meeting and in following up actions.
- 12.8 A fee for the attendance of special board meetings and/or ad hoc strategy sessions is maintained.
- 12.9 The travel and accommodation expenses of non-executive directors and premiums for directors' and officers' insurance cover are paid by the company in terms of a formal approved policy.

### **13 Definitions**

The following meanings should be attributed to the terms and to the acronyms that are used in this policy statement:

Senior executives – employees graded D5 and above

Senior line managers and senior professional staff – employees graded from D2 to D4

RemCo – the Remuneration Committee of the Company

The Board – the board of directors of the Company

Group CEO – the Chief Executive Officer of the Company

ATP – the annual total guaranteed package of the employee

VP – variable pay

KPI – key performance indicator

CPI – consumer price index for South Africa published by the Department of Statistics as at the middle of the financial year of the company

GP – guaranteed pay

## Annexure A

## Total remuneration (TR) average for financial year 2021 - at minimum, target and maximum

Element of package: (% of TR)	Executives (Exco) E & F			Other executives E			Snr line managers D4 to D5		
	<i>Min</i>	<i>Tgt</i>	<i>Max</i>	<i>Min</i>	<i>Tgt</i>	<i>Max</i>	<i>Min</i>	<i>Tgt</i>	<i>Max</i>
<i>Performance levels:</i>									
ATP	50	50	50	58	58	58	67	67	67
STI	0	20	40	0	17	35	0	13	27
LTI	30	30	30	25	25	25	20	20	20
TR	80	100	120	83	100	117	87	100	113