

Remuneration committee report



Dr Claudia Manning | Chairman of the remuneration committee



We maintain our belief that pay for performance is the cornerstone of the term 'variable remuneration' – remuneration that is varied to reflect performance: from withholding variable remuneration where performance has been unacceptable, to awarding appropriately where performance has been excellent. In this way, we use our short-term incentive (STI), and other tools at our disposal, to drive a performance culture – benefiting the company, our shareholders and our employees.

To improve our variable remuneration element, and drive long-term objectives, we have finalised a long-term incentive (LTI) policy which has been approved by the board. We believe this will assist in fostering a performance culture and provide alignment between employees and shareholders. This LTI policy will be tabled at the upcoming annual general meeting (AGM) for shareholder approval.

The 2016 financial year proved challenging for the company in terms of achieving strategic targets. As such, the remuneration committee (Remco) has not awarded any STI cash bonuses to management and staff. In addition, no LTIs have vested or been awarded.

Remco remains abreast of market trends in the industry, and monitors regulatory

and governance changes, resulting in our policies being amended where applicable.

We also continue to demonstrate our commitment to ongoing shareholder engagement by addressing concerns raised by you, our shareholders, as indicated in Part II. We will actively maintain open channels of communication with you to ensure our remuneration policies and practices remain fair and responsible, and are aligned with best market practice.

A handwritten signature in black ink, appearing to read 'C Manning'.

Dr Claudia Manning
Chairman of the remuneration committee

31 March 2017

PART I: Remuneration philosophy and policy Governance and the remuneration committee (Remco)

Role of Remco

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 structures support the strategic aims of the business and enable it to recruit, motivate and retain executives and employees at all levels, while complying with statutory requirements.

The composition and scope of Remco is detailed in its terms of reference which have been approved by the board and appear on our website: www.basilread.co.za

In line with corporate governance standards, Remco is chaired by an independent non-executive director and the other two members are non-executive directors.

Members of Remco and meeting attendance

Members and meeting attendance are disclosed in the corporate governance section on page 69.

Activities for the year

For the review period, Remco reviewed the remuneration policy to ensure the framework remains effective to support the company's business objectives, aligned with best practice and particularly King IV, and fairly rewards employees for their contribution to the business, considering the size and complexity of our operations. Key activities included:

- 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
- Considered an appropriate executive succession plan which will be implemented accordingly
- Reviewed and considered recommendations on a revised long-term incentive plan
- Reviewed the company's internal wage gap relative to the market.

Remuneration policy and components of remuneration

Policy

Basil Read's philosophy is to encourage sustainable long-term performance across all operations.

In line with this philosophy, the purpose of our total rewards package in a competitive environment is to attract, retain, motivate and reward staff 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.

Accordingly, 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. For full details on the staff remuneration policy, please follow the link: www.basilread.co.za.

Remuneration committee report continued

Components of remuneration

Fixed/variable	Element	Detail and link to strategic objectives
Fixed	Total guaranteed package (TGP) <ul style="list-style-type: none"> • Base salary • Benefits • Allowances 	<p>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.</p> <p>We use the Paterson job-grading system.</p> <p>The company participates in and subscribes to external online benchmarking remuneration surveys that facilitate reliable comparisons of remuneration for executive and other job descriptions.</p> <p>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.</p> <p>Basil Read provides for employee retirement funding through 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. Where applicable, employees can remain on their spouse's medical aid and provide proof of membership. Basil Read makes a 16% employer contribution to the retirement fund, and employer contribution to group life (1.85%) as well as to employee disability cover (0.96%).</p> <p><i>Our approach to TGP enables us to attract and retain key employees by ensuring we are both internally and externally competitive in the way we pay. We believe our benefits demonstrate our integrated approach to wellness, driving employee effectiveness and engagement, and our commitment to complying with legislative, negotiated and contractual commitments.</i></p>
Variable	Short-term incentive (STI) (<12 months)	<p>The STI is based on a combination of:</p> <ul style="list-style-type: none"> • Company performance against profit before tax (PBT) targets • Personal performance. <p>The STI is multiplicative, and payments are determined by the following formula: TGP x on-target STI % x business score x personal score</p> <p>Through employees' balanced scorecards, transformation, project financial control, operational management and execution, safety and other strategic focus areas can be addressed. These will have an impact on the STI outcome by incorporating the personal score.</p> <p>The STI supports our initiatives to develop and retain a world-class construction and engineering team, by ensuring STI outcomes are based on solid market benchmarks, modified for affordability and performance.</p> <p>Through transparent communication of components in the STI, meaning employees are able to calculate their expected STI and ascertain how both company performance and personal performance can affect their final outcome, we hope to assure our employees that hard work and superior performance result in fair and deserved reward, while encouraging them to continue striving to perform to their fullest.</p>
	Long-term incentive (LTI) (>12 months)	<p>Eligibility is limited to senior management</p> <p>The purpose of the new LTI is to:</p> <ul style="list-style-type: none"> • 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 achieving performance targets. <p>Two instruments are being considered for the new LTI, namely bonus shares and performance shares.</p>

