

# FULL REMUNERATION REPORT

62 For more on the remuneration committee

The group's remuneration policy is focused on attracting and retaining employees of the highest calibre. The committee reviews remuneration policies within South Africa and globally and attempts to apply best practice in the group.

As far as possible, the committee aligns the remuneration policy with the interests of shareholders and also seeks to encourage and reward long-term sustainable growth of the group. In the case of senior management, longer-term strategic actions are encouraged by having a high proportion of variable remuneration, payment of which is made out of increased returns to shareholders. The remuneration principles contained in this report are subject to shareholder approval. If approval is not granted for any reason, the previously approved remuneration principles will be adhered to.

Remuneration is based on the following elements:

Base salary	The salary prior to the addition of any benefits or allowances.
Guaranteed package	The amount that comprises the base salary and all employee and employer contributions but exclusive of incentives. It is determined by the level of the position and requirements of the role.
Variable pay	Compensation that is contingent on performance or results achieved.
Short-term incentive	Used to reward performance for contributions made by an employee to the success of his or her business. Designed to motivate and drive exceptional performance with targets set for short-term financial and strategic objectives.
Long-term incentive	Used to encourage senior executives to build up a shareholding, thereby aligning their interests with those of Reunert's shareholders. It is designed as a retention and reward mechanism based on the achievement of longer-term sustainable growth and balances employee focus between long- and short-term goals. Further, targets are set such that vesting of long-term incentives only occurs if positive real growth in shareholder value has been achieved. A small group of key individuals participate in a pure retention scheme, which is also aimed at the long-term sustainability of the group's performance.

For executive management, the average annual remuneration over a business cycle is expected to be made up as follows:

	Note	Estimated % of guaranteed package	Estimated % of total remuneration package
Guaranteed package		100	50
Short-term incentive	1	50	25
Long-term incentive	2	50	25
Total annual remuneration	3	200	100

## Note 1

The short-term incentive is the estimated average annual payment over a business cycle. Economic conditions and individual business performance play an integral role in determination of pay-outs.

## Note 2

Long-term executive incentives are dependent on the performance of all the components of the group. This estimate will be influenced by market conditions, the effectiveness of group strategies and the senior management team's effectiveness in executing group strategies.

The retention scheme for key employees is conditional on remaining in the employ of the group. The percentage of the guaranteed package used for this retention scheme is substantially lower than that of the executive incentive, which is subject to performance conditions.

## Note 3

Total annual remuneration over the business cycle is dependent on the achievement of key performance criteria and is expected to be in the upper quartile of Reunert's peer group.

## GUARANTEED PACKAGE

The group aims to attract and retain individuals with talent, critical skills and an innovative and entrepreneurial bias. Benchmarking against peer companies is performed on an annual basis, and the guaranteed package is reviewed annually with reference to these benchmarks. Individual performance is an integral component of annual increases. The guaranteed package aims to remunerate senior executives in the second quartile (i.e. up to the median of the peer group). The guaranteed package for employees other than executive management is targeted at the median.

## SHORT-TERM INCENTIVE

The incentive (bonus) scheme is based on the achievement of pre-determined targets and an assessment of the individual's performance. The targets include corporate and operational performance measures, as well as individual performance against pre-determined objectives related to key business strategies and requirements. Operating profit (EBIT) is used as the primary financial measure.

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A bonus is earned only when a predetermined threshold is achieved. Should stretch targets be achieved in full, a maximum of 140% of guaranteed package can be earned by executive management. The bonus is structured to be self-funding, with payments made out of increased profits.

Non-financial measures, for example transformation targets, are also set as a condition for executive management to qualify for a bonus payment.

Employees other than executive management are paid bonuses at lower percentages of guaranteed package. These bonuses, other than in exceptional circumstances, do not exceed three months' guaranteed package and are discretionary, dependent on performance.

### LONG-TERM INCENTIVES

The Conditional Share Plan (CSP) was approved by Reunert's shareholders at the AGM held on 12 February 2013. The targets set are intended to be challenging but realistic, are based on a graduated vesting scale, and full vesting requires a stretch performance.

The key terms of the CSP are:

- The performance conditions comprise real growth in normalised headline earnings per share and total shareholder return, each measured independently.
- The vesting period for each allocation shall be 50% after three years and the remaining 50% after four years.
- The performance conditions are measured over the vesting periods for the shares.
- Annual awards will be made.
- The face value of any awards may not exceed 1,5 times guaranteed salary package, dependent on the role and responsibility of the executive.
- The conditional shares are delivered to the executive, for no consideration, after the vesting period, to the extent that the performance conditions are met and provided that the participant is in the employ of the group.

