Remuneration committee report

The 2014 financial year was a challenging year for the company. Given Basil Read’s performance, Remco has not awarded any short-term incentive (STI) cash bonuses to management and staff. In addition, no long-term incentives (LTIs) have vested or been awarded.

An incentive payment was made to the former CEO, Marius Heys, under the deferred bonus arrangement in place in the 2013 financial year, subject to certain company performance measures. The full details of the payment, and the extent to which performance measures were met, are disclosed in part II of this report.

This year, Remco has focused on realising the company’s strategic vision of becoming the preferred contractor, employer and investment in the South African construction sector. As such, we are considering new incentive schemes for implementation in 2015, aligned to both this vision and the strategic targets set out on page 13. These will be disclosed in the 2015 remuneration report, once approved by the board. Remco will present proposed changes to shareholders for approval.

We have also made progress in meeting remaining disclosure requirements in King III, and all applicable legislative requirements.

In line with emerging best practice in South Africa, we have segmented this report: part I details the company’s remuneration policy, and part II its implementation in the 2014 financial year. As in prior years, our remuneration policy will be put to shareholders for a non-binding advisory vote at the AGM and proposed fees for non-executive directors will be put to a vote by special resolution at the AGM.

Dr Claudia Manning
Chairman of the remuneration committee

8 May 2015
PART I: REMUNERATION POLICY

The board is responsible for ensuring Basil Read's remuneration structures are equitable and aligned with the long-term interests of the company and its stakeholders. To ensure compliance, the board has tasked Remco to assist it in making decisions affecting employee remuneration. The committee was established to ensure that remuneration arrangements support the strategic aims of the business and enable the recruitment, motivation and retention of executives and employees at all levels, while complying with all requirements of law and regulation.

As recommended by King III, the majority of committee members are independent non-executive directors. Members and meeting attendance are disclosed in the corporate governance section of the integrated report.

Role of Remco

The composition and scope of Remco are set out in written terms of reference which have been approved by the board. Salient features include:

- Remco comprises at least three non-executive directors, nominated by the board, with sufficient qualifications and experience to fulfil their duties.
- The committee has an independent oversight role, and makes recommendations to the board for its consideration and final approval. It does not assume the functions of management, which remain the responsibility of the executive directors, officers and other members of senior management.
- Its key role is to assist the board by fulfilling the following roles:
  - Ensuring the company remunerates directors, executives and employees fairly and responsibly.
  - Considering and recommending the approval of employees’ salaries, annual increases and bonuses.
  - Reviewing the remuneration strategy and policy including salaries, benefits, termination benefits, contractual engagement and consultancy packages.
  - Ensuring the remuneration policy is put to a non-binding advisory vote at the annual general meeting of shareholders every year.
  - Considering the performance evaluation results of the CEO and other executive directors, both as directors and as executives, in determining remuneration.
  - Selecting an appropriate comparator group when setting remuneration levels and considering annual salary benchmarking to ensure the organisation remains competitive on remuneration.
  - Regularly reviewing incentive schemes to ensure continued contribution to shareholder value and that these are administered in terms of the rules.
  - Advise and make recommendations on the remuneration of non-executive directors.
  - Oversee the preparation and recommendation of the remuneration report to the board, to be included in the integrated report.
Remuneration committee report continued

Activities for the year
For the year under review, the committee:
➜ Reviewed and recommended executive remuneration for board approval
➜ Reviewed and recommended non-executive directors’ fees for board and final shareholder approval at the AGM
➜ Considered and recommended an annual increase in the company’s salary bill for approval by the board
➜ Received feedback on the analysis of the annual salary review process for monitoring purposes
➜ Monitored the organisation’s transformation and employment equity targets
➜ Reviewed employee retirement funding and healthcare benefits
➜ Received feedback on executive succession planning
➜ Monitored and commented on the internal talent audit process.

Remuneration philosophy and policy
Basil Read’s philosophy is to encourage sustainable long-term performance across all operations. Remco reviews the remuneration policy each year to ensure the framework remains effective to support the company’s business objectives, aligned with best practice, and fairly rewards employees for their contribution to the business, considering the size and complexity of our operations. The purpose of our total rewards package is to attract, retain, motivate and reward staff, in a competitive environment, to achieve our objectives. We are acutely aware of our dependence on appropriately qualified, trained and experienced specialists to achieve our goals, particularly in an environment where demand for scarce skills is continually increasing.

