



RCL FOODS LIMITED
**REMUNERATION
REPORT**
FOR THE YEAR ENDED JUNE
2020



Remuneration 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 28 June 2020.

The challenge resulting from the limited liquidity of the RCL FOODS' shares came to a head in the current year, as a result of the vesting of the shares awarded under the Conditional Share Plan (CSP). The matter was resolved in the short-term, through the acquisition by the majority shareholder of sufficient shares in order to enable participants to take delivery of these shares. A longer term solution is being sought through the review of the current Long-Term Incentive (LTI) scheme. This is currently work-in-progress and it is anticipated that this will be completed during this financial year and be ready for approval and implementation next year.

Details of the changes to the Short-Term Incentive (STI) profit share bonus scheme were described in the 2019 Remuneration Report. These changes were made in recognition that the previous bonus scheme and target setting approach were not optimal for a business with significant volatility and commodity-based exposure. As a newly introduced incentive scheme, the Remuneration Committee and management recognised the need to review the Profit Share Scheme during its first year (2020 financial year) and consequently engaged the services of PwC to provide an independent evaluation of all the incentive scheme plans.

We have now undertaken the STI scheme review and have benchmarked it against market best practice while ensuring that the result is tailored to fit RCL FOODS' purpose. The following are some attributes now built into the scheme:

- it aligns the fortunes of all stakeholders through the introduction of Return on Invested Capital (ROIC) hurdles;
- it introduces ROIC modifiers to take account of the market volatility;
- it is cash settled; and
- it has liquidity protections for the Company.

In addition to the above, the Remuneration Committee has also approved the inclusion of a Malus and Clawback Policy. Malus and Clawback will be applicable to Directors and Executives LTI and STI awards made with effect from July 2020.

The policy empowers the Board and/or any committee of the Board to hold senior management responsible for any materially adverse events that occur.

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

- Evaluation of the Management Profit Share Scheme;
- Approval of the Malus and Clawback Policy;
- Approval for the vesting of conditional shares;
- Reviewing performance management practices for senior executives;
- Reviewing director, prescribed officer and senior executives' packages and ensuring their alignment to market; and
- Nomination of a new Non-Executive Director to the RCL FOODS' Board.

We observe the King Report on Corporate Governance (King IV) and endeavour to ensure that its governance principles are implemented and sustained within the Group. The principles of fairness and transparency resonate fully with 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

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). Mr PJ Neethling was appointed to the Committee as an alternate member to Mr JJ Durand on 21 June 2019. Mr Neethling will be attending all future committee meetings attended by Mr Durand.

<p>Mr NP Mageza <i>Non-executive Chairman, Remuneration</i></p>	<p>Mr RV Smither <i>Non-executive Chairman, Nominations</i></p>
<p>Ms PM Moumakwa <i>Non-executive Director</i></p>	<p>Mr M Dally <i>Chief Executive Officer</i></p>
<p>Mr JJ Durand <i>Non-executive Director</i></p>	<p>Mr GM Steyn <i>Non-executive Director</i></p>
<p>Mr PJ Neethling <i>Alternate Non-executive Director</i></p>	<p>Mr WS Hoare <i>Chief HR Officer</i></p>

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 the positioning of Group executive pay levels are relative to market benchmarks;
- Approving the overall cost of remuneration increases awarded;
- Approving awards pursuant to the RCL FOODS Share Appreciation Rights Scheme and the Conditional Share Plan;
- Approving the profit share 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	4/4
JJ Durand	3/4
PM Moumakwa	3/4
GM Steyn	4/4
PJ Neethling (Alternate)	4/4

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' 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 effort, as well as quality leadership in the face of adversity and challenges.
- 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	Non-Discriminatory Practices	Reward for Performance	Internal Equity	Competitiveness	Openness and Transparency
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.	Remuneration policies and practices will be free from inequitable distinctions based on race, gender, sexual orientation, ethical or social origin.	Remuneration practices that enable and support a high-performance culture through mechanisms that reward both individual and business performance.	Similar roles at the same level will be remunerated within equal and reasonable pay ranges (Equal Pay for work of Equal value). We will ensure fair differentiation for job responsibility and will apply reward principles consistently.	We will remunerate at competitive levels that enable the recruitment and retention of high caliber employees with the right attitude and skills set.	Remuneration management shall be 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.

Key activities and decisions taken during the last year included:

- Review of the Management Profit Share Scheme with market guidance from PwC.
- Review of Management structure and succession plan.
- Approval of the Malus and Clawback Policy.
- Approval of awards pursuant to the RCL FOODS Share Appreciation Rights Scheme and the Conditional Share Plan.
- Approval of the vesting of Conditional Shares.
- Review of directors', prescribed officers' and senior executives' packages and ensuring their alignment to market.
- Approval of Non-executive Directors' fees for recommendation to shareholders.
- Nomination of a new Non-executive Director to the RCL FOODS Board.

Voting at the Annual General Meeting

The Board will table the Remuneration Policy and Remuneration Implementation Report for voting at the Annual General Meeting on 13 November 2020. 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 2019 Annual General Meeting, 88.6% of the shareholders voted

on the Remuneration Policy were in favor and 97.6% of the shareholders voted on the Remuneration 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:

- Approval of the Management Profit Share Scheme for F21;
- Review of the management long-term incentive schemes;
- 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.

PwC was engaged during the financial year to provide consulting services regarding adjustments to the Management Profit Share Scheme and the Management Long-Term Incentive Schemes. These services included a general market review, benchmarking of RCL FOODS schemes against the market and recommended changes or enhancements to the current schemes.

