

Remuneration report

PHILOSOPHY

The major aim of the reward structures is to align the remuneration interests of Hulamín employees with its key stakeholders, to support the growth of a high-performance culture and to enable Hulamín to attract, motivate and retain the best talent as part of an integrated human resources strategy. This strategy is a key enabler for the achievement of Hulamín's strategies and goals.

Hulamín's remuneration philosophy supports a high performance culture and provides the foundation for innovation through the provision of appropriate short-term and long-term performance-related rewards that are fair and achievable.

REMUNERATION AND NOMINATION COMMITTEE (REMCO)

The role, structure and composition of the REMCO is covered in the section on Corporate Governance. The major guidelines that support the application of the reward philosophy are outlined below.

STRUCTURE OF REMUNERATION PACKAGES

The structure of remuneration packages is aligned with business needs, is market related and competitive. To this end Hulamín conducts annual market surveys and takes action to ensure that pay levels, structures, composition and mix are in line with market and industry-specific trends. Hulamín reviews the appropriate mix between guaranteed and variable pay as well as short-, medium- and long-term elements of compensation from time to time to ensure they remain market-related.

GUARANTEED PAY

Employees' guaranteed pay consists of basic salary and the company contributions towards retirement funding and healthcare.

Component of remuneration	Purpose	Additional detail	
Guaranteed pay elements	BASIC SALARY	To remunerate, attract and retain employees with the required skills	Remain competitive on as measured by regular benchmark exercises. Increases are merit based
	COMPANY CONTRIBUTIONS TO MEDICAL AID AND RETIREMENT SAVING	To encourage saving for retirement and to enhance the daily well-being of employees	Medical aid and retirement benefits
Variable pay elements	SHORT TERM INCENTIVES	To serve as a short-term incentive to drive specific performance objectives and behaviour	The Short Term Incentive (STI) scheme is based on a combination of corporate financial targets, divisional operational targets and individual performance. These are determined and assessed annually
	LONG-TERM INCENTIVES	To retain key skills and to incentivise employees to achieve the long-term objectives of the Group	Align long-term commitment to the interests of the Group and to provide a disincentive for employees to change employer.

BENCHMARKING	Regular independent benchmark exercises are conducted to determine market rates of pay.
MARKET PREMIUMS	Hulamín recognises that flexibility may be necessary from time to time to attract and retain scarce skills and members of designated groups in order to meet demographic objectives
ANNUAL INCREASES	Annual cash salary adjustments are determined by taking into account an individual's pay relative to the market as well as his/her performance and retention objectives as appropriate



VARIABLE PAY

SHORT TERM INCENTIVE SCHEME

With effect from 2016 the previously used Annual Performance Bonus Scheme has been replaced with the Short Term Incentive (STI) Scheme. Notable changes include the introduction of operational performance measures, and the removal of adjustment mechanisms for currency and commodity movements. The hurdle rate was increased from 60% to 80% of target performance with increases available for exceeding targeted performance (“out-performance”).

Executive directors and senior managers participate in the STI. 197 executive and senior management employees participated in the STI in the year under review.

The STI consists of five different levels of incentive for on-target performance.

Level of management	% of TGP
Chief Executive Officer	60
Chief Financial Officer	50
Executive	40
Senior management	25 to 33
Middle management	15

The primary purpose of the STI is to serve as an incentive to align behaviour with corporate performance targets. Group employees are incentivised against financial and individual targets. Divisional employees are set financial, operational and individual targets. This was done to ensure “line of sight” between employee STI targets and variables over which they have control. The weighting of the targets is as follows:

Level of management	Financial and operational targets %	Individual performance %
CEO	80	20
Executive	75	25
Senior Management	65 to 70	30 to 35
Middle Management	60	40

FINANCIAL TARGETS

The financial targets are related to EBIT, and operating cash flow (each having an equal weighting).

These financial targets are based on targets set for Hulamin as a whole as well as individual business operations and are agreed to by the Board.

All financial targets have an upper (140%) and a lower (80%) limit at which 250% or 20% of the bonus is paid *pro rata*.

OPERATIONAL TARGETS

Operational targets are set at division level.

The operational targets are set against Board approved budgets for sales volumes, operational costs, high value sales mix, recoveries and safety and are reviewed annually.

INDIVIDUAL PERFORMANCE

Hulamin applies sound performance management processes at executive and senior management level to ensure that there is a direct link between performance and variable pay.

Annual key performance indicators, measures and targets for individual employees are cascaded into key performance areas and targets for the various levels of management and for the operating divisions.

Hulamin applies the principle of differentiation based on performance. Exceptional performers will receive individual performance scores that are significantly higher than the average, and similarly, an individual who performs poorly will receive a low individual performance score.

In terms of the STI scheme, the poorest performers are excluded from the incentive.

EXECUTIVE PERFORMANCE BONUS

Hulamin’s executive performance bonuses for the financial year 2016 were calculated on the achievement of financial targets, an assessment of personal performance and operational performance where the executive is employed solely in one of the operating divisions.

