# PART 2:

# REMUNERATION POLICY

## Remuneration governance

The human capital committee (HCC) is constituted as a committee of the Board of directors and is responsible for overseeing the formulation and implementation of the Group's remuneration policy. The majority of the members of the HCC are independent NEDs. The NEDs serving on the HCC take recommendations on their own fees from the executive committee, based on a benchmarking exercise, which are then tabled before the Board and, thereafter, submitted for shareholder approval at the AGM.

The members of the HCC, and their attendance at HCC meetings in the 2018 financial year, are set out in the corporate governance report on page 107 of the integrated report.

The CEO, CFO and other members of the executive committee attend the HCC meetings by invitation. However, they may not vote on any matters arising at the HCC and are not present when their remuneration is discussed. The company secretary is the secretary for the HCC.

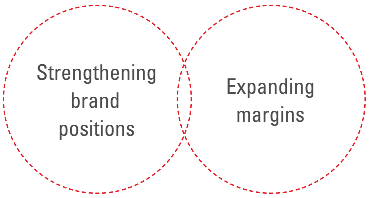
## DUTIES AND ACTIVITIES OF THE HCC

The duties of the HCC are set out in its terms of reference, which is available on Pioneer Foods' website.

The activities of the HCC in FY2018 are summarised in part 1 of this report.

### Introduction: remuneration policy

The remuneration policy largely addresses the principles and policies affecting the CEO, executive management and senior management of the Group. This stakeholder group has a clear line of sight of the key strategic themes of Pioneer Foods that drive the twin objectives of:




The alignment and execution of the strategic focus areas, as well as the rewards made to this team, are essential to the overall performance of the Group. The strategic objectives of the remuneration policy are to:

- Support the attainment of the Group's business strategies
- Attract, retain and motivate key and talented people
- Compete in the market place to be an employer of choice
- Reward individual, team and business performance and encourage superior performance
- Support the key values of the Group.

The remuneration policy is prepared and implemented on a Group-wide basis (excluding employees falling within collective bargaining units who are subject to separate wage agreements). Where certain fixed or variable components of the policy are only available to executive directors or key employees, this is made clear. Recognition is viewed as critical to long-term sustainability, and the Group has financial and non-financial methods of rewarding employees.

## FAIR AND RESPONSIBLE REMUNERATION

Pioneer Foods is committed to the principle of fair and responsible remuneration. To this end, it constantly monitors pay levels between employees doing work that is the same, or substantially the same, or that is of equal value. Where internal pay disparities are identified, and where the HCC concludes that these are unjustifiable, the HCC is committed to addressing these disparities progressively over time.

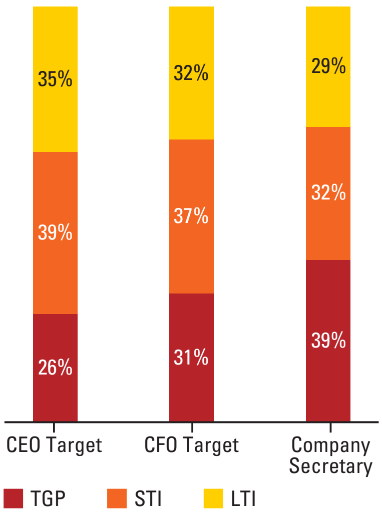
## CEO, EXECUTIVE TEAM AND SENIOR MANAGEMENT REMUNERATION

The remuneration mix of the CEO, executive management and senior management is differentiated to attract, retain and reward exceptional talent. The pay mix at the more senior levels places an emphasis on variable pay, making it more 'at risk'. For employees at more junior levels, the mix is weighted towards guaranteed pay.

Each element of the mix is explained in the summary table on page 124.

The on-target policy remuneration mix for the prescribed officers for the forthcoming year is set out below. This mix is generally aligned with best market practice. There have been no amendments to the package structure for executives from 2017.

