



RCL FOODS LIMITED
**REMUNERATION
REPORT**

FOR THE YEAR ENDED JUNE

2021

REMUNERATION REPORT

STATEMENT FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

Dear Shareholder

On behalf of the Board of RCL FOODS I am pleased to present the Remuneration Report for the year ended June 2021.

The 2021 financial year was the first full year where the revised short-term incentive (STI) profit share scheme was implemented. As articulated in the 2020 report, the objective of the scheme is to ensure that there is alignment in the interests of all stakeholders through the introduction of Return on Invested Capital (ROIC) hurdles as a metric used by the Group to measure the efficiency and effectiveness of capital allocation. We have embarked on a glidepath approach where returns of all stakeholders are equitable. The ROIC hurdle for 2021 was set and agreed considering the prevailing challenges and uncertainties of the COVID-19 environment and with reference to historical performance. Group unadjusted ROIC achieved for the current year was 8.5% (2020: negative 4.8%).

During the period under review the Committee met five times and the areas of focus were:

- Reviewing and finalising the management long-term incentive (LTI) scheme, the implementation of which has been delayed to 2022 in anticipation of the possible impact of the strategic review of the RCL FOODS portfolio.

- Approving the RCL FOODS Board Diversity Policy.
- Reviewing director's, prescribed officers' and senior executives' packages and ensuring their alignment to market.
- Chief Executive Officer (CEO) succession process.

This year has seen some changes to the composition of our Committee.

- Mr Roy Smither retired from the Committee in November 2020. I would like to acknowledge and thank him for his meaningful contribution and service.
- Mr George M Steyn has replaced Mr Smither as Chairman - Nominations Committee.
- Mr Derek Msibi was appointed as a member of the Remuneration Committee.

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 role we play 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 fulfills 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).

During the 2021 financial year several changes to the incumbent members of the Committee came into effect.

- Mr RV Smither, non-executive Chairman - Nominations, retired in November 2020. Mr GM Steyn has been appointed as the non-executive Chairman - Nominations replacing Mr RV Smither.
- Mr DTV Msibi was appointed as a non-executive member with effect from 13 November 2020.
- Mr WS Hoare, Chief Human Resources (HR) Officer, resigned from RCL FOODS with effect from 12 September 2020. His position within the business and the Committee remains vacant pending the finalisation of the strategic review.

Mr NP Mageza
Non-executive Chairman,
Remuneration

Mr GM Steyn
Non-executive Chairman,
Nominations

Dr PM Mounakwa
Non-executive director

Mr DTV Msibi
Non-executive director

Mr JJ Durand
Non-executive director

Mr PJ Neethling
Alternate
non-executive director

Mr M Dally
Chief Executive Officer

Vacant
Chief HR Officer

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 and ensuring that they are comparable to market benchmarks;
- Approving the overall cost of remuneration increases awarded;
- Approving awards pursuant to the RCL FOODS LTI schemes;
- Approving the profit share target for the forthcoming financial year;
- 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	5/5
RV Smither	1/2
DTV Msibi	3/3
JJ Durand	5/5
PM Mounakwa	5/5
GM Steyn	4/5
PJ Neethling (Alternate)	3/5

REMUNERATION POLICY

Our remuneration strategy, guiding principles and framework have been developed in the context of the RCL FOODS business strategy, HR strategy and organisational culture.

Strategy

OUR REMUNERATION POLICY AND STRATEGY CONTINUED

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, and to recognise 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.

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-calibre 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 and approval of the Board Diversity Policy;
- Approval of the Management Profit Share Scheme targets for the 2021 financial year;
- Review and finalisation of the Management LTI Scheme with market guidance from PricewaterhouseCoopers (PwC);
- Approval of awards pursuant to the RCL FOODS Share Appreciation Rights Scheme;
- 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; and
- Approval of the appointment of the new CEO.

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 16 November 2021. 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 2020 Annual General Meeting, 96.5% of the shareholders who voted on the Remuneration Policy were in favor and 98.0% of the shareholders who 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:

- Confirmation of the new Management LTI Scheme and approval of the performance conditions for the first allocation in 2022;
- Monitoring market relevance and governance frameworks associated with senior executive remuneration;
- Review and approval of senior executive remuneration and LTI proposals;
- Review of the Remuneration Policy; and
- Setting, per business unit, of the STI targets in line with the glidepath.

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 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 LTI Scheme. 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.

IMPLEMENTATION REPORT CONTINUED

REMUNERATION FRAMEWORK

Guaranteed remuneration

The Group applies a Total Cost to Company pay approach to senior staff and management and a Basic Pay Plus Benefits pay approach to staff.

Guaranteed remuneration is set with reference to the scope and nature of the individual's role and benchmarked against the 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 market alignment.

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 Plus 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 in ensuring a sustainable and profitable organisation.

We have therefore partnered with Discovery Health and Makoti Medical Aid to offer employees healthcare options that are appropriate to their affordability.

The introduction of Makoti Medical Aid in 2016 has enabled employees who are budget-sensitive to be in a position to afford private healthcare.

- For employees on Total Cost to Company remuneration packages (management and staff), employee and employer contributions to medical aid are part of the Total Cost to Company.
- Staff on basic pay plus benefits packages 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 2019. The CEO, executives and managers are eligible to participate in the Management Profit Share Scheme.

Purpose of the Profit Share Scheme:

- 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 Group 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.