In respect of the CEO and executives, the achievement of the financial and operational targets for the 2016 financial year was calculated as follows:

	% Financial performance	% Operational performance	Bonus as % of TGP
CEO	102,7	–	68
CFO	102,7	–	52
Executives – Group	102,7	–	42
Executives – Rolled Products	102,3	111,8	46
Executives – Extrusions	110,4	86,7	32

GUIDELINE

The payment of bonuses for each component (financial, operational and individual performance) of the respective awards is determined independently, except that only the top 95% of individual performers qualify.

Following the introduction of the new STI in 2016, incremental changes to the scheme will be considered from year to year to bring about gradual improvements, taking into account experience from the previous year as well as market developments and trends.

The Remuneration and Nomination Committee and the board have the discretion to decide on the payment or non-payment of incentive awards.

LONG-TERM INCENTIVE PAY

The company’s long-term incentives consist of conditional share based schemes. The variable component of Hulamin’s remuneration packages is structured to include market related long-term incentives for executives and senior management, aligned to company performance and take into account the accounting cost, as well as prevailing taxation provisions. To this end, share-based schemes complement base pay and annual STI which are based on international best practice in the form of a:

- Share Appreciation Right Scheme (SARS)
- Long-Term Incentive Plan (LTIP)

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SARS

Under the SARS, rights are offered to eligible executives and senior managers in the form of performance-based conditional awards.

The performance conditions governing the vesting of the above-mentioned scheme instruments are related to growth in headline earnings per share. Targets are designed to be challenging but achievable. Targets are based on the company's medium-term business plan, covering three-year performance periods. The combined value of awards, which are made annually is based on retention objectives and individual employee performance.

LTIP

Under the LTIP, shares are offered on a once-off to eligible senior employees in order to attract and retain top talent. These LTIP awards do not bear performance conditions, vest over a three year period and are approved by the Board.

GUIDELINE

The value of annual grant awards under the SARS is linked to a percentage of an average cash salary for the grade, the individual's performance rating and market benchmarks in line with prevailing local and international best practice.

OVERALL AND INDIVIDUAL LIMITS

The cumulative maximum number of shares which may be issued in terms of the share schemes may not exceed 31 300 000 shares. The maximum number of shares settled in respect of the share schemes to any participant shall not exceed 3 130 000 shares.

ESOP TRANSACTION

In 2015, the board approved a revised employee share ownership plan ("2015 ESOP") which represents 3,4% of the company value.

Hulamin values its employees as key contributors to the historic and ongoing performance of the business. Hulamin invited all permanent South African-based employees up to middle management and all permanent South

African black senior management to participate in the BEE transaction through the 2015 ESOP. Over 90% of participants are black. Participation in the 2015 ESOP was offered with the following overall objectives in mind:

- To retain and attract high calibre black employees at every level of the Hulamin business.
- To create a sense of ownership amongst the employees and engender an ownership culture within the greater Hulamin workforce.
- To distribute a significant proportion of the BEE transaction benefits amongst the widest possible group of beneficiaries who are critical to the sustained success of the Hulamin business.

The 2015 ESOP scheme consists of both free issue and funded shares, whereby participants participate in dividends payable to ordinary shareholders.

OTHER BENEFITS

Membership of the Hulamin Pension Fund is compulsory for all senior management. Hulamin also provides disability and life insurance benefits to members of the fund. Medical aid benefits and a gratuity at retirement are also provided.

NOTICE/TERMINATION CONDITIONS FOR EXECUTIVES

The Chief Executive Officer and executives are subject to a three-month and two-month notice period respectively.

Executive employment contracts do not allow for termination or balloon payments except with the approval of the Board. In the event of early termination there is no automatic entitlement to bonuses or share-based incentives.

In the case of a change in control, there is no automatic severance compensation to executives. In such cases, the company's retrenchment policy may apply.

NON-EXECUTIVE DIRECTORS' REMUNERATION

Non-executive directors receive fees for their services on the board and board committees. Directors' fees comprise a fixed component which is paid for holding the office of director, and a variable element for attendance at regular scheduled meetings of the board and/or sub-committees.

Non-executive directors who serve on a board sub-committee as an invitee, are paid the same attendance fee as members of that board sub-committee. This payment was approved by shareholders at the 2016 annual general meeting.

Fees for non-executive directors are reviewed annually. Fees are recommended by the Remuneration and Nomination Committee and are submitted to and shareholders for approval at each annual general meeting.

Non-executive directors do not participate in the group's STI scheme or share incentive schemes.

J B Magwaza, S P Ngwenya and GC Zondi, through their interests in Imbewu Consortium and Makana Investment Corporation respectively, are participants in the Hulamin BEE entity (see page 144 for further details on the Hulamin BEE equity transaction).

The remuneration of directors and prescribed officers for the year is detailed in the notes to the annual financial statements.