ON-TARGET POLICY REMUNERATION MIX




The Company makes LTI allocations based on a set multiple of guaranteed remuneration for each participant, depending on their level. This methodology and the applicable multiples are explained in more detail in the summary table on page 124. Please note that for the purposes of the graph above, the LTI multiples (as a percentage of TGP) have been annualised and take into account the vesting profile of the SAR (i.e. equal tranche vesting in years three, four and five from the grant date).

### Group strategy alignment

Alignment of Pioneer Foods' strategic direction, specific value drivers and the remuneration of the CEO, executive management and senior management members is ensured by the HCC.

The total remuneration approach is reviewed by the HCC to ensure that the relative percentage of guaranteed and variable pay is market related and supportive of the Group's strategic objectives.

A summarised table of each remuneration element for executive directors and executive management is included. This is presented together with a link between each element of remuneration and Pioneer Foods' value drivers and long-term strategy, as well as the value created by the outcomes of the performance conditions across one or more of the six integrated reporting capitals that Pioneer Foods uses or affects.

## SUMMARY OF 2019 REMUNERATION POLICY

| | FIXED PAY | |
|---|---|---|
| | **BASE SALARY** | **RETIREMENT, MEDICAL AID AND OTHER BENEFITS** |
| **PURPOSE AND LINK TO STRATEGY** | Assists in the retention of employees and contributes to Pioneer Foods' overall employee value proposition. | |
| **DESIGN** | • TGP is comprised of a base salary, as well as benefits such as a retirement fund, medical aid and travel allowances<br>• Annual review of guaranteed pay benchmarks are conducted by job family through PwC and Deloitte Salary Surveys to ensure the retention of scarce skills<br>• The Company payscale is in line with the FMCG market<br>• As a guide, annual remuneration reviews are informed by:<br>– income differential analysis as per the Employment Equity Act<br>– projected inflation<br>– internal equity<br>– the external market<br>– performance of the individual<br>– affordability | The Company has benefit schemes that all employees participate in. These are:<br>• Provident and retirement schemes – membership is compulsory for permanent employees. The employer contributes 8% to 20% and employee contributes 2%, 5% or 7%.<br>• Insured risk benefits – minimum cover of 1 times TGP up to four times (provident fund) or seven times (retirement fund), by choice of the member<br>• Medical aid scheme – membership is not compulsory<br>• Travel allowances are also made available in accordance with the South African Revenue Service regulations, where applicable<br>The Group reimburses costs incurred by employees on behalf of the Group and has issued separate guidelines on this practice. |
| **OPPORTUNITY AND MAXIMUM LIMIT** | Not applicable | |
| **PERFORMANCE CONDITIONS** | • Performance feedback (which influences salary increases) is determined by the performance management system<br>• Higher increases can be given to high-performing individuals, based on performance feedback<br>• The annual review of guaranteed pay is effective 1 January | Not applicable |
| **OTHER** | The Group uses the Task and Hay Chart job grading systems, as well as external benchmarking and survey data as is deemed necessary. The Group will select appropriate peer companies for benchmarking based on industry, organisation size, the specific job that is being benchmarked (some roles are industry specific whereas other roles are generic to business) and any other parameters that are considered valid. | Not applicable |

## VARIABLE PAY

### SHORT-TERM INCENTIVE

- Incentivise an increase in revenue
- Maximise short- to mid-term profits
- Retain key talent

- STIs are based on a percentage of guaranteed pay and dependent on the achievement of agreed hurdle rates, triggering at an entry target point, and capped at an agreed targeted growth point. This is applicable to senior management, D band and above employees
- STI payments are made annually on 15 December after confirmation of the financial business results for the year ending 30 September
- The STI pool accrues based on economic profit and growth in economic profit year-on-year, both of which are measured for each division, as well as at Group level
- If there is no growth in economic profit year-on-year, no bonus is payable. For executive management and Group employees, this refers to the Group pool. For divisional employees, this refers to the divisional pool

The earning potentials are set out below.

