

# Remuneration report

## Remuneration policies and philosophy

The Group's remuneration policies strive to reward employees in a fair and responsible way, which ensures a culture of high performance to deliver returns to shareholders through employees who are motivated, engaged and committed. The Group's remuneration policies and philosophies are contained in this report and their intended consequences are to attract, retain and develop employees with scarce and critical skills who contribute to building sustainable businesses.

## Members

The members of the committee consist of Mr M H Ahmed (chairperson, independent non-executive director), Mr L G Govender (independent non-executive director) and Mr J A Copelyn (non-executive director).

Mr L G Govender was appointed to the committee on 16 November 2016.

On request of the committee members the chief executive officer attends the meetings, but recuses himself from the meetings before any decisions are made in which he is affected.

## Governance

The board delegates responsibility for the oversight of the Group's remuneration practices to the remuneration committee. The committee ensures that the Group has a competitive remuneration structure which is aligned with the Group's strategy and performance goals. The key duties of the committee include:

- ensuring the Group upholds its entrenched remuneration philosophy that promotes the achievement of its strategic objectives;
- determining on an annual basis:
  - the remuneration of non-executive directors;
  - the total remuneration package of executive directors including, where appropriate, annual increases, short-term performance bonuses and long-term incentives; and
  - the remuneration packages of senior management and employees who report directly to the chief executive officer;
- ensuring the combination of fixed and variable pay is appropriate when benchmarking remuneration levels;
- reviewing and recommending to the board all proposals for executive share-based incentives and other short-term and long-term incentive schemes;
- determining targets for any performance-related pay schemes and requesting the board, when required, to seek shareholder approval for any share-based and other long-term incentive schemes; and

- producing a report for inclusion in the company's Integrated Annual Report.

The committee meets at least annually and seeks advice and guidance from external experts, as deemed appropriate. The committee met on 23 June 2016 and 21 June 2017. Attendance of the meetings was as follows:

	23 June 2016	21 June 2017
M H Ahmed	√	√
J A Copelyn	√	√
L G Govender	n/a	X

√ In attendance

X Apologies

## Shareholder engagement

The remuneration committee report, which provides insight into the Group's remuneration practices, will be tabled for a non-binding advisory vote of shareholders at the annual general meeting.

## Composition of remuneration

### Non-executive directors

Non-executive directors receive fees for their services as directors and for serving on board committees. These fees reward the directors fairly for the time, service and expertise that they provide to the Group. Non-executive directors do not participate in the Group's short-term or long-term incentive schemes.

The fees to be paid to the non-executive directors of the company for services as directors are tabled below and are to be approved by shareholders at the annual general meeting:

Category of fee	Proposed fee excluding VAT R
Board member	126 000
Member of the audit committee	52 000
Member of the remuneration committee	52 000

Mr J A Copelyn, Mr T G Govender, Mr Y Shaik and Ms R D Watson are directors of Deneb's ultimate holding company, Hosken Consolidated Investments Limited ("HCI") and/or HCI subsidiary companies, and Ms N B Jappie and Mr L G Govender are directors of HCI subsidiary companies.

The following table reflects the remuneration received by these directors from HCI and its subsidiaries for the year ended 31 March 2017:

Director	Board fees R000's	Salary R000's	Other benefits R000's	Share option expense R000's	Bonus R000's	Total 31 March 2017 R000's	Total 31 March 2016 R000's
J A Copelyn	–	6 493	833	3 803	4 870	15 999	13 230
T G Govender	–	3 380	585	1 640	1 690	7 295	5 815
Y Shaik	–	3 355	–	1 311	2 181	6 847	5 603
R D Watson	657	–	–	–	–	657	609
N B Jappie	231	–	–	–	–	231	150
L G Govender	350	–	–	–	–	350	283

### Executive directors

The remuneration packages of executive directors comprise:

- a guaranteed remuneration package (structured on a cost-to-company basis);
- access to retirement fund and medical aid benefits funded from the guaranteed remuneration package; and
- a short-term discretionary cash-based incentive bonus based on business and individual performance and participation in the Deneb Share Incentive Scheme.