Basil Read’s remuneration policy strives to reward corporate and individual performance through an appropriate balance of fixed pay and short and long-term variable components. A significant portion of total remuneration is performance-related, based on a mixture of internal and external targets linked to key corporate performance indicators.

As a result, the group’s remuneration philosophy needs to ensure that it:
➜ Retains, develops and continues to attract people with the required skills to enable the business to meet its current and future demands
➜ Develops a collaborative and single-focused spirit among different operations that is directed to attaining the company’s objectives and strategy
➜ Clearly differentiates and rewards performance excellence while discouraging and dealing with mediocrity
➜ Achieves the appropriate balance between short and long-term rewards
➜ Enables the payment of rewards and incentives out of a portion of the value created in any financial year
➜ Creates a sustainable leadership structure with the required succession pool for continuity, growth and one that in future becomes more representative of the demographics of South Africa.
Our remuneration philosophy, policies and structures have been developed around these core principles and conform to best practice guidelines in King III.

**Link between remuneration component and strategic objectives**

The key components and drivers of Basil Read’s remuneration structure (which apply to all members of senior management) are set out below:

<table>
<thead>
<tr>
<th>Remuneration component</th>
<th>Strategic intent and drivers</th>
</tr>
</thead>
</table>
| **Base salary**        | ➔ Attract and retain key employees  
                          | ➔ Internal and external equity  
                          | ➔ Reward individual performance. |
| **Benefits**           | ➔ External market competitiveness  
                          | ➔ Integrated approach to wellness driving employee effectiveness and engagement. |
| **Allowances**         | ➔ Comply with legislative, negotiated and contractual commitments. |
| **Short-term incentive (STI) (less than 12 months)** | ➔ Align with company performance against financial targets  
                          | ➔ Safety performance (against internal and external targets)  
                          | ➔ Reward performance against company targets. |
| **Long-term incentive (LTI)** | ➔ Attract and retain senior employees, with the majority of awards linked to company performance targets  
                                   | ➔ Direct alignment with shareholders’ interests by linking the level of rewards to the achievement of performance targets. |

**Current components of remuneration**

Remco ensures that the components of remuneration, including annual guaranteed remuneration, STIs and LTIs, are appropriately linked to achieve the company’s strategic objectives.

**Guaranteed remuneration**

Basil Read uses a total guaranteed package (TGP) approach that encompasses a cash component, fixed car allowance, retirement funding and employer contributions to employee benefits.

**Benchmarking**

The company uses the Paterson job grading system. It participates in, and subscribes to, external online benchmarking remuneration surveys that facilitate reliable comparisons of remuneration for executive job descriptions and across the company.

Our aim is to remunerate all competent performing employees between the 50th and 75th percentiles of the national all-industries market, ensuring they are properly benchmarked in their respective disciplines. Our policy also makes provision to reward above the 75th percentile for exceptional performance and to retain scarce skills.
Remuneration committee report continued

Pay scales
Basil Read’s pay scales are guided by a number of key best practice principles, aiming to balance affordability and competitiveness. Movement within pay scales is based on the performance of the individual in the job. The following features are incorporated in the design of Basil Read’s pay scales:

Salary increases
Salary increases for executives and staff consider the individual performance score after the annual performance assessment, and the current position of the employees’ guaranteed pay in the pay scale. No employees’ percentage allocation may be more than double the recommended increase for that year, or the maximum of the pay scale. Ad hoc market adjustments are only made in exceptional circumstances and must be motivated by divisional executive management.

Employee benefits
Basil Read makes provision for employee retirement funding by means of a defined contribution fund, which is compulsory for all salaried employees. It is also compulsory for all new salaried employees to belong to the company’s medical aid scheme. Where applicable, employees can remain on their spouse’s medical aid and provide proof of membership. Basil Read makes a 16% employee contribution to the retirement fund, and employer contribution to group life (1.85%) as well as to employee disability cover (0.96%).