Variable remuneration – further detail

Short-term incentive scheme (STI)

Remuneration component	Strategic intent and drivers																				
Purpose	The STI is one of the components of remuneration that enables the 'pay-for-performance' element. It seeks to ensure that employees' total reward packages are both market competitive and variable enough to ensure that excellence on a personal and company level can be encouraged and rewarded.																				
Operation	<p>STI payments for executives are calculated in the same way as for all employees, according to the following formula: $TGP \times \text{on-target STI \%} \times \text{business score} \times \text{personal score}$</p> <p>Due to the multiplicative nature of the formula, the business score and personal score act as modifiers to the on-target STI, which is a function of the executive's TGP and relevant on-target STI percentage.</p> <p>The on-target STI percentage is determined according to grade, using the table below.</p> <table border="1"> <thead> <tr> <th>Paterson job grade</th> <th>Target incentive percentage</th> </tr> </thead> <tbody> <tr> <td>F upper</td> <td>50%</td> </tr> <tr> <td>F lower</td> <td>45%</td> </tr> <tr> <td>E upper</td> <td>35%</td> </tr> <tr> <td>E lower</td> <td>25%</td> </tr> <tr> <td>D band</td> <td>15%</td> </tr> <tr> <td>C band</td> <td>10%</td> </tr> </tbody> </table> <p>By modifying the on-target STI by the business score and personal score, if actual PBT is below the threshold, no STI will be paid. Similarly, if the personal score for the executive is 1, no STI will be paid. The maximum that can be paid to any executive is 180% of their on-target STI (150% maximum business score x 120% maximum personal score).</p>	Paterson job grade	Target incentive percentage	F upper	50%	F lower	45%	E upper	35%	E lower	25%	D band	15%	C band	10%						
Paterson job grade	Target incentive percentage																				
F upper	50%																				
F lower	45%																				
E upper	35%																				
E lower	25%																				
D band	15%																				
C band	10%																				
Performance measures	<p>The business score is determined against PBT targets, as follows:</p> <table border="1"> <thead> <tr> <th>R000</th> <th>Threshold</th> <th>Budget</th> <th>Stretch 135% of budget</th> </tr> </thead> <tbody> <tr> <td>Profit before tax</td> <td>126 218</td> <td>157 772</td> <td>212 992</td> </tr> </tbody> </table> <p>PBT targets have been determined by considering the South African economic environment, conditions in the construction sector; Basil Read's order book, turnover for the year; performance of key large contracts.</p> <p>The personal score of executives is determined by considering their performance against strategic performance targets including PBT, order book, turnover; headline earnings per share (HEPS), safety and transformation.</p> <p>The personal score acts as a modifier; as shown below:</p> <table border="1"> <thead> <tr> <th>Rating</th> <th>Resulting performance score</th> </tr> </thead> <tbody> <tr> <td>5</td> <td>120%</td> </tr> <tr> <td>4</td> <td>110%</td> </tr> <tr> <td>3</td> <td>100%</td> </tr> <tr> <td>2</td> <td>50%</td> </tr> <tr> <td>1</td> <td>0%</td> </tr> </tbody> </table>	R000	Threshold	Budget	Stretch 135% of budget	Profit before tax	126 218	157 772	212 992	Rating	Resulting performance score	5	120%	4	110%	3	100%	2	50%	1	0%
R000	Threshold	Budget	Stretch 135% of budget																		
Profit before tax	126 218	157 772	212 992																		
Rating	Resulting performance score																				
5	120%																				
4	110%																				
3	100%																				
2	50%																				
1	0%																				
Maximum value of cash incentive (annual or subject to deferral)	<table border="1"> <thead> <tr> <th>Paterson job grade</th> <th>Maximum percentage of TGP</th> </tr> </thead> <tbody> <tr> <td>F upper</td> <td>90%</td> </tr> <tr> <td>F lower</td> <td>81%</td> </tr> <tr> <td>E upper</td> <td>63%</td> </tr> <tr> <td>E lower</td> <td>45%</td> </tr> <tr> <td>D band</td> <td>27%</td> </tr> <tr> <td>C band</td> <td>18%</td> </tr> </tbody> </table>	Paterson job grade	Maximum percentage of TGP	F upper	90%	F lower	81%	E upper	63%	E lower	45%	D band	27%	C band	18%						
Paterson job grade	Maximum percentage of TGP																				
F upper	90%																				
F lower	81%																				
E upper	63%																				
E lower	45%																				
D band	27%																				
C band	18%																				
Discretion of Remco	<p>Remco retains ultimate discretion in terms of paying the STI. The primary factor considered when exercising this discretion is:</p> <ul style="list-style-type: none"> Company being in a cash-positive position <p>This discretion is intended to guard against unintended outcomes from applying the formula.</p>																				
Changes for 2017	No changes are proposed for the STI for 2017.																				

