



# 2018

**RCL FOODS LIMITED**  
**REMUNERATION REPORT**

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FOR THE YEAR ENDED  
JUNE 2018



# REMUNERATION REPORT

The Remuneration Report focuses on three key areas:

1. Statement from the Chairman of the Remuneration Committee
2. Remuneration policy and strategy
3. Implementation Report

## STATEMENT FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

### Dear Shareholders

On behalf of the Board of RCL FOODS I am pleased to present the Remuneration Report for the year ended June 2018. We observe the King Report on Corporate Governance Principles pertaining to remuneration and endeavour to ensure that these governance principles are implemented and sustained within the Group. The principles of fairness and transparency resonate heavily within the mandate of the Remuneration Committee and as such, are a key component of the decree that we hold in guiding and advising the Group.

During this financial year the Committee has met three times. Areas of focus at these meetings have been:

- Ensuring alignment between shareholders and management;
- Reviewing director, prescribed officer and senior executive packages and ensuring their alignment to market;
- Performance management practices review for senior executives; and
- Focus on employment equity and addressing representation at senior levels.

The first half of the financial year saw business performance progress positively despite constrained consumer spending and challenging trading conditions. Results for the second half of the financial year were severely impacted by the Listeriosis crisis in Chicken and a further price decrease in the local sugar market due to the level of sugar imports stemming from an ineffective tariff. Importantly these crises have direct consequences and impact on the application of the short-term incentive scheme. What should be recognised is the extent to which the management team have been able to mitigate the effects of these challenges.

The Committee is pleased to note the positive engagement of senior executives with the Gender Commission that has taken place during the year. The Commission positively noted the effort of the business to better balance its gender representation especially at senior levels and the increased focus this has brought to remuneration equity.



**Mr NP Mageza**  
*Chairman, Remuneration Committee*

# REMUNERATION POLICY AND STRATEGY

## Introduction

At RCL FOODS we believe in seeing and doing things differently so that we and our employees can do and be **MORE**. We believe that our employees are the foundation of our business and that engaged, empowered and motivated employees ensure that our business is resilient and profitable.

## Governance

The RCL FOODS Remuneration and Nomination's Committee operates under the delegated authority of the Board and is well established. It is made up of individuals who have the skills to bring sound business and ethical governance principles to discussions. The Committee fulfils the important function of ensuring that remuneration is responsible and fair across the Group, and ensures that disclosures are accurate, complete and transparent.

Our Committee meets at least three times a year.

The Committee is made up of four non-executive members. Two permanent executive invitees (who are excluded from discussions pertaining to their own remuneration) also attend meetings.

## Committee members

<p><b>Mr NP Mageza</b> <i>Non-executive Chairman, Remuneration</i></p>	<p><b>Mr RV Smither</b> <i>Non-executive Chairman, Nominations</i></p>
<p><b>Mr JJ Durand</b> <i>Non-executive Director</i></p>	<p><b>Mr GM Steyn</b> <i>Non-executive Director</i></p>

## Permanent invitees

<p><b>Mr M Dally</b> <i>Chief Executive Officer (CEO)</i></p>	<p><b>Mr WS Hoare</b> <i>Chief HR Officer</i></p>
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Our Remuneration and Nomination's Committee is responsible for:

- Assessing and approving the remuneration strategy for the Group;
- Reviewing and approving the short- and long-term incentive pay structures for Group executives and managers;
- Agreeing the positioning of Group executive pay levels relative to market benchmarks;
- Approving the overall cost of remuneration increases awarded;
- Approving all awards pursuant to the RCL FOODS Share Appreciation Rights Scheme and the Conditional Share Plan;
- Approving annual performance bonuses;
- Reviewing the executive succession plan; and
- Reviewing the talent and performance management practices within the Group.

## Remuneration policy

Our Remuneration strategy, guiding principles and framework have been developed in the context of the RCL FOODS business strategy, our Human Resources strategy and the business' unique organisational culture.

## Strategy

RCL FOODS seeks to remunerate and reward employees in a way that supports the achievement of the organisation's strategy and goals.