Key personal performance indicators are set during the performance management process, and include personal and financial performance indicators.

The pay scale supports the remuneration philosophy, and is pitched at the market median.

The principles of internal and external equity are upheld, while being flexible enough to respond to internal and external pressures.

It allows for superior performance to be rewarded.

It helps ensure consistent decision-making and application of the remuneration philosophy, and is legally defensible.

Implementation of the scale is not disruptive or unnecessarily costly, and is reviewed annually.

It has appropriate stakeholder buy-in, and is affordable but competitive.
Variable remuneration

STIs

The table below illustrates the STI scheme in force in the 2014 and 2013 financial years:

### STI scheme for executive directors, executive management and divisional executive management

| Purpose and objective | Ensures shareholders receive their targeted return on investment  
<table>
<thead>
<tr>
<th></th>
<th>Appropriately balanced between company performance, divisional performance and individual performance.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligibility</td>
<td>The scheme is designed for executive directors, company executive management and divisional executive management</td>
</tr>
<tr>
<td>Maximum earning potential</td>
<td>Expressed as a percentage of TGP as set out below</td>
</tr>
<tr>
<td>Position</td>
<td>Earning potential (% of TGP)</td>
</tr>
<tr>
<td>Executive director and executive management</td>
<td>200</td>
</tr>
<tr>
<td>Divisional executive management</td>
<td>100</td>
</tr>
</tbody>
</table>

#### Performance measures

The performance measures are as follows:

- **Company return on equity (RoE), with a linear vesting profile**
  - <15% company RoE: No executive bonus will be paid
  - 15% to 17.5% of company RoE: Executive bonus pool of 3.5% of company net profit after tax (NPAT)
  - 17.6% to 20% of company RoE: Executive bonus pool of 4.25% of company NPAT
  - >20% of company RoE: Executive bonus pool of 5% of company NPAT
Remuneration committee report continued

<table>
<thead>
<tr>
<th>Divisional RoE, with a linear vesting profile to be applied to all staff</th>
<th>Company performance modifier</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;15% divisional RoE</td>
<td>No executive bonus will be paid</td>
</tr>
<tr>
<td>15% to 17.5% divisional RoE</td>
<td>Executive bonus pool of 3.5% of company net profit after tax (NPAT)</td>
</tr>
<tr>
<td>17.6% to 20% divisional RoE</td>
<td>Executive bonus pool of 4.25% of company NPAT</td>
</tr>
<tr>
<td>&gt;20% company RoE</td>
<td>Executive bonus pool of 5% of company NPAT</td>
</tr>
</tbody>
</table>

The divisional/company bonus pool determined by the formula above will be further adjusted based on company performance (which acts as a modifier) as follows:

<table>
<thead>
<tr>
<th>Divisional RoE adjusted by company RoE</th>
<th>Company performance modifier</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;15% company RoE</td>
<td>Divisional/company bonus pool to be reduced by 30%</td>
</tr>
<tr>
<td>15% to 20% company RoE</td>
<td>Divisional/company bonus pool to be reduced by 15%</td>
</tr>
<tr>
<td>&gt;20% company RoE</td>
<td>No reduction of divisional/company bonus pool</td>
</tr>
</tbody>
</table>
In all cases, payment of STIs will be made after Remco considers the solvency and liquidity of the division and the company. If there is insufficient cash to meet the performance bonus payment, no payment will be made. RoE measures will be based on the company’s audited financial results. The method of calculation is set out below:

<table>
<thead>
<tr>
<th>Measure</th>
<th>Company RoE modifier</th>
<th>Total STI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive directors, executive management and divisional executives</td>
<td>( \left( \frac{\text{Company RoE} %}{\text{vesting target}} \right) \times 100 )</td>
<td>( \left( \frac{\text{Divisional RoE} %}{\text{vesting target}} \right) \times 100 )</td>
</tr>
<tr>
<td></td>
<td>=( \left( \frac{\text{Company RoE} %}{\text{vesting target}} \right) \times 100 )</td>
<td>=( \left( \frac{\text{Divisional RoE} %}{\text{vesting target}} \right) \times 100 )</td>
</tr>
</tbody>
</table>

In exceptional circumstances, Remco, on recommendation from the CEO, may consider external and internal factors that could have contributed to thresholds not being met and may award purely discretionary STIs on an individual and divisional basis. This is in line with the King III recommendation that external factors beyond the control of executives be considered to a limited extent.

