



Harvesting for the future – Bokamoso ESOP

In October 2006, AngloGold Ashanti Limited, the National Union of Mineworkers (NUM), Solidarity, UASA and Izingwe Holdings (Pty) Limited (Izingwe Holdings) jointly announced the launch of an employee share ownership plan (ESOP), together with a black economic empowerment (BEE) transaction. These transactions will result in 1.9% of AngloGold Ashanti's share capital – worth some R1.8 billion – being transferred into the hands of non-managerial employees and a BEE consortium. Shareholders voted in favour of the transactions at a general meeting in December 2006. Managerial employees currently participate in a share participation scheme.

AngloGold Ashanti CEO Bobby Godsell says that this transaction is intended both to align employee rewards more closely with the company's share price, and simultaneously to give effect to the undertakings made to the Department of Minerals and Energy (DME) at the time the company gained its mineral rights conversions in August 2005. The company undertook to establish an ESOP and a BEE transaction equivalent to at least 6% of the value of the company's South African operations.

The establishment of the ESOP involved an in-depth process of consultation between AngloGold Ashanti and the three representative unions making the process adopted unusual in the South African context. These consultations lasted for almost a year and were marked by attempts to reach consensus on all material issues, a goal which the parties believe was achieved.

The structuring of the ESOP in association with the BEE transaction with Izingwe Holdings, a company chaired by Siphon Pityana, is built around a co-operation agreement between Izingwe and the Bokamoso ESOP Trust. (See box: *The role of Izingwe in the transaction*).



About the Bokamoso ESOP

The shares issued to the Bokamoso Trust are a combination of ordinary shares (free shares) and a new class of shares (called loan shares). For each of the 30,953 eligible employees, 30 free shares (928,590 in total) have been allocated, and 90 loan shares (a total of 2,785,770) at a 10% discount to market value at the start of the scheme. Both classes of shares effectively have full voting and dividend rights. In practice, this means that each of the eligible employees will receive shares worth R36,000 each.

The free share element of the Bokamoso ESOP was introduced by agreement between the company and the unions to give greater assurance of value to employees. In terms of this agreement, approximately half the originally envisaged loan shares were converted into free shares on the basis of roughly the same cost to company.

The Bokamoso Trust has been established to acquire and administer the shares. The Board of Trustees who will oversee the trust will consist of two people nominated by the NUM, one by each of UASA, Solidarity and AngloGold Ashanti, and four people not connected to any of these parties but nominated by agreement between them. The elected chair of the board of trustees is May Hermanus, Director of the Centre for Sustainability in Mining and Industry at the University of the Witwatersrand.

The ESOP will run for seven years. The right to trade shares will occur annually in five equal tranches to each eligible employee on the so-called vesting dates, with the first portion vesting on the third anniversary of the Bokamoso ESOP launch, and the last on the seventh anniversary.

The ESOP seeks to address potentially conflicting imperatives: on the one hand it aims to promote broad-based share ownership of the company and long-term financial planning on the part of employees, and on the other hand it also aims to provide short-term cash returns to employees.

On each of the five vesting dates, eligible employees will receive the full benefit of the free shares that are due at that time, that is they may sell these shares.

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As regards to the loan shares, the benefit due to eligible employees will be calculated on the basis of the difference between the exercise price and the share price on the relevant vesting date, taking into account an escalation factor accruing at 7% per annum, and reduced by any applicable dividend flow. For the loan share aspect of the scheme, 50% of applicable dividends will flow directly to employees, and the other 50% will be used as described above.

Says NUM general secretary Frans Baleni of the employee share ownership plan: “The NUM believes that there are better ways of turning workers into assets than the old traditional view of looking at them as a cost factor. Thus we lay praise to the breakthrough between organised labour and AngloGold Ashanti on the conclusion of the ESOP which should see 6% of South African assets committed to the development of this initiative. In line with the mining charter expectations, our members laud the development of the ESOP. We also wish to acknowledge the stakeholder involvement and participatory approach that underpinned the process, coupled with frank openness to an extent that parties crafted the trust deeds word by word.”

Solidarity’s general secretary, Flip Buys, said that the transaction created a blueprint for similar transactions in the future at other companies. “AngloGold Ashanti has taken the lead by investing in its own future and that of its workers. The future will show that this was the right thing to do. Solidarity welcomes the job security that will result from the deal.”

The role of Izingwe Holdings in the transaction

The acquisition by Izingwe Holdings of 1.4 million AngloGold Ashanti shares forms an integral part of the overall ESOP/BEE transaction. Izingwe Holdings is a BEE investment company chaired by Siphon Pityana. Mr Pityana has occupied strategic roles in both the public and private sector. He was formerly a senior executive of Nedbank and is currently a non-executive director of several companies including Bytes Technology Group (BTG), African Oxygen (Afrox), Munich Re and Aberdare Cables. He has had a working relationship over many years with various AngloGold Ashanti executives and trade union leaders, particularly in his previous public sector roles. Given the envisaged co-operative relationship between Izingwe and the ESOP Trust, this was a critical factor in the selection of Izingwe for this role.

Izingwe has said of its relationship with AngloGold Ashanti. “The partnership with AngloGold Ashanti will be more than a shareholding relationship. The shareholding will be a springboard for jointly pursuing other projects. This is in the context of Izingwe’s broader commitment to the mining industry. Izingwe has already secured prospecting licences for a range of minerals and it intends introducing various existing and greenfield opportunities to AngloGold Ashanti. The AngloGold

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The establishment of the ESOP will involve extensive and ongoing education and communication work with employees, which the company and the unions will carry out jointly, as a further indication of the level of consensus reached in the consultative process. Each employee received a letter providing information on the ESOP and their participation following a formal launch of the ESOP to employees in late January.

AngloGold Ashanti recognises that, over time, many employees are likely to sell the shares that are due to them to gain immediate financial rewards. While the company will provide education relating to the benefits of being longer term shareholders and the benefits of saving (either in the form of shares or other means), AngloGold Ashanti does not see the long-term holding of the shares as a precondition for the success of the ESOP. The only matter currently left unresolved is whether, and if so how, employee participation in the company will continue in seven years' time following the culmination of this scheme. This will be discussed between the parties in due course.

It is envisaged that ESOPs will be introduced elsewhere in the company where this is seen to have value in enhancing employee participation. Such schemes are currently being worked on in respect of AngloGold Ashanti's Ghana and Namibia operations.

Ashanti transaction consolidates and adds significant momentum to Izingwe's interests in the mining sector.

"Izingwe will also be active in other areas of AngloGold Ashanti's business. It will play a strategic role in its transformation initiatives and it will contribute to enhancing supply chain and routes to market, both from a general business perspective and by promoting a strong empowerment presence and culture in these areas."

This transaction has been structured in a similar manner to the loan shares issued in terms of the Bokamoso ESOP. Mr Pityana joined the Board of Directors of AngloGold Ashanti on 13 February 2007.

A key feature of this transaction is the intended conclusion of a co-operative agreement between Izingwe Holdings and the Bokamoso Trust following a series of consultations between Izingwe Holdings and the three unions. This will be finalised soon now that trust has been established. It is envisaged that the agreement could include commitments on shareholder co-operation, with Izingwe Holdings acting as a channel of communication between the Bokamoso Trust and the company's governance structures on transformation and other operational issues.