

REMUNERATION REPORT

REMUNERATION POLICY: BACKGROUND STATEMENT

Reunert's remuneration policy details the principles that govern the group's remuneration practices. The policy ensures that remuneration incentivises performance, is market competitive, and is driven by sound governance principles.

The remuneration policy aims to ensure that the remuneration of executive directors and top management¹ support the achievement of the financial and strategic objectives of the group, attracts and retains scarce skills and rewards high levels of performance. The remuneration policy is designed to align Reunert's business performance through the actions of executive directors and top management with the interests of shareholders. The policy is regularly reviewed to ensure it is appropriate and relevant.

The Remuneration Committee's purpose is to ensure that the remuneration policy is fair and reasonable, while remaining compliant with regulatory and governance requirements, and good business practice. It plays an important role in supporting the transformation strategy of the group and remains cognisant of its responsibility to ensure that remuneration practices in the group deliver shareholder value.

The mandate of the committee includes the matters contemplated in the updated JSE Listings Requirements, alignment to the provisions of King IV, and such related practices as the Board, on recommendation by the committee, which it deems appropriate to adopt. The Board approved the information contained in this report on the recommendation of the Remuneration Committee.

The structure of the committee and its members are covered on [87](#).

The committee has taken cognisance of the performance of the group, including the creation of value for its shareholders, and updated the remuneration policy to reflect alignment with group strategy and shareholder expectations.

This report provides information on:

- > the role of the Remuneration Committee;
- > an overview of the remuneration policy, which includes the remuneration structures;
- > key decisions made during the 2017 financial year;
- > implementation report and remuneration disclosures for the 2017 financial year; and
- > outlook and focus areas for the 2018 financial year.

ROLE OF THE REMUNERATION COMMITTEE

The roles and responsibilities of the committee are set out in the terms of reference, which are reviewed by the committee and approved by the Board annually. In carrying out the responsibilities listed below, the committee has regard to all relevant legal and regulatory requirements.

The Remuneration Committee:

1. develops, reviews and amends the Reunert remuneration policy;
2. determines and approves the remuneration of the group chief executive officer, executive directors and top management;
3. reviews the compensation base and proposed average annual increases for the group's employees;
4. reviews remuneration matters for top management promotions, transfers and termination of employment;
5. considers other special benefits or arrangements of a substantial financial nature and oversees any major changes in employee benefit structures throughout the group;
6. approves the design of, and determines targets for, the short-term incentive (STI) scheme;
7. approves the annual STI payments for executive directors and top management;
8. determines and approves the performance measures and annual allocations for executive directors, top management, and selected employees made under the long-term incentive (LTI) scheme, being the conditional share plan (CSP);
9. sets the participation principles for the deferred bonus plan (DBP); and
10. reviews and recommends fees for non-executive directors.

¹ Top management refers to business unit managing directors and executives employed within Reunert's trading entities referred to as business units in this report.

Key decisions

Key decisions taken during the 2017 financial year:

1. reviewed the remuneration policy;
2. PwC's Remchannel, an independent remuneration advisor, was contracted to conduct job evaluations for executive director and top management positions, and to benchmark Reunert's guaranteed and variable pay against other companies within related industries;
3. approved annual increases for executive directors, top management and salaried employees within the group;
4. approved promotional adjustments for top management;
5. reviewed the structure of the variable pay schemes, being the STI and the LTI schemes. Following the benchmarking exercise, there were adjustments made to the payout scales and operation of the STI scheme. The payout scales were reduced at executive director and top management levels for implementation in the 2018 financial year. A financial modifier was linked to the achievement of strategic KPIs. These changes are set out under the remuneration structures and focus areas for the 2018 financial year;
6. approved STI payouts for the 2017 financial year for executive directors and top management;
7. approved the CSP allocations for the 2017 financial year for executive directors, top management and selected employees;
8. set the performance conditions for the STI and the LTI schemes for the 2018 financial year;
9. set the terms of participation for the deferred bonus plan linked to the STI payouts for the 2017 financial year; and
10. reviewed and recommended to the Board the fees for non-executive directors for 2018. The recommendation was as a result of external benchmarking information received from the Deloitte NED survey.

REMUNERATION POLICY

OVERVIEW OF REMUNERATION POLICY

The remuneration policy is designed to:

- > attract, retain and motivate exceptional and effective individuals;
- > be flexible enough to adjust to changing economic conditions and to the group's needs; and
- > foster individual performance and teamwork.

