

REMUNERATION COMMITTEE REPORT

INTRODUCTION

The Remuneration Committee is responsible to the Board for ensuring that the remuneration policy is kept current, the remuneration packages are in line with industry norm, the criteria for performance measurement and determination of performance measurement criteria and remuneration packages for Cashbuild's Executive Management team is maintained and updated.

In addition, the committee facilitates a transparent process of performance review and evaluation for executive directors for the Board. Remuneration, in particular as it relates to Executive Management, is motivated by the dual criteria of delivering sustainable financial return to shareholders and the recognition and reward for outstanding performance. Executive compensation is also linked to the achievement of the organisation's non-financial goals.

MEMBERS

The composition of the Remuneration Committee is set out on page 25. Biographical details of the committee members are provided on page 19.

COMMITTEE MEETINGS

The committee held three meetings during the year under review. Attendance has been set out on page 28 of the Corporate Governance Report.

FUNCTIONS OF THE COMMITTEE

Introduction

All positions are graded using the Patterson grading methodology. Remuneration packages are benchmarked every three years via formal salary surveys using external remuneration specialists. The last survey was conducted in 2012. Cashbuild's policy is to remunerate staff at the 50th percentile, with scarce skills being pitched at the 75th percentile.

Remuneration policy

In order to achieve the Company strategy and maintain the high performance expected of individuals within Cashbuild, the attraction, motivation and retention of staff at all levels is critical. Reward and recognition play an important role in the achievement of these objectives. All permanent employees qualify for two salary increases per annum. The first one being in July of each year, aligned to the financial year, where an annual cost of living increase is given to all staff, irrespective of individual performance.

The average CPI percentage over the preceding 12 months plus an agreed factor is used as the basis for the calculation of the annual cost of living increase. This formula and final percentage cost of living increase is discussed with and agreed to by the Company employee forum. This year a 7% cost of living increase was agreed to for all staff with senior and Executive Management receiving a 6.5% adjustment.

Over and above the annual cost of living increase, as agreed to with the employee forum and given in July, performance increases given in October are directly related to the individual's performance and aligned to the agreed performance increase parameters. This increase varies between 1% and 5%, depending on the individual's performance.

In addition there are monthly and quarterly bonuses store employees can earn based on store and divisional performance. An annual bonus is available to all store and divisional, management based on their areas' performance with support office staff and Executive Management qualifying for annual bonuses based on Group performance.

Executive employee contracts

All executive directors and managers have employment contracts requiring one month's notice of resignation and do not contain any restraint clauses.

Remuneration structure

The company's remuneration is structured between guaranteed and non-guaranteed or variable pay and the balance between these categories vary depending on the employee's Patterson grading within the organisation. Guaranteed pay consists of Basic pay, allowances and employee benefits whilst the components of non-guaranteed pay consist of Short Term Incentive (STI), the bonus scheme for all staff and a Long Term Incentive (LTI) being the Share incentive trust, BEE trust, Operations management member trust and the newly proposed Forfeitable Share Plan (FSP) (See page 133 for salient features and Form of Proxy on page 145).



Grading	Total remuneration	
	Guaranteed portion	Non-guaranteed/ variable portion
Chief Executive	45%	55%
Director	50%	50%
Executive Management	55%	45%
Senior Management	70%	30%
Staff (SO)	85%	15%
Staff (Store)	77%	23%

The table above is indicative of the goal of the remuneration structure. The FSP proposed and other existing incentives are all components in achieving this.

Guaranteed pay

Basic salary

Management and staff are paid on a cost to Company basis. The guaranteed cost to Company package for all employees is set in line with the three yearly salary survey conducted by an external remuneration specialist. This survey was last conducted in 2012 and is scheduled for the 2015/16 financial year.

Executive directors and senior management packages are benchmarked against medium-sized market capitalisation companies on the JSE.

The rationale behind this benchmarking exercise is the retention of key members of the Company's executive directors and senior management. The potential loss of key senior personnel was previously identified by Cashbuild's risk management system as a significant risk faced by the Company, and this measure is one of those identified as a means to mitigate this risk.

The sustainability of the business is paramount in determining remuneration. The Board is satisfied that the current structure of remuneration for executive directors and senior management does not encourage undue or increased risk taking.

Details of all executive and non-executive directors' remunerations are detailed on page 39 of this report.