The remuneration structure of executive directors is linked to the Group's medium-term to long-term business objectives and is therefore aligned to shareholder interests. The performance of the chief executive officer is evaluated by the chairperson, while the performance of the other executive directors is evaluated by the chief executive officer. The annual pay increases of the

executive directors are aligned to the annual increase parameters as determined by the remuneration committee.

Executive directors participate in the annual short-term cash-based incentive scheme. To qualify for the incentive, minimum financial targets, based on the Group's return on equity (ROE hurdle), are set by the remuneration committee. The financial targets to qualify for the incentive were achieved and executive directors qualified for short-term cash-based incentives as set out below.

The sustainability of the Group's business is critical in determining remuneration and the board is satisfied that the performance targets do not encourage excessive risk-taking by the executives. The Deneb Share Incentive Scheme in which executive directors may participate consists of a share option scheme, the details of which are disclosed in this report.

Details of the executive directors' remuneration for the year ended 31 March 2017:

Director	Salary R000's	Short-term bonus R000's	Retirement and medical aid contributions R000's	Share option expense R000's	Total 31 March 2017 R000's	Total 31 March 2016 R000's
S A Queen	4 134	1 170	–	2 486	7 790	7 208
A M Ntuli	995	85	203	53	1 336	1 204
G D T Wege	1 873	612	271	358	3 114	3 404
D Duncan	2 851	573	399	699	4 522	3 821

# Remuneration report (continued)

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## **Management and non-bargaining unit employees**

Senior management receives an annual guaranteed salary and participate in the short-term incentive bonus scheme. Guaranteed remuneration for senior executives is set at levels to retain and recruit management talent. Each senior executive position is graded, based on the business's turnover, number of employees, assets under management, locations and the degree of complexity involved in the business. The associated package is benchmarked against an external market survey for a similar job rating. As the Group's philosophy is to reward performance, the salary benchmark is set at the 50th percentile median which allows a lower fixed cost, but higher incentive structure.

The annual review of the performance of senior management is undertaken by the chief executive officer who provides a recommendation to the committee on any adjustments or incentive payments. Key senior managers participate in the Deneb Share Incentive Scheme, with selection based on their strategic contribution. Under the guidance of the remuneration committee the Group has introduced a uniform appraisal and evaluation process for all non-bargaining council employees. This process has been applied to all employees of the Group and is used as a guideline to determine remuneration adjustments.

The average salary increase parameter set by the remuneration committee for the year under review was 6,5% (2016: 6%) and the annual increase date is 1 July.

## **Bargaining unit employees**

Collective salary increases are negotiated each year with the representatives of recognised trade unions.

## **Incentive schemes**

### **Discretionary short-term incentive scheme**

Key employees in each business unit participate in an annual discretionary short-term incentive scheme, which rewards the achievement of performance in excess of predetermined performance targets. The performance target is based on the business unit's core operating profit after interest, adjusted by an imputed interest charge at a hurdle rate. The imputed interest charge is calculated on the higher of net asset value or the average working capital level utilised by each business unit. In addition to the quantitative performance targets, the scheme includes predetermined qualitative performance targets.

### **The Deneb Share Incentive Scheme**

The scheme was implemented to align executive directors' and senior management's objectives with those of the shareholders so as to ensure that those employees are encouraged and motivated to pursue sustainable growth and profitability. The aggregate number of shares which any one participant may acquire in terms of the scheme may not exceed 10 769 729 ordinary shares. The aggregate number of shares which may be utilised for the schedule may not exceed 53 977 647.

Participants are entitled to exercise options based on a minimum service period criteria and a performance target, and are subject to the participant's continued employment on the date of which the option is exercised.

The required period of service is as follows:

- 10% from the first anniversary date;
- 20% from the second anniversary date;
- 30% from the third anniversary date; and
- 40% from the fourth anniversary date.

During the year under review, 11 552 529 (2016: 8 135 448) share options were granted to employees; 639 324 (2016: 677 746) share options were exercised during the financial year.