Remuneration is structured to recognise individual contributions and collective results. There is a clear differentiation between executive directors, top management and employees, based on line-of-sight responsibility, accountability, competencies, work performance and scarcity of skills. To drive a pay-for-performance methodology, there is an increasing element of variable pay at executive director and top management levels.

For executive directors and top management, the targeted pay mix over a business cycle is as follows: GP: 50%, STI: 25% and LTI: 25%. This targeted pay mix is intended to create a significant degree of alignment with shareholder interests, with the aim of driving sustainable value creation over a longer term.

REMUNERATION STRUCTURES

Guaranteed package (GP) and variable pay incentives are aligned to assist the achievement of Reunert's strategic objectives. Executive directors, top management, and selected executive employees are considered for STIs and LTIs which are based on defined performance criteria and strategic execution that relate to the group's performance.

Remuneration comprises three core elements as presented in the table below. The remuneration of executive directors is based on the same principles.

CORE ELEMENTS	PURPOSE AND COMPOSITION	KEY MATTERS	PARTICIPANTS AND PAYMENT
Guaranteed package (GP) <i>Base remuneration plus benefits.</i>	<ul style="list-style-type: none"> > To attract and retain talent. > GP consists of base salary and company contributions toward retirement funding and health benefits. It is a fixed cost and is targeted at the median of relevant market data, i.e. up to the 50th percentile. 	<p>The committee reviews salaries annually, considering factors such as:</p> <ul style="list-style-type: none"> > benchmarks – market data is reviewed to ensure external competitiveness; > prevailing economic conditions; > group or business unit financial performance; > the performance of employees; and > internal parity. 	<ul style="list-style-type: none"> > All employees. > Annual increases are implemented on 1 October each year.

Remuneration policy continued

CORE ELEMENTS	PURPOSE AND COMPOSITION	KEY MATTERS	PARTICIPANTS AND PAYMENT
<p>Short-term incentive (STI) <i>Designed to instil a high-performance culture and to motivate and reward the attainment of short-term objectives.</i></p>	<ul style="list-style-type: none"> > To drive a high-performance culture, STIs are discretionary and structured to reward the delivery of annual financial performance, and the achievement of strategic objectives. > To ensure that the achievement of short-term financial performance is not at the expense of future growth opportunities or sustainability. > The financial KPI for executive directors is an earnings-per-share measure and for all other top management it is based on achieving business unit-specific operating profit targets. > Strategic KPIs are linked to the group strategic pillars and the business unit strategies and are structured to grow the business and increase profitability. Information on strategic objectives is available in the strategy overview. 12 	<ul style="list-style-type: none"> > STIs are based on performance against the financial targets and strategic KPIs. > Financial targets constitute 70% and strategic KPIs constitute 30% of the STIs. > EE targets and external EE appointments are used as modifiers. > A financial modifier to drive the execution of strategy is linked to the achievement of the strategic KPIs. > Failure to achieve the required targets of the EE modifiers results in a downward modification of the incentive payout. > Failure to meet financial targets will reduce or completely deplete the percentage available for the strategic KPI pool. > Incentives are not guaranteed – the full incentive payment depends on performance against predetermined financial targets and strategic objectives and measures. 	<ul style="list-style-type: none"> > Executive directors' and top managers' performances are evaluated annually against set objectives, and this determines the annual payout. > The maximum bonuses for the Group CEO, executive directors, business unit managing directors, and business unit executives are respectively 140%, 130%, 120% and 100% of GP. > Incentives are self-funded (profit target only achieved after providing for the bonus) from central and business unit pools (for group employees and business unit employees respectively). > Senior level management and below are paid incentives at lower percentages of GP.
<p>Long-term incentive performance scheme</p>	<p>The LTI performance scheme drives sustainable long-term performance. LTIs are an integral part of the group's approach to competitive performance-based pay, and are aligned with shareholder returns.</p>	<ul style="list-style-type: none"> > Allocations are made annually, based on defined criteria (seniority of position, size of business unit and contribution to group performance). > There are two performance conditions: <ul style="list-style-type: none"> – normalised headline earnings per share – relative total shareholder return (TSR). > Each performance criterion carries a 50% weighting, and is evaluated against set measures that are determined annually by the Remuneration Committee. 	<ul style="list-style-type: none"> > Participants are executive directors, top management and selected senior management employees that are able to directly impact the financial performance of businesses in the group through the development and implementation of operational strategy. > Performance is evaluated annually, but vesting takes place over a four-year measurement period. > Annual allocations may not exceed two times annual GP.

