

# REMUNERATION REPORT

## PRINCIPLES

Holdsport's remuneration philosophy is to structure packages in such a way that performance, contribution and potential are clearly linked to the rewards received, and aligned with shareholder wealth creation. Accordingly, guaranteed remuneration is competitive to attract potential employees, and motivate and retain current employees, whilst long- and short-term incentives are aligned with the achievement of business objectives.

Total remuneration consists of salary, travel allowance, short- and long-term incentives, pension and medical aid funding.

## REMUNERATION GOVERNANCE

The remuneration and nomination committee assists the board in ensuring that the group has a competitive remuneration policy which is aligned with the group's strategy and performance goals.

The key duties of the committee, in terms of a board-approved documented charter, include:

- ensuring the group has a remuneration policy that promotes the achievement of strategic objectives and encourages individual performance;
- ensuring the combination of fixed and variable remuneration meets the group's needs and objectives;
- ensuring all benefits, including retirement benefits and other financial arrangements, are justified;
- reviewing incentive schemes to ensure continued contribution to shareholder value and that these are administered in terms of the rules;
- considering the results of the evaluation of the performance of the chief executive officer and other executive directors, both as directors and as executives, in determining remuneration;

- approving the quantum of short-term cash-based incentives and the award of long-term share-based incentives;
- advising on the remuneration of non-executive directors, subject to shareholder approval; and
- reviewing the remuneration policy to ensure that it is aligned with market practice.

The remuneration and nomination committee comprises three independent non-executive directors: Bryan Hopkins, Kevin Hedderwick and Syd Muller. The chief executive officer attends meetings by invitation, but is excused when his own remuneration is discussed by the committee. The committee meets at least twice per year.

For further details regarding the committee, please refer to the Corporate Governance Report on page 39.

## COMPONENTS OF REMUNERATION

Remuneration comprises the following elements:

<p><b>Guaranteed remuneration</b></p>	<p>Annual base salary includes travel allowance, company contributions to pension and medical aid funding, group life and disability insurance</p> <p><i>Salary is based on performance, contribution and market value relative to responsibilities within the group</i></p>
<p><b>Variable and performance-related remuneration</b></p>	<p><b>Short-term performance:</b> Short-term cash-based incentive scheme</p> <p><i>Incentives are based on group and individual performance criteria and are set at predetermined multiples of monthly guaranteed salary</i></p> <p><b>Long-term performance:</b> Share incentive scheme: The Holdsport Forfeitable Share Plan</p> <p><i>Long-term share-based incentives are aimed at retention to encourage sustainable shareholder wealth creation and awards allocated are set at predetermined multiples of monthly guaranteed salary</i></p>

Remuneration policies and practices were reviewed during the year to align with the recommendations of King III. The group's remuneration policy will be proposed to shareholders for a non-binding advisory vote at the annual general meeting (AGM) in August 2017.

The guaranteed remuneration is reviewed annually and performance-related increases take effect in July. The performance appraisal process utilises a three-point scale and appraisal results are moderated centrally to ensure fairness and consistency across business units.

Salary increases are awarded within the range approved for each performance level, after taking into account other relevant information including the employees' position within the pay band, prevailing economic conditions, inflation, the group's remuneration position relative to other comparable retailers and scarcity of skills.

Employees' performance ratings are confirmed in the communication regarding their annual increases.

### PERFORMANCE MEASUREMENT

The performance of executive directors is reviewed annually by the remuneration and nomination committee against predetermined financial targets and strategic objectives to ensure ongoing alignment with shareholder interests. The financial metrics for the 2017 financial period were the achievement of earnings targets after net finance charges, before tax.

The CEO is remunerated on the achievement of long-term strategic goals, including succession planning, and defining and executing the strategic direction of the business.

Sustainability is an underlying principle in determining remuneration. The board is satisfied that the financial targets do not encourage an

inappropriate level of risk-taking to achieve group or individual targets.

