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Remuneration report

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Remuneration philosophy

Our remuneration philosophy for executive management, non-executive directors and other employees is benchmarked against manufacturing industry standards and we strive to remunerate our employees competitively within the relevant occupational ranges. External consultants aid us in establishing market-related salary benchmarks. Through annual HR budget reviews, we consider both employee performance and business affordability to reach an appropriate remuneration figure.

The philosophy is balanced and recognises differences in individual performance, value and contribution to the organisation through a framework that is consistent to ensure equitable pay levels and defensible remuneration decisions. A rigorous objective-setting process at all levels to ensure shareholder expectations are met and/or exceeded.

Remuneration and our strategy

Remuneration is structured in a manner that supports our strategy by:

- attracting, motivating and retaining high-performing employees, by being competitive in the market;
- encouraging and rewarding employees to achieve or exceed the objectives and targets of the business as contained in the business strategy; and
- aligning the economic interests of employees with those of other stakeholders.

Afrox considers the 50th percentile of a selection of peer companies (primarily from the manufacturing sector) for base pay setting. This is supported by a bouquet of relevant employee benefits. Where applicable, such as in attracting people with relevant skills, the Company will remunerate above this benchmark.

Responsibility for governing remuneration and developing relevant policy

Final responsibility for the remuneration policy rests with the Board who in turn appoints the NGMR Committee to aid it in fulfilling its duties. The NGMR Committee is primarily responsible for providing input into and approving the reward strategy when remuneration is concerned.

The Linde Group also provides significant input into the establishment of Afrox's remuneration practices and a number of advisors are used to assist in tracking market trends where relevant.

Service contracts

There are no director service contracts with the Company that have a notice period exceeding one month or that provide for compensation and benefits (excluding share-linked benefits vesting in terms of the applicable rules of the scheme) in excess of one month's salary. An exception may occur under mutual separation arrangements.

An employment contract with a notice period of one month is in place to retain the services of our Managing Director. The Financial Director's services are secured through an employment contract with BOC Holdings PLC (a member of The Linde Group). The Company recovers a portion of his remuneration from Afrox in lieu of management services that he renders.

Remuneration for senior management and employees

Various components are involved in the remuneration packages for senior management and employees. These include the following:

Guaranteed component

All permanent employees not employed in a sales function receive a guaranteed remuneration, based on their position, the 50th percentile of the market and the skills of the specific employee. This guaranteed portion is based on cost to Company and comprises a fixed basic salary and compulsory benefits (as per executive directors). Market movements and individual performance determine the level of increases to the guaranteed component.

Sales employees receive a guaranteed component and a variable bi-annual reward linked directly to the achievement of specific targets.

Short-term incentives

Short-term incentives are paid annually and are used to encourage achievement of annual objectives at management level. This ensures that this significant and variable portion of pay is linked to performance. Short-term incentives for senior management are based on both Company financial and non-financial KPIs and individual performance. Short-term incentives are typically up to 30% of base salary. The split between Company and individual performance is typically 90% and 10%.

The primary bonus pools are approved by the NGMR Committee, which also oversees principles applied in allocating said pools to business segments and individuals.

Long-term incentives

Both senior management and executive directors participate in the Company's share-based incentive scheme. The NGMR Committee decides on allocation after Company and individual performance is taken into account.

The committee is of the view that the incentive scheme is a direct link to the Company performance through the share price. The Company's Share Appreciation Rights (SARs) scheme and Forfeitable Share Plan (FSP) are equity-settled long-term incentive schemes. These schemes are utilised as a mechanism to attract and retain competent employees.

Share Appreciation Rights scheme

According to the rules of the various share schemes, no one individual may hold in excess of the equivalent of 1% of the Company's issued share capital and the aggregate number of SARs shall not exceed the equivalent of 10% of the Company's issued ordinary share capital. At the date of exercising the option, the SARs are converted into ordinary shares (providing performance conditions are met by the vesting date) using this formula:

$$\frac{\text{Share price at exercise date} - \text{Share price at grant date}}{\text{Share price at exercise date}} \times \text{Number of rights exercised}$$

The total interest of executive directors who held office on 31 December 2016 is 56 000 SARs. This is granted at an average price of R13.55 per share.

Forfeitable Share Plan

Executive directors who held office on 31 December 2016 had an indirect interest in 214 000 forfeitable shares. The vesting of certain shares is conditional only upon the employee being employed by the Company at the vesting date and for other shares granted both on continued employment and on reaching predetermined performance conditions. All dividends paid accrue to the employee during the vesting period.

Review of long-term incentives

The NGMR Committee reviews the long-term incentive scheme regularly, considering relevant changes in tax legislation while ensuring alignment with our long-term objectives.

Guaranteed component

Executive directors receive a guaranteed element of remuneration based on cost to company. This comprises a fixed-base salary and benefits such as medical aid, retirement fund membership, travel and life cover and disability cover. The remuneration considers market-related levels as well as the position and responsibilities of the individual.

Short-term incentives

A significant portion of executive directors' cost is variable as a result of exercising short-term incentives to promote performance that attains stipulated strategic annual objectives.

The base used for executive directors' short-term incentives are Company financial and non-financial KPIs and individual performance. This is typically a 90% Company, 10% individual performance. Short-term incentives are typically between 30% and 50% of base salary.