CORE ELEMENTS	PURPOSE AND COMPOSITION	KEY MATTERS	PARTICIPANTS AND PAYMENT
Long-term incentive retention scheme	Retention of key skills critical for business continuity.	Allocations are made annually and may not exceed 20% of annual GP. Vesting occurs after four years (50%) and five years (50%), with remaining in the employment of the group being the only criteria.	Participants in the LTI retention scheme are those employees who are key to the success of the group, such as technical specialists, high-potential EE candidates and key succession candidates.
Deferred bonus plan (DBP) <i>To retain employees and ensure that long-term behaviour and performance are aligned to shareholder interest.</i>	The DBP was introduced in 2016 to: <ul style="list-style-type: none"> > increase shareholder alignment by encouraging executive directors and top management to invest their STIs in Reunert shares; > enhance the incentivisation, motivation and retention of executive directors, top management and key individuals as approved by the Remuneration Committee; and > the DBP is reviewed annually by the Remuneration Committee and will diminish or be discontinued as the LTI performs. 	<ul style="list-style-type: none"> > Executive directors and top management who qualify for STIs may be offered the opportunity to participate in the DBP. > Individuals who participate in the DBP will receive their elected portion in the form of restricted shares in the company. > The Remuneration Committee annually determines: <ul style="list-style-type: none"> – who can participate; – the percentage of the STI that can be received in deferred restricted shares; – the period for which the restricted shares must be retained by participants with the minimum period being three years, up to a maximum of four years; and – the quantum of the deferred bonus for which participants will qualify at the end of this period. This percentage may not exceed 100%. 	<ul style="list-style-type: none"> > At the end of the stipulated period, participants will be entitled to receive a cash award. > Participants will be entitled to receive share dividend payments on their restricted shares during this period.

The Remuneration Committee, as a result of feedback from shareholders, reviewed the performance measure for the growth in NHEPS performance condition of the CSP. Following the review, GDP was included as an element metric in the performance measure. The review also concluded that the requirement for a NHEPS calculation in LTI schemes, relating to “continuing operations” is no longer required due to the cash proceeds from the Nashua Mobile disposal being substantially invested. In future, the growth in NHEPS will be calculated as defined in the annual financial statements.

The vesting scales for the TSR measure were adjusted to reflect the reduced number of companies currently within the chosen index. This scale may vary depending on constituency in the Index. As a result of the reduction in the number of companies within the chosen index, the peer group for the TSR measure may be reviewed in 2018.

Remuneration policy continued

The CSP's performance conditions for the 2017 allocations are set out in the tables below.

Performance condition 1: Growth in NHEPS		POSITION	% VESTING
NHEPS less or equal to consumer price index [NHEPS <= CPI]	0% vesting	1	100
CPI < NHEPS <= (CPI + GDP + 3%)	Up to 100% vesting on linear basis	2	70
		3	45
		4	25
Performance condition 2: Relative total shareholder return		5	10
(Will be determined by Reunert's position in the chosen index ¹)		6	2,5

Life of scheme

The scheme will terminate after eight years from date of inception (2012).

Maximum participants and allocations for CSP		
Maximum number of participants	Performance vesting	80
	Retention vesting	100
Number of units to be issued	Maximum annual allocations	1 250 000 units
	Scheme maximum allocations (over eight years)	10 000 000 units
% units allocated (to date)		52%

Note: The CSP units allocated at the Remuneration Committee meeting in November 2012 have not vested and the CSP units allocated in November 2013 are not likely to vest.

While regulating and approving any incentives, the committee's actions are always directed towards ensuring fairness and alignment between management and shareholders. For example, in the event of a corporate action that may be in the interest of shareholders but prejudicial to management under the CSP (for example, the payment of a special dividend), the Remuneration Committee will exercise this discretion to ensure continued alignment. Any such change may be motivated by the Remuneration Committee and reported to shareholders in the next remuneration report. The consistent application of the remuneration policy will ensure that the original intent of the policy is met.

The remuneration policy received a favourable vote of 72,5% from shareholders at the 2017 annual general meeting.

NON-BINDING ADVISORY VOTES

During the committee's policy review, it considers input from Reunert's largest institutional shareholders, which they provide during engagement sessions. In the event that the remuneration policy or the implementation report receives a vote against of more than 25%, the company will implement shareholder engagement to address concerns raised. This engagement may be done in person or in writing and will be implemented at a time after the release of the voting results.

¹ JSE Electrical and Electronics sector.

IMPLEMENTATION REPORT AND REMUNERATION DISCLOSURES

2017 annual increases

The average increase for salaried employees in 2017 was 6%. All executive directors received an annual increase of 6%.