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

The Group applies a Total Cost to Company pay approach to senior staff and management and a basic pay + benefits pay approach to staff.

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 set 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 health care.

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

Short-term incentives

Management Profit Share Scheme

The RCL FOODS' performance bonus scheme was replaced with a Profit Share Scheme in the last financial year. The Chief Executive Officer, executives and managers are eligible to participate in the Management Profit Share Scheme.

Purpose of the Profit Share Scheme is to:

- Ensure transparent remuneration for all eligible employees through a documented and measurable incentive;
- Entrench a remuneration philosophy of pay for performance which motivates employees towards the achievement of performance targets resulting in variable pay;
- Drive and reward superior individual performance which in turn helps the Company achieve its long-term strategy and performance targets, ensuring line of sight between business and individual performance and incentives paid; and
- Align the objectives of all stakeholders and management.

Profit Share Scheme - F20

The Profit Share Bonus Scheme allows management to share in the achievement of the actual Profit Before Tax (PBT) result at an RCL FOODS Group level. A Profit Pool is calculated as a percentage of the actual PBT result. Individual performance is the determining factor in the distribution of the Profit Pool amongst executives and managers. Key performance targets and areas of focus are set annually for all participating employees. The successful achievement of targets, business results and the positive demonstration of the Group's values determines the actual profit share allocation awarded to an individual manager.

Scheme review

During this year, PwC was tasked with completing a market review of the Management Profit Share Scheme. As a result of this review, enhancements are being made to the scheme and will be applicable to the F21 financial year, these include:

1. Introduction of a Return on Invested Capital (ROIC) Modifier for up and down adjustments to the profit pool.
2. Introduction of Deferred Cash Payment for the CEO and Executives if the in-year Profit Share Payment exceeds agreed bonus caps.
3. Introduction of an Operating Free Cash Flow Condition. The cash cost of payment of the Profit Share Bonuses will not exceed 20% of Operating Cash Flow of the consolidated annual financial statements of the Group at the time of payment.

Implementation report continued

Target setting - F21

The Bonus Pool available at the end of the F21 financial year will be the product of:

- Profit Before Tax actual achievement;
- A percentage rate of share (of actual PBT) will be agreed at the start of the financial year between management and the Remuneration Committee and finalised at the end of the financial year based on the quality of results; and
- The ROIC Modifier will be set with a threshold (minimum), on target and maximum achievement level at the start of the financial year.

Individual Profit Share Achievement

No change has been made to the allocation methodology of the Bonus Pool to management. Individual performance will be the determining factor in the distribution of the pool amongst executives and managers. There is no automatic entitlement to the Profit Share Bonus as discretion may be applied by either the Remuneration Committee or management.

For the Chief Executive Officer and Senior Executives, management will recommend the disbursement of the Profit Share Bonus for each employee. The Remuneration Committee will retain discretion to adjust the recommendation made by management.

Deferred bonus

With effect from F21 the Chief Executive Officer and Executives' Profit Share Bonus payout will be subject to a deferred element if the in-year Profit Share Payment exceeds agreed bonus caps.

The deferred bonus is determined as any part of the Profit Share Bonus which exceeds the percentage annual Total Cost to Company in the table below:

Authority level	Maximum (%)
CEO	170
Senior Executives*	120
Executives**	80

* Senior Executives includes Officers and Divisional Managing Directors.

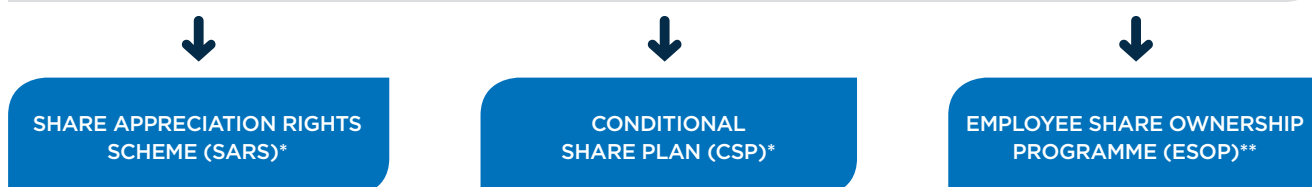
** Executives includes Divisional Operating Directors.

Senior Executives and Executives are referred to collectively as Executives through the report.

Payment

Profit Share Bonuses are paid annually in September, subject to the satisfaction of the Operating Free Cash Flow Condition.

LONG TERM INCENTIVES



* Executives and selected senior employees.

** All staff and managers who do not participate in SARs or 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 upon vesting. Participants will have no shareholder or dividend rights before settlement.

Employee Share Ownership Programme (ESOP)

Employees who do not participate in either of 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.

Sign-on and retention bonuses

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 HR Officer.

Annual salary reviews

The annual salary review process for non-bargaining unit employees takes place in July, with increases effective from 1 October each year. Increases that would have been effective from 1 October 2020 have been delayed until January 2021 due to the impact of the COVID-19 pandemic on the business.

The salary review 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.

Malus and Clawback

Following shareholder feedback and in line with best practice, the Group has introduced a Malus and Clawback policy. The policy enables the Board and/or Remuneration Committee to adjust benefits that have been awarded before vesting of the award (malus) or recover benefits after they have already vested or been paid (clawback) in the event that defined trigger events have taken place. The policy is applicable to the Chief Executive Officer and Directors.

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.

On voluntary termination of employment, all unvested awards are forfeited.

Payments on termination of office

RCL FOODS' policy and contracts of employment do not provide for any *ex-gratia* payments to Executive Directors or Prescribed Officers on termination of office other than that which is prescribed in terms of the provisions of the Labour Relations Act.

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 Implementation Report.

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