Long-term incentives

Long-term incentives are used as mechanism to encourage executive directors to successfully execute the Company's long-term strategy. Executive directors take part in the share-based incentive scheme. Refer to pages 86 to 88 for details of executive director remuneration.

Remuneration for non-executive directors

The NGMR Committee reviews the fees annually and makes recommendations to the Board for consideration. After receiving these recommendations, the Board proposes the non-executive director fees for shareholder approval at the AGM.

The Chairperson of the Board is entitled to receive a fixed retainer. No other fees or retainer for attendance at Board or committee meetings is provided for. The current Chairperson holds this position by virtue of her executive position in The Linde Group, as a result, no retainer is currently payable.

The fee structure for 2016 and that proposed for the 2017 financial year are reflected below.

Independent non-executive directors' remuneration

The fees payable to the independent non-executive directors are reflected below:

Category	Role	2016 current practice		2017 proposed payment			
		Retainer fee R	Fee per meeting R	Retainer fee R	Retainer fee increase %	Fee per meeting R	Fee per meeting increase %
Lead independent director		392 200	11 130	403 966	3	12 020	8
Board	Director	224 720	11 130	231 462	3	12 020	8
Audit Committee	Chairperson	151 580	11 130	156 127	3	12 020	8
	Member	75 260	11 130	77 518	3	12 020	8
NGMR Committee	Chairperson	100 700	11 130	103 721	3	12 020	8
SHEQ Committee							
SET Committee	Member	50 880	11 130	52 406	3	12 020	8

Director and executive management emoluments (R'000) – 2016

Name	Months paid	Fees	Re-muneration	Pension/ payment contributions	Performance bonus ¹	Benefits, allowances and gains on share incentives	Total
Non-executive directors²		2 424	-	-	-	-	2 424
Current directors							
Dr KDK Mokhele	12	834	-	-	-	-	834
NVL Qangule	12	474	-	-	-	-	474
GJ Strauss	12	652	-	-	-	-	652
CF Wells	12	464	-	-	-	-	464
Executive directors		1 000	3 135	456	1 575	1 033	7 199
Current directors							
SM Venter – Managing Director	12	-	3 135	456	1 575	1 033	6 199
DKT Devers ³	12	1 000	-	-	-	-	1 000
Total emoluments		3 424	3 135	456	1 575	1 033	9 623

¹ In respect of 2015 financial performance.

² The Linde Group's non-executive directors are not reflected as they do not receive emoluments from the Company.

³ Fees paid to BOC Holdings PLC.

Director and executive management emoluments (R'000) – 2015

Name	Months paid	Fees	Re-muneration	Pension/ payment contri- butions	Performance bonus	Benefits, allowances and gains on share incentives	Total
Non-executive directors¹		2 719	-	-	-	-	2 719
Former directors							
DM Lawrence	5	609	-	-	-	-	-
Current directors							
NVL Qangule	12	402	-	-	-	-	-
Dr KDK Mokhele	12	787	-	-	-	-	-
GJ Strauss	10	436	-	-	-	-	-
CF Wells	12	485	-	-	-	-	-
Executive directors		1 000	2 947	429	1 157	8 645	14 178
Current directors							
SM Venter	7	-	1 869	272	325	601	3 067
DKT Devers ²	7	1 000	-	-	-	-	1 000
Former directors							
BD Kimber	1	-	-	-	-	7 385	7 385
NA Thomson	5	-	1 078	157	832	659	2 726

Total emoluments

Share Appreciation Rights and forfeitable shares granted during the year

Name	Fair value at options at issue date R'000	Number of SARs	Number of forfeitable shares with performance conditions	Number of forfeitable shares without performance conditions
2016				
Executive directors				
SM Venter	606	24 000	27 000	9 000
DKT Devers	-	-	-	-
Total SARs and forfeitable shares granted during the year	606	24 000	27 000	9 000
2015				
Executive directors				
SM Venter	2 442	32 000	61 000	117 000
DKT Devers	-	-	-	-
Total SARs and forfeitable shares granted during the year	2 442	32 000	61 000	117 000

Vested and non-vested number of rights³

Name	2016		2015	
	Vested number of rights (exercisable)	Non-vested number of rights (not yet exercisable)	Vested number of rights (exercisable)	Non-vested number of rights (not yet exercisable)
Executive directors				
SM Venter	-	270 000	-	210 000
DKT Devers	-	-	-	-
Total vested and non-vested number of rights	-	270 000	-	210 000

¹ The Linde Group's non-executive directors are not reflected as they do not receive emoluments from the Company.

² Fees paid to BOC Holdings PLC.

³ Includes: FSP without performance criteria, FSP with performance criteria and SARs.

Remuneration for non-executive directors continued

Shareholding of directors and executive management

Name	2016		2015	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Executive directors				
SM Venter – Managing Director	-	-	-	-
DKT Devers	-	-	-	-
Non-executive independent directors				
NVL Qangule	-	100	-	100
GJ Strauss	-	-	-	-
Dr KDK Mokhele	-	100	-	100
CF Wells	100	-	100	-
Non-executive directors				
S Graham Johnston – Chairperson	-	-	-	-
R Gearing	-	100	-	100
M van Plotho	-	100	-	100