In line with the King III recommendations, the CSP also caters for employees who are specialists in their field and who would not otherwise qualify for the CSP. In this case, to attract, motivate and retain the necessary specialist skills required in Reunert's high technology businesses, no performance conditions apply. The number of shares for specialist employees will be limited and will vest provided that the participant remains in the employ of the group for the full vesting period. The vesting period for each allocation shall be 50% after four years and the remaining 50% after five years from 2013. Allocations are 0,25 times guaranteed package.

Reunert accounts for the share awards as equity settled instruments in terms of IFRS2 Share-based Payments.

### FINANCIAL TARGETS, INFORMATION AND ALLOCATIONS

#### Performance vesting condition for CSP

Performance condition 1	Normalised HEPS	60%
Performance condition 2	Total shareholder return	40%

#### Performance targets for CSP

Below inflation	No vesting
Inflation plus 4%	40% vesting
Inflation plus 8%	100% vesting

These targets will be compounded annually over the vesting period, and vesting will be linear between the above data points.

#### LIFE OF SCHEME

The scheme will terminate after eight years from date of inception, at which time the shareholders will be requested to approve a revised long-term incentive scheme.

#### Maximum participants and allocations for CSP

Participants	Performance vesting Retention	70 individuals 30 individuals
Number of shares to be issued	Maximum annual allocations Scheme maximum allocations (over 8 years) Individual participant annual maximum allocation	1 250 000 shares 10 000 000 shares 125 000 shares
Percentage of total shares in issue	Annual maximum Life of scheme	0,75% 6,00%

The remuneration committee has allocated the following awards:

#### Actual participants and annual costs for CSP

Scheme	Performance vesting (CSP)	Specialist (Retention)
Participants	50 individuals	16 individuals
Number of shares to be issued	918 688	60 685
Percentage of total shares	0,46%	0,03%

### ILLUSTRATIVE CALCULATIONS: COST OF CSP AT 4% AND 8% REAL GROWTH

Compound growth in NHEPS and total shareholder return over 3 years	2013 NHEPS R	2016 NHEPS R (Note 1)	Estimated market capital increase (Note 2)	Estimated value to executives
(Note 3)				
Inflation +4%	5,69	7,57	R1,4 billion	R85 million
Inflation +8%	5,69	8,43	R3,0 billion	R95 million

#### Note 1

Annual compound increase in NHEPS for three years, assuming annual headline CPI inflation of 6%, based on figures from Statistics SA at 30 September 2013.

#### Note 2

Increase in Reunert's market capitalisation after three years based on current PE ratio of 11,5 and 163,1 million shares in issue. This calculation excludes the value of dividends paid in the vesting period.

#### Note 3

Value of shares that will vest in terms of the criteria after three and four years, based again on Reunert's current PE ratio of 11,5 and 163,1 million shares and assuming 918 688 shares are awarded.

Note: The CSP shares allocated at the remuneration committee meeting in November 2012 are, at this stage, not expected to vest.

### SHORT-TERM INCENTIVE AWARDS

#### Target set for 2013

	4%	10%	17%	24%
Growth in EBIT				
Bonus as a percentage of guaranteed package (maximum)	20	40	100	140
Estimated bonus award	R15 million	R30 million	R65 million	R93 million

The EBIT growth reflected above is the average EBIT growth for each business unit participating in the short-term incentive. Certain divisions have higher targets and others lower targets in respect of EBIT growth.

A KPI incentive was introduced in 2013 whereby executives can earn a maximum award of 25% of guaranteed package for the achievement of specific KPIs aligned to the strategic needs of their business. The maximum bonus for any executive remains limited to 140% of guaranteed package.

### ACTUAL ACHIEVED 2013

Decline in EBIT before bonus award		9%
Decline in EBIT after bonus award		13%
<b>Rm</b>	<b>2013</b>	<b>2012</b>
Bonuses earned by CBI-electric segment	9,1	8,6
Bonuses earned by Nashua segment	5,3	13,2
Bonuses earned by Reutech segment	16,7	19,4
<b>Total bonuses earned by operations</b>	<b>31,1</b>	<b>41,2</b>

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Individual companies within each segment earned bonuses for meeting targets set for the 2013 financial year. The exceptional performance by all the Reutech companies in 2013 resulted in bonus awards approaching 100% of guaranteed package being earned.

Included in the objectives for the short-term incentive scheme was the achievement of a predetermined BBBEE rating. The achievement of this rating was a precondition for bonuses to be earned.

**Targets for 2014**

Growth in EBIT after bonus award	17%	25%	38%	46%
Bonus as a percentage of guaranteed package (maximum)	20%	40%	100%	140%
Estimated bonus award	R18 million	R36 million	R75 million	R111 million

In addition, a KPI bonus pool, of R18 million has been created which is a maximum of 20% of the guaranteed package of executives. Again, the maximum bonus for any executive is 140% of guaranteed package.

The EBIT growth reflected above is the average EBIT growth for each business unit participating in the short-term incentive. The individual business units' target percentages differ. Should Reunert in aggregate not meet the above target growth rates, those business units that achieve their specific targets may still earn bonuses.