Remuneration committee report continued

Long-term incentives

The LTI policy for executives and senior managers has been approved and will be put to shareholders for their vote in the upcoming 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.

Non-executive directors

Appointment of non-executive directors

Non-executive directors are subject to election by shareholders at the first AGM following their appointment, after which they must retire according to the board rotation plan.

There were no new appointments in the financial year.

Non-executive directors' fees

Non-executive directors' fees comprise a retainer fee for membership of the board or committee, and a fee per meeting.

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. Board fees comprise a base fee and attendance fee which, in the committee's view, are sufficient to attract board members with the appropriate level of skill and expertise. Fees are not automatically increased, but as a principle, are aimed at the median of the selected comparator group. Non-executive directors' fees are recommended to the board by Remco, and then proposed to shareholders for approval at the AGM.

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

A 5% increase was proposed in 2016 for non-executive directors whose fees were found to be below the benchmark, with no increases for non-executive directors whose fees were found to be at or above the benchmark. However, increases reflected in the 2015 report were inaccurate and the correct figures appear on page 54 of the annual financial statements.

Non-binding advisory vote

Shareholders are requested to cast a non-binding advisory vote on Part II of this remuneration report.

Part II: Implementation Disclosure of 2015 executive directors and prescribed officers' short-term incentives paid in the 2016 financial year

The short-term incentive for executive directors and prescribed officers for the 2015 financial year were determined on achieving the PBT target as indicated below:

	Threshold 80% of budget	Budget 100%	Stretch 135% of budget
R000			
Profit before tax	163 200	204 000	275 400
Vesting %	30	100	150

Based on achieving the 2015 PBT budget as shown above, executive directors and prescribed officers received the following short-term incentive payments in 2016:

Name	2015 STI paid in 2016
N Nicolau	2 750 000
A Ndoni	1 190 475
J Johnston	1 000 000
O Giot	1 374 750
K Mapasa	1 295 043
A Fourie	1 170 000
B Morton	1 041 300

Disclosure of 2016 executive directors and prescribed officers' remuneration *Guaranteed pay adjustments for 2016*

In the review period, base salaries were benchmarked against market data using the methodology described in Part II, confirming that our guaranteed pay package remains competitive. Average salary increases for executives and general staff in March 2016, for that financial year, were linked to inflation. Executives received an increase of 4.87% compared to an average increase of 4.06% for general staff.

STIs for 2016

STIs for executive directors and prescribed officers for 2016 would have been based on the profit before tax level reached by the company, using the scale to the right:

R000	Threshold 80% of budget	Budget 100%	Stretch 135% of budget
Profit before tax	126 218	157 772	212 992
Vesting %	30	100	150

For the review period, the company achieved neither its budget target nor the 80% of budget threshold. As such, no STI payments were made.

LTI awards made in 2016

No LTI awards were made in the 2016 financial year, as there was no LTI plan in place.

LTI awards vesting in 2016

No LTI awards vested in 2016, and no LTI awards remain outstanding.

Remuneration committee report continued

Executive directors' and prescribed officers' emoluments

Remuneration paid to executive directors and prescribed officers in 2016

Name	TGP R	2016 STI R	LTI vesting in 2016 R	Total 2016 R
N Nicolau	5 174 399	–	–	5 174 399
A Wightman ^{1,3}	7 578 660	–	–	7 578 660
MT Sadik ²	875 000	–	–	875 000
A Ndoni	2 594 440	–	–	2 594 440
J Johnston	3 178 320	–	–	3 178 320
O Giot	3 189 160	–	–	3 189 160
K Mapasa	2 804 040	–	–	2 804 040
A Fourie	2 801 319	–	–	2 801 319
B Morton	1 919 920	–	–	1 919 920

¹ Resigned 30 September 2016.

² Appointed 1 October 2016.

³ Included is a once off payment of R5.5 million.

No STIs for executive directors and prescribed officers were paid in 2016 as company performance targets were not achieved.

Non-executive director fees

No proposed increase for the next financial year. Fees for the next financial year appear in the directors' report on page 2 of the annual financial statements.

Non-executive director fees

Total emoluments paid to non-executive directors for the year ended 31 December 2016 are disclosed on page 53 of the annual financial statements.

Stakeholder engagement

We value input from our shareholders and, to demonstrate our commitment, we have summarised our understanding of your concerns as follows:

- The need to align executive and shareholders' interests by implementing a minimum shareholding requirement that affords executives a period in which to build up their shareholding in the company
- The importance of providing disclosure on the manner in which the company determines PBT targets
- The need to incorporate a target for a free cash flow per share condition into the STI.

We will continue to keep the lines of communication open to maintain good relations.