The performance of the Chief Executive is assessed against set performance criteria, by the Chairman and the Board, while the performance of executive directors and senior managers is evaluated against other set performance criteria, by the Chief Executive and reviewed by the Remuneration Committee. Any increases given over and above the July cost of living increase are directly related to the individual's performance.

Retirement funds

Membership of the retirement fund is compulsory for all permanent employees. The retirement fund is part of the Alexander Forbes Umbrella Fund. The fund is managed by a management committee that meets twice a year and consists of 50% employer and 50% employee elected representatives. In order to facilitate financial decision-making aligned to Company policies, the Company's Chairman, Chief Executive and Finance Director are all employer elected members of this committee.

Medical aid

Membership of a medical aid is optional. The medical schemes offered in South Africa are Discovery and Momentum. Approximately 4% of employees have elected to join these medical schemes.

The sourcing of affordable health care, and the promotion of membership in medical schemes by employees is a focus area for the future. However most staff have elected to not belong to one of the above medical schemes unless subsidised by the Company.

Non-guaranteed pay

Short-Term Incentive Scheme (STI)




Operations management and staff participate in a monthly, quarterly and annual short-term incentive scheme which is directly related to the financial performance of their operating unit. The criteria for these awards relate to sales, transaction and gross contribution targets.

STI awards (excluding personal objectives) for executive and support office staff only take place on condition that the Company's profit before taxation, according to the approved budget for that specific financial year, has been achieved. Once this criteria has been met, dependent on the occupational level, an incentive of between 9% and 50% of annual cost-to-company for employees is calculated.

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In general, the following is assessed when determining the STI awards:

Criteria	Weighting of STI	Achievement of 2015 STI awards
Financial (2015 Financial Year)  Revenue >R7.6 billion Gross margin of >R1.4 billion Profit before tax >R425 million	40%	Yes Yes Yes
Non-financial  Project-based achievements predetermined for each individual during the year	40%	Depending on individual's performance
Personal objectives  Personal objectives set for the individual to achieve	20%	This component is payable on achievement of agreed objectives irrespective of the Company's performance
Total	100%	

Cashbuild Empowerment Trust

The philosophy of having all staff share in the success of the Company, and in so doing create a sense of belonging and ownership, is embodied in the Cashbuild Empowerment Trust to which all permanently employed staff, irrespective of seniority or length of service belong. Additionally, it aligns the goals of staff with those of the shareholders. This Trust owns 7.8% of the issued share capital. Dividends are paid twice per year to all members of the Trust on an equal basis. In the last financial year, a total of R12.4 million (2014: R9.2 million) was paid to all staff members. Since inception of this Trust in 2004, a total of R131 million has been distributed to staff in the employ of Cashbuild at dividend declaration date. Refer to Annexure 2 in the Notice of Annual General Meeting for the proposed specific repurchase of shares from the Cashbuild Empowerment Trust.

Store Operations Management Member Trust

In 2011 the Store Operations Management Member Trust was established. The objectives of this trust are to:

- promote the continued growth and profitability of stores within the Group, and the growth of the Group, by recognising and rewarding qualifying members;
- empower and retain management members in the Group;
- develop an ethic and mindset of ownership, responsibility and accountability within the Group; and
- promote black economic empowerment and increased broad-based and effective participation in the Group by previously disadvantaged persons.

This Trust relates to management of stores, divisions and operational areas achieving predetermined targets for the financial year as set out in the trust deed. The managers of these areas receive a share of profits in excess of predetermined targets generated by their store, division or operations area, divided equally into cash and shares. The share portion will vest on the third anniversary of the distribution, on condition that the manager is still employed by Cashbuild at the time of vesting. Dividends accrue to the individual from date of distribution.

Since the inception of this scheme in 2012, a total of R11.2 million (2014: R5.4 million) (R5.6 million in cash and R5.6 million in shares after qualification of the vesting period) is to be paid, comprising 63 (2014: 29) store managers and two divisional managers.

Scheme	Number of shares	Share and cash value	Employees qualified
2015	9 685	R5.8 million	35
2014	3 524	R1.2 million	8
2013	2 980	R0.2 million	3
2012	16 760	R4.0 million	19
Total	32 949	R11.2 million	65

Senior Management Share Scheme

Long-term Share Incentive Scheme (LTI) – effective until April 2016.

See note 15 of the Annual Financial Statements for various scheme disclosure.

Executives and identified key positions participate in the Cashbuild share incentive scheme with share options being offered. Allocations of shares vary between 5 000 and 100 000 shares with a vesting period of three years.