- We seek to reward outputs and results rather than input and efforts as well as quality leadership in the face of adversity and challenge.
- We aim to attract, retain and develop valuable employees of the right calibre with the intent to create career progression and growth through learning, development opportunities and challenging jobs.
- We reward progress against our employment equity targets and the successful development and progression of employment equity employees.
- We aim to reward performance and innovation, recognising those who deliver outstanding work whilst consistently demonstrating our core values.
- We want to engage our employees to such a degree that RCL FOODS is an employer of choice.
- We will deliver market-related remuneration and benefits.

	Appointed	28/08/2017	22/02/2018	20/06/2018
<b>Members</b>				
NP Mageza	September 2009	<b>Present</b>	<b>Present</b>	<b>Present</b>
JJ Durand	August 2014	<b>Present</b>	<b>Present</b>	<b>Present</b>
RV Smither	June 2012	<b>Present</b>	<b>Present</b>	<b>Present</b>
GM Steyn	August 2013	<b>Present</b>	<b>Present</b>	<b>Present</b>
<b>Permanent invitees</b>				
M Dally		<b>Present</b>	<b>Present</b>	<b>Present</b>
WS Hoare		<b>Present</b>	<b>Present</b>	<b>Present</b>

# REMUNERATION POLICY AND STRATEGY CONTINUED

## GUIDING PRINCIPLES

Alignment to Strategic Objectives	Reward for Performance	Non-discriminatory Practices	Internal Equity	Competitive	Open and Transparent
Remuneration strategy and frameworks shall be developed in a manner that is consistent with, supports and reinforces the achievement of RCL FOODS' vision and strategy.	We will develop remuneration practices that enable and support a high performance culture through mechanisms that reward both individual and business performance.	Our remuneration policies and practices will be free from inequitable distinctions based on race, gender, sexual orientation and language.	Similar roles at the same level will be remunerated within equal and reasonable pay ranges. We will ensure fair differentiation for job responsibility and will apply reward principles consistently across the business.	We will remunerate at competitive levels that enable the recruitment and retention of high calibre employees with the right attitude and skills set.	Remuneration management shall be appropriately transparent, conducted in good faith and in accordance with appropriate levels of confidentiality.

## IMPLEMENTATION REPORT

### Achievement of policy objectives

The Remuneration Committee is satisfied that the RCL FOODS remuneration policy is appropriate and applicable to the Group's objectives and realises its intention to attract, retain and motivate employees.

No changes were made to the remuneration mix for the CEO, senior executives or executives at either target or maximum award levels.

Key decisions taken during the last year included:

- Approval to align the CEO, senior executives, executives and managers who participate in the Management Performance Bonus scheme to one set of Group Financial Targets thus further aligning to common goals, objectives and the establishment of one culture in the company
- Approval of increases for the CEO and senior executives
- Approval of performance conditions for the 2019 financial year
- Approval of long-term incentive (LTI) allocations

### Voting at the Annual General Meeting (AGM)

The Board will table the Remuneration Policy and Implementation Report for voting at the November AGM. In the event that the policy or report are voted against by 25% or more of the votes exercised, the Group will issue an invitation to shareholders to engage. At the 2017 AGM, 86.75% of the shareholders who voted on the Remuneration Policy and Implementation Report were in favour.

### Areas of focus for the next year

The Remuneration Committee will continue to ensure the implementation of the Remuneration Policy as outlined in this report. It is expected that the following items will be tabled at the Remuneration Committee for consideration:

- Monitoring market relevance and governance frameworks associated with senior executive remuneration;
- Consideration of proposed performance management enhancements;
- Review and approval of senior executive remuneration schedules and LTI proposals; and
- Review of remuneration policy.

### Benchmarking

Market alignment and competitiveness are important philosophical components of our remuneration strategy. Benchmarking for executives is done on all elements of targeted remuneration.

