



# 2019



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

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FOR THE YEAR ENDED  
JUNE 2019

# REMUNERATION REPORT

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The Remuneration Report focuses on three key areas:

1. **Statement from the Chairman of the Remuneration Committee**
2. **Our 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 financial year ended June 2019.

Business performance in the 2019 financial year has been significantly impacted by pressures experienced in the agricultural categories of the business (Sugar and Chicken), partially offset by a strong performance in Groceries and an improvement in Millbake. Due to the challenges experienced in Sugar and Chicken, the Group has fallen short of its target expectations.

The volatility and variability experienced over the last few years in Sugar and Chicken has made the setting of bonus targets extremely challenging. The Remuneration Committee and Board agreed that the existing short-term incentive scheme and target setting process was not optimal and was subject to the inherent volatility and uncertainty in Sugar and Chicken despite the best efforts of the management team to create a more stable and predictable business result.

A new and different short-term incentive plan was agreed and approved for the 2019 financial year, with the primary aim to better align shareholder and management interest. The new incentive plan has been described as a "profit share" scheme and further details regarding the scheme can be found in the Remuneration Policy. The concept of "profit share" means that in strong performance years both shareholders and management would benefit from better results and in less successful years management would not benefit disproportionately.

During the current financial year the committee has met four times. Areas of focus at these meetings have been:

- Agreeing the terms and conditions of the new Profit-Share Scheme;
- Recommending a Diversity Policy to the Board;
- Reviewing performance management practices for senior executives;
- Reviewing director, prescribed officer and senior executives' packages and ensuring their alignment to market;
- Nomination of a new non-executive director to the RCL FOODS Board; and
- Nomination of a new non-executive alternate director to the RCL FOODS Board as an alternate to Mr JJ Durand.

We observe the King Report on Corporate Governance (King IV) and endeavor to ensure that the 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.



**Mr NP Mageza**

*Chairman, Remuneration Committee*

# OUR REMUNERATION POLICY AND STRATEGY

## INTRODUCTION

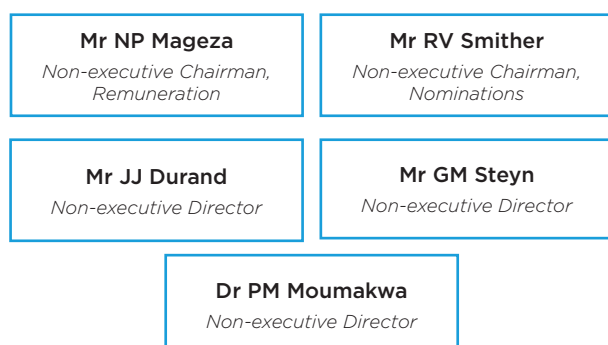
At RCL FOODS we believe in seeing and doing things differently so that we and our employees can do and be **MORE**. We believe that our employees are the foundation of our business and that engaged, empowered and motivated employees ensure that our business is resilient and profitable.

## GOVERNANCE

The RCL FOODS Remuneration and Nominations 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 functions of ensuring that remuneration is responsible and fair across the Group, and that disclosures are accurate, complete and transparent.

The Committee is made up of five non-executive members and two permanent invitees (who are excluded from discussions pertaining to their own remuneration). Dr Penny Moumakwa was appointed to the Committee on 1 March 2019, further enhancing the experience and diversity profile of the Committee.

## COMMITTEE MEMBERS



## PERMANENT INVITEES



Our Remuneration and Nominations 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 that positioning of Group executive pay levels are 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 the bonus scheme target;
- Reviewing the executive succession plan; and
- Reviewing the talent and performance management practices within the Group.

Our committee meets at least three times a year, and member attendance is reflected in the table below.

MEMBERS	ATTENDANCE
NP Mageza	4/4
RV Smither	2/4
GM Steyn	4/4
JJ Durand	3/4
PM Moumakwa	1/1

Directors who are unable to attend meetings tender their apologies and reasons for non-attendance in advance and provide feedback to the Chairman prior to the meeting.

## 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 of creating career progression and growth through learning, development opportunities and challenging jobs.
- 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 they willingly choose to work for us rather than other organisations.
- We will deliver market related remuneration and benefits.

# OUR 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 (Equal Pay for Equal Work). 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 revision to our bonus scheme provided the opportunity for the business to better align shareholder and management interests, whilst providing a more consistent bonus arrangement.

No other changes were made to the remuneration for the CEO, senior executives or executives.

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.

Key decisions taken during the last year included:

- Approval of the revised bonus scheme;
- Approval of increases for the CEO and senior executives;
- Approval of performance conditions for the next financial year; and
- 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 Annual General Meeting on 20 November 2019. If 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 in a dialogue with them. At the November 2018 Annual General Meeting, 83.50% of the shares voted on the Remuneration Policy were in favour, and 84.04% of the shares voted on the 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:

- Review of the organisational structure;
- Monitoring market relevance and governance frameworks associated with senior executive remuneration;
- Review and approval of senior executive remuneration schedules and LTI proposals; and
- Review of remuneration policy.