Annual performance reviews are conducted with each employee to measure performance against key financial and operational indicators relating to their own areas of responsibility, including sales growth, profitability, shrinkage, expense management and innovation.

### EMPLOYEES

The remuneration package for the majority of employees comprises a guaranteed salary, pension and medical aid contributions and an annual bonus.

Salaries are reviewed annually in June and the level of increase is based on both group and individual performance. Salaries of flexitime employees are reviewed annually in February in line with sectorial determination requirements and individual performance.

### INCENTIVE SCHEMES

The short-term and long-term incentive schemes described below ensure that employee performance is aligned with the interests of shareholders.

#### Short-term cash incentives

The group's employees are financially incentivised through a number of different bonus schemes, including:

- a 13th cheque bonus which is payable in December annually;
- operational store employees (other than managers) are incentivised through a monthly sales-linked scheme for above-targeted sales;
- store managers and professional staff are incentivised through a "balanced scorecard" where employees are evaluated on a number of dimensions including profitability, customer service, asset control, people development and community involvement;

- middle and senior managers have incentive structures which are designed to reflect the efficiency of controls in their areas of responsibility, both financial and operational, through "balanced scorecards". The balanced scorecards foster goal congruence across business structures, since lower-level scorecards are rolled up and aggregated for line managers; and
- the executive management is incentivised based on the achievement of profit and strategic goals, as approved by the remuneration and nomination committee.

Incentive payments are subject to the achievement of financial targets and are directly linked to the achievement of the group's objectives and the goals of individual employees. Incentive amounts per employee are determined with reference to predetermined multiples of monthly guaranteed remuneration and relative responsibility, skill and experience.

No ex gratia payments were made to employees in the period under review and no extraordinary incentive payments were made to retain key employees.

#### Long-term share-based incentive scheme: The Holdsport Forfeitable Share Plan

The group adopted the Holdsport Forfeitable Share Plan (Holdsport FSP or FSP) in line with South African and global market practice. The purpose of the Holdsport FSP is to provide executive directors and employees of Holdsport with the opportunity to receive shares in the company, thereby aligning their interests with those of shareholders of the group.

Participation in the scheme is at the discretion of the remuneration and nomination committee and is generally limited to employees

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whose role or contribution could directly influence the performance of the group.

Under the FSP a participant is granted a number of forfeitable shares by way of an award. Participants are not required to pay for the grant of an award or to make a payment in order for the award to vest. Awards granted under the FSP may be subject to the achievement of specific performance conditions and all awards are subject to continued employment until the vesting date, unless otherwise specified.

Generally the initial vesting period is a period of at least three years from the date that the award was made, after which participants will own the shares outright if relevant performance conditions have been satisfied.

During the vesting period the forfeitable shares are held for the absolute benefit of the participant

and the participant shall have all shareholder rights in respect of the shares with effect from the settlement date. However, the forfeitable shares are subject to restrictions in that they cannot be disposed of, ceded, transferred or otherwise encumbered until they vest on the vesting date. In addition, the shares are subject to a risk of forfeiture until they vest on the vesting date.

To the extent that the performance condition is not satisfied or the participant leaves the employment of the group before the vesting date (other than through retirement, death or disability), the forfeitable shares will be forfeited. The relevant award lapses and the participant will lose all rights to the relevant forfeitable shares.

In these circumstances the participant will not be compensated for the loss of the forfeitable shares. The forfeited shares will either be

added to treasury shares or will be sold as soon as practicable after the lapse date and the sales proceeds will be remitted to the group.

If, at any point during the performance period, an event occurs which causes the board to consider that the performance condition is no longer appropriate, the board may substitute or vary the performance condition in such manner as:

- is reasonable in the circumstances; and
- produces a fairer measure of performance and is not materially less difficult to satisfy.

## Awards to date

The group awarded 385 572 shares at a cost of R15.4 million in the current year (2016: 301 549 shares awarded at a cost of R15.1 million). In total 297 598 shares vested during this financial year (2016: 245 406 shares vested).