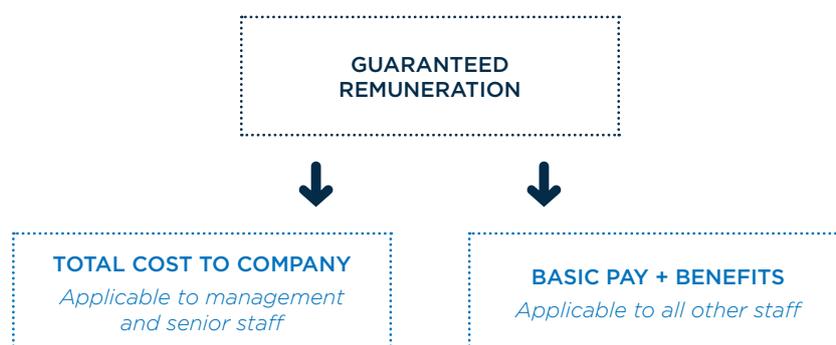
During this financial year the Group participated in remuneration surveys facilitated by PWC Remchannel, Deloitte and Mercer. These survey companies were selected based on the relevance of their market data and professional reputations. No further consulting services were procured by the Group for the purposes of remuneration benchmarking or analysis.

### Compliance with policy

Remuneration disclosures presented in this report have been made in compliance with the Remuneration Policy as approved by shareholders. No known deviations from policy have been made.

# IMPLEMENTATION REPORT CONTINUED

## Remuneration framework



### GUARANTEED REMUNERATION

Guaranteed remuneration is set with reference to the scope and nature of the individual's role and benchmarked to market to ensure relevance and competitiveness.

Pay scales, aligned to our desired market position, provide guidance to Human Resources and line managers with respect to the positioning of guaranteed remuneration, thus ensuring internal equity and alignment to market.

### BENEFITS

#### Retirement funds

Membership to one of the Group's approved retirement funds is compulsory for all employees. RCL FOODS has two destination retirement funds, the RCL FOODS Pension Fund and the RCL FOODS Provident Fund. These funds are guided by an internally appointed Principal Officer. These funds are only open to RCL FOODS employees. The funds aim to provide retirement funding, temporary and permanent disability, life cover and funeral benefits to employees.

- Employees on Total Cost to Company remuneration packages (management) may elect to contribute a variable percentage of their pay as an employer contribution to the fund with each fund dictating a minimum contribution level.
- Senior staff on Total Cost to Company remuneration packages and staff on Basic Pay + benefits packages have specified employee and employer contribution percentages.

#### Medical aid

Membership to one of the Group's designated medical schemes is compulsory for management and voluntary for staff. Employees are strongly encouraged to join a medical aid in their first three months of employment. RCL FOODS recognises that the health and wellness of its employees is paramount to ensuring a sustainable and profitable organisation. We have therefore partnered with Makoti Medical Aid to offer a budget appropriate medical aid to those employees who have traditionally not been able to afford private health care.

- Employees on Total Cost to Company remuneration packages - employee and employer contributions for medical aid are part of the employees total cost to company
- Staff on Basic Pay + benefits packages - receive an employer subsidy.

### ANNUAL SALARY REVIEW

The annual salary review process takes place in July with increases effective from 1 October. This process allows for the opportunity to adjust salaries in line with the market. The budget is agreed by the RCL FOODS Board based on benchmarking of other organisations and market trends changes to the national cost of living, business performance and affordability.

Individual performance is taken into account when allocating increases.

Interim increases may be awarded during the year at the discretion of senior management based on promotions, additional scope of role or scarce skills.

### PAYMENTS ON TERMINATION OF OFFICE

It is not standard practice or policy to pay *ex gratia* payments on termination of prescribed officers.

### SIGN ON AND RETENTION BONUS

Sign on and retention bonuses are paid under exceptional circumstances and only on occasions where the skills and competencies of the individual are deemed to be critical to the business. Such payments are approved by the Chief HR Officer.

### MANAGEMENT SHORT-TERM INCENTIVES

The CEO, executives, and managers participate in a short-term incentive plan which aims to reward the achievement of financial business and personal performance targets.