Performance conditions

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

- Actual audited Profit Before Tax (PBT) achievement;
- A percentage rate of share (of actual PBT) which is 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 which will be set with a threshold (minimum), on target and maximum achievement level at the start of the financial year.

The scheme applies no cap to the PBT achievement but is capped at the maximum ROIC achievement level.

IMPLEMENTATION REPORT CONTINUED

Individual Profit Share Achievement

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.

There is no automatic entitlement to the Profit Share Bonus as discretion may be applied by either the Remuneration Committee or management.

For the CEO 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 Condition

With effect from 1 July 2020, the CEO and executives’ Profit Share Bonus payout will be subject to a deferred element if the in-year Profit Share Payment exceeds an agreed percentage of annual Total Cost to Company (TCTC).

The deferred bonus is determined as any part of the Profit Share Bonus which exceeds the percentages in the table below:

Authority level	% of annual TCTC
CEO	170
Senior executives*	120
Executives**	80

* Senior executives include officers and divisional managing directors.
 ** Executives include divisional operating directors.

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

Payment

Payment of Profit Share Bonuses and the future settlement of the finalised, but not yet implemented LTI awards will be subject to the satisfaction of an Operating Free Cash Flow (FCF) Condition. That is, the combined cash cost of settlement of Profit Share Bonuses and LTIs will not exceed 35% of Operating FCF of the consolidated Annual Financial Statements of the Group at the time of payment. In addition, a solvency and liquidity check will be undertaken prior to the payment of the bonuses.

If the Operating FCF Condition is not met, the Profit Share Bonuses will be proportionally paid up until the limit of the FCF Condition. The remainder will be re-tested every six months and all payments relating to the remaining amounts will be deferred until the Operating FCF Condition is met.

In the event that the Deferred Bonus Condition comes into effect, any part of the Profit Share Bonus which exceeds the agreed percentage of annual Total Cost to Company will be deferred and paid to the executive 12 months after the payment of the initial bonus.

Termination of employment

The rules of the Profit Share Scheme contain termination provisions that govern payments made to employees who leave the Group’s employ either as “good leavers” (no-fault terminations) owing to death, ill-health, disability, injury, retrenchment, retirement, or the sale of a subsidiary company, or “bad leavers” (fault terminations) owing to resignation or dismissal on grounds of misconduct, poor performance, dishonest behaviour, fraudulent conduct, or abscondment.



* Executives and selected senior employees
 ** All staff and managers who do not participate in SARS or CSP

IMPLEMENTATION REPORT CONTINUED

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. In addition, awards may be approved at half-year if an employee is promoted, or new appointments are made to an appropriate management position.

SCHEME	PARTICIPATING GROUP	ALLOCATION METHODOLOGY	VESTING PERIOD	EXERCISE PERIOD
Share Appreciation Rights Scheme (SARS). A share option scheme that delivers value against share price appreciation	CEO, senior executives, executives and select senior managers	A multiple of annual Total Cost to Company between one and eight times depending on seniority and performance of individual	Three years from award - 33% Four years from award - 33% Five years from award - 34%	Within seven years from vesting date

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.

SCHEME	PARTICIPATING GROUP	ALLOCATION METHODOLOGY	VESTING PERIOD	EXERCISE PERIOD
Conditional Share Plan (CSP)	Select members of the following group - CEO, senior executives, executives	Conditional share award based on level of seniority	Three years from award	Immediately upon vesting

Employee Share Ownership Programme (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.

SCHEME	PARTICIPATING GROUP	ALLOCATION METHODOLOGY	VESTING PERIOD	EXERCISE PERIOD
Employee Share Ownership Programme (ESOP)	All employees who do not participate in the SARS or CSP long-term incentive schemes	Each participating employee is allocated one set of units. The number of units allocated to employees decreases annually thus rewarding longer serving employees more than those who join at a later date.	Seven years	Immediately upon culmination of the scheme - 2022/2023

IMPLEMENTATION REPORT CONTINUED

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 or CEO in the absence of 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. 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.

As a result of the impact of the COVID-19 pandemic on the business it was agreed that salary increases that would have been effective for managers and staff in October 2020 would be delayed until 1 January 2021. No salary increases were made to the CEO, senior executives or executives in January 2021.

MALUS AND CLAWBACK

The Group introduced a Malus and Clawback policy in July 2020. All long-term and short-term awards allocated to participating directors on or after 1 July 2020 are subject to Malus and Clawback conditions. 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 CEO 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 invested 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 against 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.

FAIR AND RESPONSIBLE REMUNERATION

King IV recommends that companies should ensure that all employees are remunerated fairly, responsibly and transparently.

RCL FOODS applies the principle of fair pay based on the value of the job relative to other jobs of similar value (internal equity). Our remuneration policy follows the same fundamental principles across all levels of employees in the Group.

RCL FOODS promotes the elimination of unfair discrimination in respect of remuneration by applying the principle of equal remuneration for work of equal value. Any difference in remuneration will only be unfair discrimination if the differences are directly or indirectly based on race, sex, gender, disability or any other arbitrary ground.

Remuneration decisions are based on merit; we do not discriminate on the grounds of sex, race, religion or belief, disability, age, sexual orientation or gender identity.

We review our internal pay scales on an annual basis and consistently apply them to all our appointments as well as during our annual remuneration review process.

The guidelines for new hire appointments and offers assist HR and line managers to ensure that all offers, both internal and external, are made in an equitable manner.

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