Details of awards made to executive directors and employees of the group in terms of the FSP are set out below:

	Award date	Number of participants <sup>#</sup>	Total shares awarded	Vested in	Vested in	Vested in	Vesting in the future:					
				June 2014	June 2015	June 2016	June 2017	June 2018	June 2019	June 2020	June 2021	
Directors	July 2011	3	209 154	(69 718)	(69 718)	(69 718)	-	-	-			
	August 2012	3	66 174	-	(22 058)	(22 058)	(22 058)	-	-			
	August 2013	3	21 572	-	-	(7 191)	(7 191)	(7 190)	-			
	June 2014	3	110 062	-	(10 108)	(10 108)	(29 948)	(29 949)	(29 949)			
	June 2015	3	97 669	-	-	(12 151)	(12 152)	(24 456)	(24 456)	(24 454)		
	June 2016	2	58 334	-	-	-	-	-	(19 444)	(19 444)	(19 446)	
Employees	July 2011	20	173 757	(57 921)	(57 921)	(57 915)	-	-	-			
	August 2012	24	145 577	-	(48 521)	(48 521)	(48 535)	-	-			
	August 2013	36	112 125	(18 758)	(18 462)	(36 796)	(19 056)	(19 053)	-			
	June 2014	51	192 636	-	(18 618)	(19 709)	(50 813)	(51 930)	(50 166)	(1 400)		
	June 2015	61	203 880	-	-	(13 431)	(14 501)	(62 814)	(56 567)	(56 567)		
	June 2016	66	327 238	-	-	-	(9 448)	(9 448)	(81 105)	(137 218)	(71 683)	
<b>Total shares awarded to employees</b>		<b>62</b>	<b>1 718 178</b>									
Shares forfeited in current year						(60 282)						
Shares vested per year				(146 397)	(245 406)	(297 598)						
Remaining shares not yet vested						968 495	(203 702)	(194 840)	(251 687)	(227 137)	(91 129)	

<sup>#</sup> Total number of unique participants remaining in FSP at year-end.

The performance conditions for executives are determined by the remuneration committee and are based on the achievement of a minimum return on net assets.

Participation by an individual employee is currently limited to a maximum number of shares equating effectively to 1.0% of the company's issued shares.

The current number of shares held in terms of the FSP is 2.2% of the company's shares in issue.

## **EMPLOYEE BENEFITS**

### **Retirement funding**

Membership of the Alexander Forbes Retirement Fund (AFRF) is compulsory for all permanent employees in South Africa.

- The fund is a defined contribution scheme and the group carries no liability in relation to the fund.
- The fund provides death and disability cover, as well as a funeral benefit.

The fund is an umbrella fund and has a board of trustees, with internal and

external trustees that comply with the appropriate governance frameworks. Holdsport has a management committee that comprises 50% employee-elected representatives and 50% employer-appointed representatives, who oversees the administration of the fund by Alexander Forbes.

### **Health care**

It is a condition of service for all permanent employees in South Africa to join the Horizon Medical Aid Scheme unless they are covered by the health-care fund of their partner. Horizon is a closed scheme which services the group and the Clicks Group. It has been designed to best suit the needs of most employees. The scheme is managed by Medscheme, is sufficiently capitalised, and complies with the Medical Schemes Act.

The group contributes a portion of the cost per member and at the end of the year 1 218 (2016: 1 198) employees were members of Horizon.

## **NON-EXECUTIVE DIRECTORS' REMUNERATION**

Non-executive directors received fixed remuneration for services to the board and its committees. These fees reward directors fairly for the time, service and expertise provided to the group as well as legal obligations and risk.

Non-executive directors may not participate in incentive schemes. None of the non-executive directors have service contracts with the group and no consultancy fees were paid to non-executive directors during the period.

The remuneration of non-executive directors is reviewed annually by the remuneration and nomination committee and recommendations for increases are made to shareholders at the AGM for consideration and approval.