| ROLE | ALLOCATION LEVEL (AS A % OF TGP) |
|---|---|
| CEO | 150% |
| CFO and business executives | 100% – 120% |
| Divisional executives | 50% – 80% |

Payment at achieving the entry target point (based on TGP) is 15%. Payment is capped varying between 15% (the threshold participation level for all employees) and 150% of TGP (for the CEO) on achieving the maximum target for growth

A maximum bonus pool (cap) will be calculated as a percentage of economic profit and growth in economic profit annually

#### PERFORMANCE CONDITIONS (WEIGHTINGS)

- Growth in revenue year on year: 12.5% weighting, excluding Essential Foods, for which it is zero
- Growth in volume: 12.5% weighting, excluding Essential Foods, which is 25%
- Growth in headline earnings before interest and tax (HEBT) for Group performance and operating profit (EBIT) for divisional performance: 65% weighting for all participants
- Employment equity: 5% weighting (2018: 2.5%).
- Gender employment: 5% weighting (2018: 2.5%).
- Employee engagement score: 0% weighting (2018: 5%). The next engagement survey is only due in 2020.

For the growth in HEBT measure, the growth calculation will be based on an audited and agreed comparative base for the previous financial year.

For the EP calculation, applicable EBIT will be tax adjusted and compared to the Group's Weighted Cost of Capital for the year as applied to the average net asset base of the Group or the relevant division.

#### DISCRETION

The HCC has the discretion to take into account various financial and economic factors when applying the provisions of the STI.

### LONG-TERM INCENTIVE SHARE APPRECIATION RIGHTS

- Increase the market capitalisation of the Company
- Retain key talent and align the interests of executives and shareholders

Consists of an equity-settled SAR award. Allocations are largely limited to E band and above.

- If performance conditions for any specific period are not met, the relevant SAR allocation is forfeited
- Vesting of one-third in years three, four and five (with a six-month exercise period)

The time allowed to exercise the SARs will be six months after each respective vesting date (per tranche). If performance vesting conditions are not met at the vesting date, the relevant portion of the SAR allocation subject to financial performance is forfeited.

#### DILUTION LIMIT

- The total number of ordinary shares that may be transferred to employees under the SAR scheme is limited to 14.5 million shares (approximately 7.5% of the issued ordinary shares at the date of approval of the scheme by shareholders in 2006, which due to movements in issued share capital has reduced to 5.3%). No qualifying employee can be allocated more than 1 million ordinary shares cumulatively, once converted
- Upon vesting of the SARs, the Group issues ordinary shares to settle its liability to employees concerned

The Company refers to a set multiple of TGP when awarding SARs to participants, such that in any given year, the cumulative face value of the unvested SARs are equal to that of the multiple.

In determining the annual top-up calculations, the unvested value allocated in the past is taken into account.

| ROLE | FACE VALUE ALLOCATION LEVEL (AS A MULTIPLE OF TGP) |
|---|---|
| CEO | 9 times |
| CFO and executive management | 5 to 7 times |
| Divisional executives | 1 to 4 times |

50% of the award is subject to continued employment and 50% of the award is subject to prospective performance conditions. The performance conditions are set out below.

| PERFORMANCE CONDITION | WEIGHTING | THRESHOLD (15% VESTING) | STRETCH (100% VESTING) |
|---|---|---|---|
| CAGR in HEPS | 100% | CPI plus 1% real growth | CPI plus 5% real growth |

#### MINIMUM SHAREHOLDING REQUIREMENTS

Participants are encouraged to hold shares equal to 50% of the shares that vest in each year after the payment of tax for a period of five years. Each year's 50% must be added to the minimum shareholding requirement on a rolling five-year basis.

## Executive contracts

The average notice period for the CEO, executive management and senior management is three months. Pioneer Foods is not contractually bound to make gratuitous payments if an executive or senior manager leaves the Group due to underperformance. The vesting of STIs and LTIs on termination of employment is governed by the relevant plan rules.