## Options in issue are as follows:

Option holder	Grant date	Options issued	Strike price (cents)	Vesting conditions	Life of option
S A Queen	14 October 2014	1 382 584	93	Continued employment	3 years
	14 October 2014	1 713 759	136	Continued employment	4 years
	27 January 2015	1 091 401	181	2 years' profitability and continued employment	8 years
	29 June 2015	1 591 233	175	2 years' profitability and continued employment	8 years
	30 June 2016	2 343 944	150	Continued employment	8 years
<b>Total for S A Queen</b>		<b>8 122 921</b>			
G D T Wege	14 October 2014	263 539	0	Immediately	1 years
	14 October 2014	227 691	50	Immediately	2 years
	14 October 2014	576 077	93	Continued employment	3 years
	14 October 2014	594 286	136	Continued employment	4 years
	27 January 2015	865 413	181	2 years' profitability and continued employment	8 years
	29 June 2015	668 258	175	2 years' profitability and continued employment	8 years
	30 June 2016	738 491	150	Continued employment	8 years
<b>Total for G D T Wege</b>		<b>3 933 755</b>			
D Duncan	14 October 2014	403 254	93	Continued employment	3 years
	14 October 2014	499 846	136	Continued employment	4 years
	27 January 2015	1 564 245	181	2 years' profitability and continued employment	8 years
	29 June 2015	891 388	175	2 years' profitability and continued employment	8 years
	30 June 2016	981 939	150	Continued employment	8 years
<b>Total for D Duncan</b>		<b>4 340 672</b>			
A M Ntuli	29 June 2015	164 099	175	2 years' profitability and continued employment	8 years
	30 June 2016	30 632	150	Continued employment	8 years
<b>Total for A M Ntuli</b>		<b>194 731</b>			
Other, not being directors	14 October 2014	3 532 655	0	Immediately	1 years
	14 October 2014	849 754	50	Immediately	2 years
	14 October 2014	2 230 569	93	Continued employment	3 years
	14 October 2014	3 252 512	136	Continued employment	4 years
	27 January 2015	6 030 998	181	2 years' profitability and continued employment	8 years
	29 June 2015	4 379 803	175	2 years' profitability and continued employment	8 years
	30 June 2016	7 457 523	150	Continued employment	8 years
<b>Total other</b>		<b>27 733 814</b>			
<b>Total options in issue</b>		<b>44 325 893</b>			

# Remuneration report (continued)

## Reconciliation of movements in options

Number of options	2017	2016
Opening balance	35 080 818	28 146 932
Awarded during the period	11 552 529	8 135 448
Exercised during the period	(639 324)	(677 746)
Options used for strike price	(216 516)	(523 816)
Lapsed/forfeited during the period	(1 451 614)	–
Closing balance	44 325 893	35 080 818
Exercisable at year-end	13 396 817	9 984 973
Amount expended during the year (included in employment costs) (Rand)	2 625 127	3 255 367
Value of shares issued during the year(Rand)	1 152 604	573 313
Weighted average share price of share options exercised during the year (Rand)	1,63	2,09

The weighted average remaining contractual life of all potentially exercisable options amounts to 8 years.

Further details pertaining to the share incentive scheme is disclosed in note 33 of the financial statements.

## Employee benefits

### Retirement funds

The majority of the Group's subsidiaries have defined contribution pension and provident fund arrangements in place. The assets of such retirement funds are managed separately from the Group's assets and are administered by independent trustees and administrators within an umbrella fund. In addition to the independent administrators, each fund has elected a management committee with 50% employee and 50% employer representation.

### Medical aid

The majority of the Group's subsidiaries offer membership of approved medical aid funds to employees. The Group carries a liability totalling R99 million (2016: R97 million) for post-employment medical aid benefits. Certain employees who joined the Group before 1 July 1996 are eligible for a 50% retirement subsidy of their total medical scheme contributions. Note 18 of the financial statements provides further detail of the post-employment medical aid benefits.

### Top three executive management earners

In accordance with the recommendation of disclosure of King III the top three earners in the Group, excluding executive directors, during the year under review were remunerated as follows:

Top three earners earners for 2017	Top three earners for 2017 R000's
Executive 1	5 327
Executive 2	3 744
Executive 3	3 390

The names of the three most highly paid employees who are not directors have not been disclosed. The committee is of the opinion that such information is private to the individuals concerned and adds no value to stakeholders.