Shareholder approval will be sought at the upcoming AGM for the increase in fees for the 12-month period to 31 August 2018.

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## EXECUTIVE AND NON-EXECUTIVE DIRECTORS' REMUNERATION

Executive directors receive a remuneration package including long-term incentives on the same basis as all other senior management and executives. The remuneration of executive and non-executive directors was as follows:

	Months paid	Directors' fees (R'000)	Salaries (R'000)	Travel allowance (R'000)	Pension fund contributions (R'000)	Health-care contributions (R'000)	Performance bonus (R'000)	Total remuneration (R'000)	Value of awards to FSP <sup>#</sup> (R'000)
<b>2017</b>									
<b>Executive</b>									
KG Hodgson	12	–	2 968	150	–	15	–	3 133	995
JP Loubser	12	–	1 819	72	115	15	500	2 521	1 558
B Moritz	12	–	1 897	60	–	15	500	2 472	1 558
<b>Total</b>		–	<b>6 684</b>	<b>282</b>	<b>115</b>	<b>45</b>	<b>1 000</b>	<b>8 126</b>	<b>4 111</b>
<b>Non-executive</b>									
SA Muller	12	794	–	–	–	–	–	794	–
BD Hopkins	12	325	–	–	–	–	–	325	–
K Moloko	12	232	–	–	–	–	–	232	–
P Matlakala	12	181	–	–	–	–	–	181	–
KA Hedderwick	12	180	–	–	–	–	–	180	–
<b>Total</b>		<b>1 712</b>	–	–	–	–	–	<b>1 712</b>	–
<b>Total remuneration</b>		<b>1 712</b>	<b>6 684</b>	<b>282</b>	<b>115</b>	<b>45</b>	<b>1 000</b>	<b>9 838</b>	<b>4 111</b>
<b>2016</b>									
<b>Executive</b>									
KG Hodgson	12	–	2 776	150	–	15	–	2 941	648
JP Loubser	12	–	1 685	72	107	15	1 500	3 379	1 383
B Moritz	12	–	1 756	60	–	15	1 500	3 331	1 383
<b>Total</b>		–	<b>6 217</b>	<b>282</b>	<b>107</b>	<b>45</b>	<b>3 000</b>	<b>9 651</b>	<b>3 414</b>
<b>Non-executive</b>									
SA Muller	12	754	–	–	–	–	–	754	–
BD Hopkins	12	309	–	–	–	–	–	309	–
K Moloko	12	220	–	–	–	–	–	220	–
P Matlakala	12	181	–	–	–	–	–	181	–
KA Hedderwick	12	164	–	–	–	–	–	164	–
<b>Total</b>		<b>1 628</b>	–	–	–	–	–	<b>1 628</b>	–
<b>Total remuneration</b>		<b>1 628</b>	<b>6 217</b>	<b>282</b>	<b>107</b>	<b>45</b>	<b>3 000</b>	<b>11 279</b>	<b>3 414</b>

<sup>#</sup> The value of shares awarded in terms of the Holdspport FSP is the annual expense determined in accordance with IFRS 2: Share-based Payment and is presented for information purposes only. This does not constitute remuneration, given that the value was neither received by nor accrued to the directors during the period. The value of awarded shares will be disclosed in the Annual Financial Statements in the period when vesting occurs. The shares granted to directors are presented on pages 50 and 65.

## THREE HIGHEST PAID EXECUTIVES

King III recommends that the remuneration of the three highest paid executives, excluding executive directors, be disclosed. This information is not disclosed separately due to the value of these individuals to the group and the highly competitive South African retail environment, but has been disclosed in aggregate as detailed below:

Highest paid executives in aggregate	2017 R'000	2016 R'000
Salary	4 767	4 362
Performance bonus	450	900
Travel allowances	138	198
Pension contributions	301	277
Health care	31	44
<b>Total remuneration</b>	<b>5 687</b>	<b>5 781</b>