The purpose of the scheme is to:

- motivate and drive the achievement of individual and business performance;
- instil a culture focused on results rather than effort; and
- provide a competitive and differentiated total remuneration package for higher achievement against targets.

Performance bonuses are paid in September based on results achieved for the immediately preceding financial year. The scheme has three performance components;

- |   |     |
|---|-----|
| • RCL FOODS Operating Profit              | 50% |
| • RCL FOODS Return on Net Assets (RONA %) | 20% |
| • Individual Personal Performance         | 30% |

# IMPLEMENTATION REPORT CONTINUED

The On-target and Maximum bonus cap percentages are set out below:

Role	On-target (%)	Maximum (%)
CEO	60	120
Senior Executives*	50	100
Executives**	40	80
Senior Managers	25	50
Managers	15	30

\* Senior Executives includes Officers and Divisional Managing Directors.

\*\* Executives includes Divisional Operating Directors.

Senior Executives and Executives are referred to collectively as Executives throughout this report.

The RCL FOODS Operating Profit and RCL FOODS RONA pay out initiates at the achievement of 95% of the agreed financial targets and is capped at 120%. The Remuneration Committee has the discretion to approve a nil bonus.

The bonus achieved by an individual for the year reflects achievement against targets as determined by the Remuneration Committee and targets agreed by the RCL FOODS Board and is calculated as a percentage of the individual's total cost to company as at June. The disclosure of the directors' total cost to company is included in note 30 of the Annual Financial Statements, available on our website [www.rclfoods.com/financial-results-and-investor-presentations-2018](http://www.rclfoods.com/financial-results-and-investor-presentations-2018)



## LONG TERM INCENTIVES

### Share Appreciation Rights Scheme (SARS)

The SARS provides selected executives with conditional rights to receive RCL FOODS ordinary shares, referred to as Share Appreciation Rights (SARs).

Within the limits imposed by the Group's shareholders and the JSE Limited, the Remuneration and Nominations Committee approves and awards SARs on an annual basis, as well as at half-year when either an employee is promoted or new appointments are made to an appropriate management position.

Provided that they remain in the employ of the Group over the vesting period, recipients of SARs become entitled to RCL FOODS shares having a value equal to the increase in the market value of a number of notional RCL FOODS shares.

### Conditional Share Plan (CSP)

The CSP operates in conjunction with the SARS. The Group only uses the CSP to make allocations in certain circumstances, such as the need to appoint or retain key senior executives.

Under the CSP, participants receive a conditional share award on a given award date. Provided that they remain in the employ of the Group over the vesting periods and meet specified performance criteria linked to company performance over the vesting period, shares will be settled to the participants on the vesting date. Participants will have no shareholder or dividend rights before vesting date.

### Employee Share Ownership Programme (ESOP)

Employees who do not participate in the two long-term incentives schemes named above are eligible to participate in the ESOP.

ESOP aims to recognise the contribution of all employees within the Group to its success and engender a culture of ownership and commitment.

The programme came into effect on 17 January 2014 and employee participation was effective from 1 July 2014.

### Directors remuneration

Directors are appointed to bring competencies and experiences appropriate to achieving the Group's objectives, and to ensure that the business is aligned to shareholder interests.

All directors are employed on contracts that can be terminated by mutual agreement with three months' notice.

### Non-executive directors' fees

The Remuneration and Nominations Committee determines the fees for non-executive directors. Fees are benchmarked to the market to ensure relevance and competitiveness.

Non-executive directors do not receive any performance pay.

The fee structure is included in note 30 of the Annual Financial Statements, available on our website [www.rclfoods.com/financial-results-and-investor-presentations-2018](http://www.rclfoods.com/financial-results-and-investor-presentations-2018)



## LONG TERM INCENTIVES



Share Appreciation Rights Scheme\*\*\* (SARS)

Conditional Share Plan\*\*\*\* (CSP)

Employee Share Ownership Programme\*\*\*\* (ESOP)

\*\*\* Executives and selected senior employees.

\*\*\*\* All staff and managers who do not participate in SARS or CSP.

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TO MORE  
PEOPLE  
MORE OFTEN**

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