## Restraints of trade

When warranted by circumstances that could not reasonably have been foreseen, the HCC will exercise its discretionary powers to safeguard the interests of Pioneer Foods by entering into restraints of trade with executives and other key talent within the Group.

## NEDs

The remuneration policy, as it relates to non-executive directors, is set out below:

**NON-EXECUTIVE DIRECTOR FEES**

| | CHAIRMAN | BOARD AND COMMITTEE FEES | SUPPLEMENTARY FEES |
|---|---|---|---|
| **Purpose** | The overriding principle governing the payment of fees to NEDs is that they will be made in the context of good governance. The amounts will be determined by the HCC and approved by the Board. | | If required, the NEDs may be requested to perform work outside of their standard duties. Standard duties include attending the AGM and annual/interim results presentations. For this they will be reimbursed based upon the time spent and their level of expertise. |
| **Design** | The fees paid to different roles, such as that of the chairman of the Board, may vary from the fees paid to other NEDs. Variation shall be based on market benchmarks applicable to that role. | NEDs serving on the Board and on committees are paid a retainer fee for their respective roles and are not paid per meeting. | |
| **Benchmarking** | An adjustment to fees will be made in the 2018/2019 financial year. Increase levels will likely be in line with increases made to members of the executive management and across the Company (see below). Where appropriate, independent benchmark advice is sought regarding the levels of remuneration for NEDs. | | |

The table below sets out the approved NED fees in respect of the period 1 April 2018 to 31 March 2019, and the proposed NED fees in respect of the period 1 April 2019 to 31 March 2020 (excluding VAT):

| NED ROLE | FEES FROM 1 APRIL 2018 – 31 MARCH 2019 RAND | FEES FROM 1 APRIL 2019 – 31 MARCH 2020 RAND | INCREASE % |
|---|---|---|---|
| **Board-level fees** | | | |
| Chairman | 861 000 | 912 660 | 6 |
| Lead independent director | 445 329 | 472 049 | 6 |
| Member | 243 396 | 258 000 | 6 |
| Audit committee chairman | 201 932 | 214 048 | 6 |
| Audit committee member | 142 780 | 151 347 | 6 |
| Risk committee chairman | 201 932 | 214 048 | 6 |
| Risk committee member | 78 746 | 83 471 | 6 |
| Human capital committee chairman | 201 932 | 214 048 | 6 |
| Human capital committee member | 78 746 | 83 471 | 6 |
| Nomination committee chairman* (per meeting fee) | 18 966 | 20 104 | 6 |
| Nomination committee member* (per meeting fee) | 13 456 | 14 263 | 6 |
| Social and ethics committee chairman | 189 608 | 200 984 | 6 |
| Social and ethics committee member | 78 746 | 83 471 | 6 |
| Special ad-hoc meetings: chairman | 18 966 | 20 104 | 6 |
| Special ad-hoc meetings: member | 13 456 | 14 263 | 6 |

* For the chairman and members of the nomination committee, the fee from 1 April 2017 – 31 March 2018 was paid on a per-meeting basis.


## Shareholder engagement

Pioneer Foods is committed to engaging shareholders on its remuneration policy, as well as the consistent implementation of its remuneration policy, on an annual basis.

Following the AGM on 15 February 2019 (relating to the 2018 financial year), Pioneer Foods will once again put the remuneration policy and implementation report to two separate, non-binding votes. In the event that 25% or more of the shareholders vote against either or both the remuneration policy and/or implementation report, Pioneer Foods will include a note in its SENS announcement for the AGM results inviting dissenting shareholders to engage with the Group on their reasons for voting against either or both of these resolutions. The precise method of shareholder engagement will be decided by the HCC, but these may include one or more of the following:

- E-mails and teleconferences
- One-on-one meetings with shareholders or
- Investor meetings

The results of the shareholder engagement, and the HCC's response to shareholder concerns, will thereafter be published in part 1 of the remuneration report at the end of the following financial year.