### BENCHMARKING

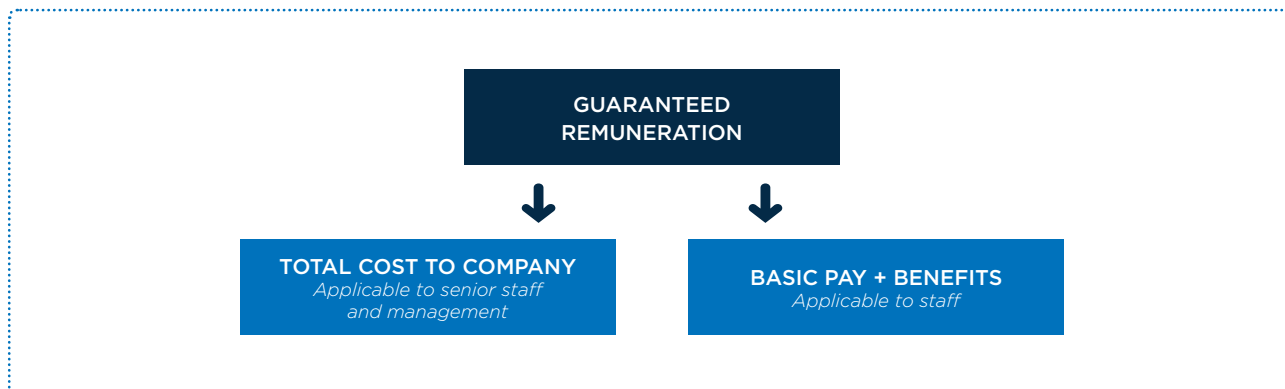
Market alignment and competitiveness are important philosophical components of our remuneration strategy. Benchmarking for executives is done on all elements of targeted remuneration.

During this financial year the Group participated in remuneration surveys facilitated by PwC's Remchannel and Deloitte. These firms 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 in the current financial year.

## 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 of 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 closed funds are guided by a company appointed independent Principal Officer. The funds aim to provide retirement funding, temporary and permanent disability cover, 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 those on Basic Pay + Benefits packages have fixed employee and employer contribution percentages.

#### MEDICAL AID

Membership of one of the Group's designated medical aid schemes is compulsory for management and voluntary for staff. Employees are strongly encouraged to join a medical aid scheme within 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 healthcare.

- Employees on Total Cost to Company remuneration packages (management and staff) – employee and employer contributions from 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 each year. 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 and business performance and affordability. Individual performance is considered 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 office.

#### SIGN-ON AND RETENTION BONUS

Sign-on and retention bonuses are paid only under exceptional circumstances, when the skills and competencies of the individual are deemed to be critical to the business. Such payments are approved by the Chief Human Resources Officer.

#### MANAGEMENT SHORT-TERM INCENTIVES – PROFIT SHARE

With effect from the current year, the short-term incentives scheme has been replaced with a Profit-Share Scheme. The CEO, executives and managers are eligible to participate in the scheme.

#### THE PURPOSE OF THE PROFIT-SHARE 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.

# IMPLEMENTATION REPORT CONTINUED

## PROFIT-SHARE SCHEME MECHANISM

- The profit reference for bonus target is based on Profit Before Tax (PBT) at an RCL FOODS Group level.
- PBT is adjusted to remove IFRS 9 fair value adjustments on commodity positions, joint ventures and associates' share of profits and bonus and share scheme (IFRS 2) charges.
- This target is referred to as the "Bonus Target".
- The Bonus Target will be set annually at the start of each financial year by the Remuneration Committee.
- The target should include stretching but realistic growth over prior year.

## ACHIEVEMENT OF BONUS TARGET

- A Profit Pool is created through the generation of PBT.
- The Profit Pool is calculated at a percentage of the Bonus Target.

## INDIVIDUAL PROFIT SHARE ACHIEVEMENT

Individual performance will be the determining factor in the distribution of the profit share pool amongst executives and managers.

Key performance targets and areas of focus will continue to be set annually for all participating managers. The successful achievement of targets, business results and the positive demonstration of the Group's values and

behaviors will determine the actual profit share allocation awarded to an individual manager.

## MAXIMUM INDIVIDUAL PROFIT SHARE ALLOCATION

The Profit Share Scheme retains the current individual maximum earnings potential. Participating executives and managers will not be eligible to earn above the maximum stated for his/her grade.

The maximums are calculated as a percentage of the individuals' annual total cost to company.

The maximum individual profit share cap percentages are set out below:

AUTHORITY LEVEL	MAXIMUM (%)
CEO	120%
Senior Executives*	100%
Executives**	80%
Senior Managers	50%
Managers	30%

\* Senior Executives includes Officers and Divisional Managing Directors.

\*\* Executives includes Divisional Operating Directors, Senior Executives and Executives and are referred to collectively as Executives through this report.

Profit Share allocations are paid annually in September.

## LONG TERM INCENTIVES



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

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

## 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.

If 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 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. If they remain in the employ of the Group over the vesting periods and meet specified performance criteria, RCL FOODS 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.

The 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

The directors are appointed to bring competencies and experiences appropriate to achieving the Group's objectives and ensuring 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 recommends, for shareholder approval, the fees payable to non-executive directors for their services as directors. Fees are benchmarked to the market to ensure relevance and competitiveness.

Non-executive directors do not receive any performance pay.

The fee structure for the last financial year is contained in the Annual Financial Statements.

**Refer to note 31 of the Consolidated Annual Financial Statements included as part of the annual financial statements, available at [www.rclfoods.com/financial-results-and-investor-presentations-2019](http://www.rclfoods.com/financial-results-and-investor-presentations-2019), for further details on the salaries and benefits of the executive and non-executive directors of the Group.**



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TO MORE  
PEOPLE  
MORE OFTEN**

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