2017 performance rewards

Notwithstanding the tough trading and economic conditions, the group delivered a strong financial performance and achieved many of its strategic objectives and KPIs. The committee believes that the STIs awarded to the executive directors and top management within the group for the 2017 financial year appropriately reflect this performance.

Executive directors

STRATEGIC PILLARS	KEY OBJECTIVES FOR 2017	PERFORMANCE AGAINST KEY OBJECTIVES
Diversification	Execution of strategy, with the main metric being on acquisitions, in accordance with group strategic rationale and objectives.	The execution of strategy is ongoing. The acquisition target for this objective was partially achieved, but no STI was earned under this criterion.
People	Development of Reunert group values to embed a values driven culture.	Reunert group values were developed through an inclusive employee process. This objective was achieved.
Transformation	Driving group transformation with a specific focus on EE and increasing EE representation at management levels through external appointments.	Transformation is a priority within the group and is driven by achieving EE targets and EE external appointments. For the transformation pillar of the group strategy, refer to 63 . The targets linked to this objective were exceeded.

2017 short-term incentive awards

Executive directors and business units within each segment qualified for incentive payments by meeting financial targets and strategic KPIs for the 2017 financial year. The committee is satisfied that STI awards are linked and aligned to Reunert's performance throughout the year, which was the result of management's control and operational effectiveness.

The progress on the key objectives for business units for 2017 is disclosed in the strategy overview [12](#), in the segmental performance reviews starting on [37](#) and the transformation strategy review [63](#).

STIs EARNED	2017 R million	2016 R million
Electrical Engineering	22,2	18,6
ICT	19,1	6,8
Applied Electronics	8,5	9,7
Executive directors at head office	13,9	12,9
Total STIs earned	63,7	48,0

The 2017 STIs can be settled in cash or restricted shares, in accordance with the rules of the DBP.

2017 deferred bonus plan

DBP

Deferred bonus percentage	100%
Restriction period	3 years

Information on the 2017 DBP will be disclosed in the 2018 remuneration report, 2016 DBP information¹ is set out in the footnote below.

¹ 2016 DBP has four executive directors and 20 top management participants, with 317 150 restricted shares being issued.

Implementation report and remuneration disclosures continued

2017 LTI awards in terms of the CSP

The Remuneration Committee allocated the following awards. These awards are linked and aligned to the group's solid performance in the 2017 financial year.

CSP	PERFORMANCE VESTING (CSP)	RETENTION VESTING (CSP)
Participants	64	76
Number of units to be issued	1 080 575	125 350

DBP and CSP information for executive directors are included in the remuneration disclosures.

2017 SUMMARY

The committee is confident that the remuneration policy achieved its stated objectives in the 2017 financial year and will continue to generate real long-term value for our shareholders.

SERVICE CONTRACTS AND EARNINGS

Executive directors

Remuneration policies affecting executive directors

All executive directors are compensated according to the group's remuneration policy. Employment contracts of executive directors are in accordance with the group's standard terms and conditions of employment and include a notice period of six months.

Executive directors do not receive extended employment contracts or special termination benefits. Executive directors do not receive additional remuneration for their attendance at Board or committee meetings.

Remuneration and interests

The remuneration of executive directors for the past two financial years is reflected in the tables below. These are payable to the directors of the company by the company and its subsidiaries for services as directors:

R'000	Bonus and performance-related payments		Travel allowances	Retirement contributions	Medical contributions	Subtotal	Deferred shares and other ¹	Total	Fair value of CSP at grant date ²
	Salary								
Executive directors 2017									
AE Dickson	4 909	4 630	132	253	48	9 972	1 544	11 516	3 651
M Moodley	2 290	1 565	–	221	49	4 125	1 565	5 689	1 072
MAR Taylor	3 432	2 227	–	176	65	5 900	2 227	8 126	1 538
NA Thomson	3 944	2 309	–	193	103	6 549	2 309	8 857	1 937
	14 575	10 731	132	843	265	26 546	7 643	34 189	8 198
2016									
AE Dickson	4 517	–	132	344	47	5 040	6 585	11 625	3 932
M Moodley	2 159	814	–	209	48	3 230	1 898	5 128	1 238
MAR Taylor	3 130	–	–	225	110	3 465	1 622	5 087	1 802
NA Thomson	3 636	674	–	250	114	4 674	3 818	8 492	2 237
	13 442	1 488	132	1 028	319	16 409	13 923	30 332	9 209

¹ This represents the short-term incentive that was invested into the deferred bonus plan (DBP). At their election, those directors who are entitled to a short-term incentive in 2017 can elect to receive up to 50% (2016: 100%) of their incentive in deferred shares. Should the directors elect to take deferred shares, then the shares are acquired by the company from the market for the participating directors. These shares are restricted in nature and cannot be sold, pledged or alienated in any way for a period of three years from date of their acquisition. The value of the shares that vest after the three year period will be matched in cash. In 2016, other includes a once-off relocation allowance paid to AE Dickson.