Following feedback received from shareholders over the past years, even though the non-binding remuneration vote has been carried every year, management has committed to not awarding any further awards under the STI and plan to replace this scheme with a FSP. The aim of this scheme is to be more in line with best practice and better align management goals with that of shareholders. Refer to Annexure 1 in the Notes of Annual General Meeting for the proposed approval of the Cashbuild FSP.

Remuneration

The remuneration of the executive directors and prescribed officers who served during the year under review was as follows:

R'000	Year	Basic salary	Bonus ¹	Allowances	Other material benefits ²	Pension scheme	Share options exercised	Total
Executive directors								
WF de Jager	2015	2 735	2 104	113	60	256	18 048	23 316
	2014	2 537	1 115	140	69	240	2 410	6 511
AE Prowse	2015	1 848	1 091	142	-	146	13 410	16 637
	2014	1 719	608	149	-	136	-	2 612
SA Thoresson	2015	1 664	972	275	-	152	13 401	16 464
	2014	1 547	430	271	-	142	-	2 390
A van Onselen	2015	2 073	1 464	150	83	185	13 401	17 356
	2014	1 935	601	180	75	172	-	2 963
Total	2015	8 320	5 631	680	143	739	58 260	73 773
	2014	7 738	2 754	740	144	690	2 410	14 476
Prescribed officers								
W Dreyer	2015	1 218	667	105	57	121	-	2 168
	2014	1 147	203	165	51	106	-	1 672
IAC de Beer	2015	1 257	780	349	47	113	-	2 546
	2014	1 167	227	373	42	106	3 616	5 531
A Hattlingh	2015	1 020	825	204	-	97	-	2 146
	2014	865	245	218	-	85	-	1 413
Total	2015	3 495	2 272	658	104	331	-	6 860
	2014	3 179	430	756	93	297	3 616	8 616

Notes

¹ Bonuses differ to the Notes to the Annual Financial Statements on pages 120 and 122 as these values have subsequently been approved for payment by the Remuneration Committee.

² Other material benefits include contributions to medical aid.

Non-executive directors

Non-executive director fees are recommended by the Remuneration Committee and agreed to at the Annual General Meeting. Fees are based on market-related fees obtained via salary surveys conducted by external remuneration specialists.

The fees paid to the non-executive directors who served during the year under review were as follows:

Non-executive directors	2015*	2014
	R'000	R'000
D Masson	608	395
IS Fourie	402	304
HH Hickey	416	230
AGW Knock	400	308
Dr DSS Lushaba	384	247
NV Simamane	444	223
Total	2 654	1 707

* Increase in fees was attributable to:

- 2014 trust meetings attended by Dr DSS Lushaba and NV Simamane only paid in this financial year;
- HH Hickey appointed to the Audit and Risk Committee; and
- a 22% increase in the Chairman's fee to align to the market, approved by shareholders on 1 December 2014.

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Share options granted to directors and prescribed officers

The following tables set out the share options granted to the executive directors and prescribed officers.

	Year	Balance at beginning of year	Options granted during year	Options exercised during year	Options outstanding at end of year
Executive directors					
WF de Jager	2015	250 000	-	(150 000)	100 000
	2014	300 000	-	(50 000)	250 000
AE Prowse	2015	175 000	-	(100 000)	75 000
	2014	175 000	-	-	175 000
SA Thoresson	2015	175 000	-	(100 000)	75 000
	2014	175 000	-	-	175 000
A van Onselen	2015	175 000	-	(100 000)	75 000
	2014	175 000	-	-	175 000
Prescribed officers					
W Dreyer	2015	37 500	-	-	37 500
	2014	37 500	-	-	37 500
IAC de Beer	2015	50 000	-	-	50 000
	2014	125 000	-	(75 000)	50 000
A Hattingh	2015	5 000	-	-	5 000
	2014	5 000	-	-	5 000

Interests of directors in the share capital of Cashbuild

The aggregate beneficial holdings of the directors of the Company and their immediate families in the issued ordinary shares of the Company are detailed below. There have been no changes in these shareholdings to the date of approval of this report.

	Number of shares held			
	30 June 2015		30 June 2014	
	Direct	Indirect	Direct	Indirect
Beneficial				
NV Simamane	1 200	-	1 200	-
AE Prowse	27 500	-	-	-
Total	28 700	-	1 200	-

There are no associate interests for the above directors and also no non-beneficial shareholdings.

AGW Knock

Remuneration Committee Chairman

31 August 2015