**REMUNERATION****EXECUTIVE DIRECTORS AND PRESCRIBED OFFICERS**

The remuneration of executive directors for the past two financial years is reflected in the tables below:

**Executive directors**

R'000	Salary	Bonus and performance related payments	Travel allowance	Retirement contributions	Medical contributions	Other	Sub total	Gains on options exercised	Total
<b>2013</b>									
DJ Rawlinson	4 669	656	60	466	55		5 906		5 906
BP Gallagher <sup>1</sup>	1 299		–	130	21	867	2 317	2 320	4 637
MC Krog	2 734	388	98	268			3 488		3 488
<b>Total</b>	<b>8 702</b>	<b>1 044</b>	<b>158</b>	<b>864</b>	<b>76</b>	<b>867</b>	<b>11 711</b>	<b>2 320</b>	<b>14 031</b>
<b>2012</b>									
DJ Rawlinson	4 310	1 700	60	430	50	–	6 550		6 550
BP Gallagher	2 423	810	–	241	36	–	3 510	541	4 051
MC Krog	2 506	1 000	98	246	–	–	3 850	–	3 850
GJ Oosthuizen	138	–	9	16	2	8 946	9 111	1 621	10 732
<b>Total</b>	<b>9 377</b>	<b>3 510</b>	<b>167</b>	<b>933</b>	<b>88</b>	<b>8 946</b>	<b>23 021</b>	<b>2 162</b>	<b>25 183</b>

<sup>1</sup> BP Gallagher resigned from the board on 28 March 2013 on his retirement.

Executive directors do not earn additional remuneration for their attendance at board or committee meetings.

The remuneration of prescribed officers for the past two financial years is reflected in the tables below:

#### Prescribed officers

R'000	Salary	Bonus and performance related payments	Travel allowances	Retirement contributions	Medical contributions	Other	Sub total	Gains on options exercised	Total
<b>2013</b>									
Officer A	2 119	1 591	132	204	44	1	4 091	1 372	5 463
Officer B	1 386	1 290	30	143	70	6	2 925	383	3 308
Officer C	1 423	–	120	222	85	–	1 850	137	1 987
Officer D	1 036	–	111	178	50	–	1 375	220	1 595
Officer E	–	–	–	–	–	–	–	–	–
<b>Total</b>	<b>5 964</b>	<b>2 881</b>	<b>393</b>	<b>747</b>	<b>249</b>	<b>7</b>	<b>10 241</b>	<b>2 112</b>	<b>12 353</b>
<b>2012</b>									
Officer A	–	–	–	–	–	–	–	–	–
Officer B	1 277	–	60	135	63	–	1 535	1 024	2 559
Officer C	1 261	–	120	207	76	–	1 664	–	1 664
Officer D	968	–	111	166	39	–	1 284	1 258	2 542
Officer E	1 670	–	24	164	42	–	1 900	1 875	3 775
<b>Total</b>	<b>5 176</b>	<b>–</b>	<b>315</b>	<b>672</b>	<b>220</b>	<b>–</b>	<b>6 383</b>	<b>4 157</b>	<b>10 540</b>

#### REMUNERATION POLICIES AFFECTING NON-EXECUTIVE DIRECTORS

The appointment of non-executive directors is considered and requires approval by the full board based on proposals received from the Reunert nomination committee.

Non-executive directors do not have service contracts with the company, do not receive any incentives from the company and are not eligible for participation in any long-term share-based incentive plans.

The term of office for non-executive directors is governed by the company's Memorandum of Incorporation, which requires that directors resign every three years, but may make themselves available for re-election by shareholders.

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**REMUNERATION STRUCTURE**

The remuneration of non-executive directors is reviewed by the remuneration committee each year. Remuneration is compared with the median of selected peer companies as a reference point, and recommendations are submitted to the board and then to the shareholders for approval. Fees are approved annually at the company's annual general meeting and are effective from 1 March each year.

**EXPENSES**

Travel and accommodation expenses of R25 039 (2012: R36 771) were reimbursed.

**PAYMENTS TO NON-EXECUTIVE DIRECTORS – 2013**

Fees paid to non-executive directors (between 1 October 2012 and 30 September 2013) are reflected in the table below:

R'000	2013	2012
Total directors' and committee fees paid		
TS Munday	1 006	784
YZ Cuba (resigned 17 May 2013)	173	296
SD Jagoe	583	455
LM Mojela (appointed 1 April 2013)	149	–
TJ Motsohi	277	200
KW Mzondeki (resigned 19 November 2012)	50	323
NDB Orleyn	450	337
SG Pretorius	395	329
JC van der Horst	383	289
R van Rooyen	472	436
<b>Total</b>	<b>3 938</b>	<b>3 449</b>



**SEAN JAGOE** CHAIRMAN REMUNERATION COMMITTEE  
Sandton, 20 November 2013