² Conditional Share Plan (CSP). This has been determined using the fair value per unit and the expected vesting probability of the non-market conditions at grant date. The expected vesting probability assumes that 30,27% of the four year options will vest from the NHEPS performance (non-market condition). For further details relating to the valuation methodologies and assumptions used refer to note 19 in the annual financial statements.

Remuneration policies affecting non-executive directors

Appointments and contracts	<p>The appointment of non-executive directors requires approval by the Board, based on proposals received from the Nomination and Governance Committee.</p> <p>Non-executive directors do not have service contracts with the company.</p> <p>The term of office for non-executive directors is governed by the company's Memorandum of Incorporation, which requires that directors must resign every three years, but may make themselves available for re-election by shareholders.</p> <p>The tenure of non-executive directors ends at the annual general meeting following their 70th birthday.</p>
Fees	<p>Non-executive directors receive a standard fee for their services on the Board and Board committees.</p> <p>The Remuneration Committee reviews the fees annually and makes recommendations to the Board for consideration.</p> <p>The review by the Remuneration Committee includes benchmarking information to validate the recommendations submitted to the Board.</p> <p>Fees are submitted for approval annually at the company's annual general meeting, and changes are effective from 1 March each year.</p>
Benefits	<p>Non-executive directors are not eligible for any company incentives, such as participation in long-term share-based incentive schemes.</p> <p>The company covers travel and expense costs incurred in the normal course of business, for example, attending Board and committee meetings.</p>

Payments to non-executive directors made in 2017

Amounts paid to non-executive directors as fees for the year are reflected below. Travel and accommodation expenses of R145 336 were reimbursed to non-executive directors and are not included in the fees shown below.

R'000	COMPANY	
	2017	2016
Non-executive directors		
<i>Total paid for the year (all directors' and committee fees)</i>		
TS Munday	1 423	1 367
T Abdool-Samad	583	577
SD Jagoe	356	356
P Mahanyele	448	404
S Martin	608	576
TJ Motsosi	403	382
NDB Orleyn	585	554
SG Pretorius	595	575
R van Rooyen	652	636
	5 653	5 427

OUTLOOK FOR 2018

Linking remuneration to key objectives

Remuneration is directly linked to financial performance and to the KPIs that drive the execution of the group strategy. Financial targets³ and KPIs determine the extent of the incentives paid to executive directors and top management.

The strategic KPIs for the business units' are contained in the focus areas and outlook in the segment performance reviews starting on [37](#). Different operating profit targets apply to each business unit participating in the STI.

2018 STI for top management

Number of participants	102
	Maximum incentive
Business units' managing directors	Up to 120% (90% financial and 30% strategic KPIs)
Business unit's executives	Up to 100% (70% financial and 30% strategic KPIs)

Strategic pillars and key objectives for 2018

The strategic KPIs for executive directors for 2018 are as follows:

Diversification	Execution of strategy, with the main metric being acquisitions, in accordance with the group's strategic rationale and objectives.
Transformation	Driving group transformation with specific focus on EE and increasing EE representation at management levels.
People	Implementation of Reunert group values to embed a values-based culture.

Number of participants	4
	Maximum incentive
Group CEO	140% (100% financial and 40% strategic KPIs)
Executive directors	130% (100% financial and 30% strategic KPIs)

Financial targets for executive directors for 2018

The NHEPS targets shown in the table below are the financial targets for the executive directors. The percentages shown are calculated in relation to the 2018 budget numbers, which is in accordance with the Reunert growth plan. The maximum payout for the achievement of financial targets is 100% of GP which can only be earned at level 4 (stretch target). The on-target payout for the group CEO and executive directors is 50% and 40% respectively.

NHEPS targets

LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 4
5%	8%	11,5%	15%

This is the full Reunert remuneration report. The online version can be accessed through <https://reunert.co.za/remuneration-report>.

APPRECIATION

Thank you to our shareholders for your support and engagement in 2017, we look forward to further interaction on the Reunert remuneration policy. Thank you to the Remuneration Committee members for their support, healthy debate and for always being available.



Sarita Martin

Chairman: Remuneration Committee

³ Should Reunert, in aggregate, not meet the targeted growth rates, those business units that achieve their specific targets may still earn short-term incentives (bonuses).