- The company may pay STIs to all employees in support structures, considering the performance of individuals in achieving their objectives for the year through the company’s performance management system.
- Site-based employees will be paid site bonuses according to site profitability and predetermined targets.
- Bonuses for all employees based at the corporate office must be referred to the executive committee for approval.

Provision will be made for good leavers.

The STI scheme will be revised in 2015.
Remuneration committee report continued

**LTIs**
The share option scheme is a legacy scheme, and its outstanding options vested at the end of the 2013 financial year. No further awards will be made in terms of this scheme.

The LTI arrangements for executives and senior managers are under review – see the forward-looking component below. New LTIs will be implemented to achieve the following objectives:

- To drive longer-term sustainable performance in the company
- To align management and shareholder interests over the long term
- Manage retention of executives and key positions in the company.

**Forward-looking component**
Remco is considering changes to STI and LTI policies to maximise shareholder value. Once approved by the board, proposed changes to these schemes will be tabled at the 2015 AGM for shareholder approval. The mechanics of the proposed schemes will be disclosed in the 2015 remuneration report.

**Dilution limits**
Dilution limits for the proposed LTI scheme will be disclosed to shareholders for approval ahead of the 2015 AGM.

**Executive and prescribed officer contracts of service**
Executive directors and prescribed officers have contracts of employment with notice periods of up to three months. The normal retirement age for executive directors is 65. The company is not bound by any employment contracts to make balloon payments or severance payments in terminating employment. In the event of early termination, the company does not automatically award incentives to executives or prescribed officers, and any incentives awarded on early termination are at Remco's discretion. The executives and prescribed officers are not subject to restraint of trade agreements.

**Non-executive directors**
The board applies principles of good corporate governance with regards to directors' remuneration and stays abreast of trends. Non-executive directors' fees are recommended to the board by Remco, and then proposed to shareholders for approval at the AGM.

When determining the proposed level of non-executive directors' fees, Remco considers market practices and norms as well as additional responsibilities placed on board members by new legislation and corporate governance principles.
The company’s policy is that fees for non-executive directors are market-related but not linked to share performance. No bonuses or share incentives are awarded as these can create a potential conflict of interest.

Non-executive directors are reimbursed for expenses incurred in performing their duties on behalf of the company.

**PART II: IMPLEMENTATION**

**Guaranteed pay adjustments for 2014**

In the 2014 financial year, base salaries were benchmarked against market data using the methodology described in part I and we confirmed that our guaranteed pay package is competitive. Average salary increases for executives and general staff in March 2014, for that financial year, were linked to inflation. Executives received an increase of 5.2%.

**2014 STI payments**

Due to the company’s performance in 2014, none of the STI measures were met and no bonuses were paid to any executives.

**LTI awards made in 2014**

No LTI awards were made in the review period. The deferred bonus payment made to the former CEO, Marius Heyns, in 2014 is detailed later.

**LTI awards vesting in 2014**

No LTI awards vested in the review period.

**Former CEO’s deferred bonus arrangement in 2014**

In terms of Mr Heyns’ five-year performance agreement, entered into in 2009 with the company, an additional deferred bonus would accrue to him if he met certain criteria for each year of that period:

- Headline earnings per share increasing by at least a percentage equal to the spot rate as at 30 September of each year of the RSA five-year retail bond rate plus 50%.
- Cash flow from operating activities to be cash generative in each year.

Accordingly, R10 million plus interest of R2.3 million was paid in full and final payment for this incentive which only accrued for the 2009 financial year.

**Executive directors’ and prescribed officers’ emoluments**

The tables reflecting the breakdown of annual remuneration for executive directors and prescribed officers for the years ended December 2014 and December 2013 are on pages 109 and 111.

**Non-executive directors**

Current and proposed fees for non-executive directors are set out on page 110. The fees proposed for the 2015 financial year are unchanged from the 2014 financial year. This is the third consecutive year that these fees have remained unchanged.