



REMUNERATION REPORT 2017

This report provides an overview of the company's remuneration philosophy, policies, practices and governance, with particular focus on executive and non-executive directors.

Role, Purpose and Principal Function

The Board is responsible for the Company's remuneration policies and is assisted in its endeavours by the Remuneration and Nominations Committee (RemNomco). RemNomco operates according to its Terms of Reference as reviewed and approved by the Board. RemNomco's Chairman reports to the Board after each RemNomco meeting and attends the Annual General Meeting (AGM) to take questions from shareholders on RemNomco's areas of responsibility.

There was one change to the composition of the committee during 2017 with Mr C Bruyns being appointed as the Chairman of the committee in place of Mr Stocks.

The membership of the committee during the year under review was:

- **Mr C Bruyns** – Chairman – non-executive director – appointed 27 November 2017
- **Mr M Stocks** – previously the Chairman – resigned 27 November 2017
- **Mr R Barrow** – independent non-executive director
- **Mr R Ndlovu** – independent non-executive director
- **Mr N Payne** – independent non-executive director

RemNomco's role and responsibilities are to:

- determine, agree and develop the Company's remuneration policies. These policies are fully set out in this report;
- determine and agree the remuneration packages for the executive directors and other Executive Committee members;
- ensure competitive reward to facilitate the recruitment, motivation and retention of high performance employees at all levels in support of corporate objectives and to safeguard stakeholder interests;
- consider the extent and participants of the discretionary performance bonus and make recommendations to the Board;
- consider the treatment of any undistributed balance of the discretionary performance bonus pool and make recommendations to the Board regarding the potential allocation of any undistributed balance to the long-term incentive;
- consider the appropriateness of participants in the long-term incentive as well as the extent of participation and make recommendations to the Board;
- review and recommend to the Board the relevant performance measures for executives and the evaluation of such measures;
- consider other special benefits or arrangements of a substantive financial nature;
- review promotions, transfers and terminations of employment of executives; and

- ensure compliance with applicable laws and codes.

Some of the matters dealt with during the year were:

- the assessment of the independent status of directors classified as independent;
- discussion on the results of the Board, committees and Company Secretary evaluations performed during 2017;
- consideration of nominations for Board appointments and made recommendations to the Board;
- consideration of the composition of the Board and committees and made recommendations to the Board;
- consideration of the remuneration of non-executive directors and submission of the recommendation to the Board;
- review and approval of the remuneration policies and practices, including incentive schemes;
- review and approval of increases to guaranteed packages, awarding of bonuses and long-term incentives within the framework of the remuneration policies;
- review of Board and Executive succession planning; and
- review of Human Resources strategy.

Remuneration philosophy

Strate aims to attract, retain, engage and motivate employees of the highest calibre, while at the same time aligning their remuneration with shareholder interests and best practice. All incentives are thus performance based and linked to annual performance measurements.

In terms of Strate's performance management system, revised in 2016, employees' ratings are determined on the achievement of key performance indicators, the rating of which is determined on a more conversational basis, rather than being measured on a strictly mathematical basis, as they had been previously.

Strate's performance management system is used to measure employee performance and engagement within the organisation. The Performance Management system provides management and individuals with the guidelines to support the delivery of Strate's strategy and their personal development. An individual's performance is discussed during the performance conversation, which includes objectives, Key Performance Indicators (KPIs) based on an individual's job description, personal development areas, stakeholder expectations, the Code of Conduct, Innovation and Values.

According to Strate's vision, objectives, purpose and values, the performance management system aims to motivate and reward top performers in the company. Employees who implement an innovative initiative as part of the performance management system are measured against this rating in the final performance review. RemNomco will during 2018 review the performance scoring level definitions and, in particular, consideration of removing "Innovation" as a separate criteria for achieving an Excellent or Exceptional score as it has proven challenging to quantify what constitutes "Innovation" and this aspect does not necessarily reflect the performance of an individual.

The performance rating scale is depicted in the table below:

Score	Definition
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Unacceptable	Overall the employee's performance is unacceptable as the employee does not meet their core outputs/deliverables. Significant improvement is needed in all aspects of their work and a documented performance improvement plan should be in place. The employee must show significant improvement in their work in order to continue with employment at Strate as per Strate's Incapacity and Management of Poor Work Performance Policy.
Poor	Overall the employee does not meet expectations and their core outputs/deliverables are below standard. Improvement is needed in some aspects of their work and a documented performance improvement plan should be in place. The employee must show improvement in their work in order to continue with employment at Strate as per Strate's Incapacity and Management of Poor Work Performance Policy.
Fair	Overall the employee consistently meets expectations and their core outputs/deliverables are satisfactory.
Successful	Overall the employee consistently meets and frequently surpasses their core outputs/deliverables.
Excellent with Innovation	Overall the employee consistently meets and surpasses their core outputs/deliverables. In addition, the employee has successfully implemented an innovative initiative within Strate. Consideration may be given to significant progress made towards the implementation of an innovation initiative.
Exceptional	This rating occurs infrequently for employees who have delivered a significant, extraordinary and unique contribution to Strate over and above their core deliverables and innovative initiative.

Remuneration is thus conducive to rewarding, developing and retaining appropriate top talent, critical skills and intellectual capital. It also ensures the sustainability and growth of the business based on sound discipline and investment by staff in the results of Strate.

Remuneration policies and practices

Fair and competitive reward is vital to being an employer of choice. To ensure that Strate remunerates its employees competitively, it uses information from a wide variety of industries in South Africa at a national level sourced from an independent service provider. These benchmarks are used by RemNomco to set the guaranteed base remuneration for employees.

RemNomCo considers proposed adjustments to bring staff who are below the 40th percentile of the market in line with this benchmark, whilst some of the higher performing staff will be brought to the 50th percentile.

In addition, RemNomco also considers 'total reward' information (benchmark information for guaranteed base remuneration, short-term incentives and long-term incentives for individual positions) to evaluate remuneration of the executives. This entails a comparison between the executive's total reward in relation to the latest market indications as furnished by PwC.

Remuneration structure

The remuneration structure consists of the following elements:

- Guaranteed base remuneration; and
- Performance bonuses in the form of:
 - short-term bonuses (all qualifying staff);
 - discretionary bonuses (profit sharing for all qualifying staff); and
 - long-term incentives (key Strate staff in critical roles with specialised skills and knowledge).

Of these elements, only the base remuneration is guaranteed. All other elements are discretionary and are based on predefined performance deliverables and measurable criteria.

Short-term bonuses

Short-term bonuses are paid to reward employees for their contribution to the success of the Company. These are awarded each year based on the individual's performance against the objectives of the Company, appraised twice a year. The value of the bonus is calculated by a formula, taking into account the monthly guaranteed base remuneration, individual performance, seniority and length of service.

Short-term bonuses are paid twice a year (in June and November). The June bonus can amount to a maximum of 70% of one month's guaranteed base remuneration and the November bonus can amount to a maximum of 5 times monthly guaranteed base remuneration.

Discretionary performance bonus

The performance bonuses are paid at RemNomco's discretion from a pool not exceeding 10% of the Net Profit after Tax. Each Executive member has agreed upon Key Performance Indicators (KPIs) set each year. Successful implementation of an innovative initiative is required in order to achieve a performance rating of *Excellent with Innovation*, adding a measurable hurdle to achieving better than 90% of the discretionary performance bonus. This bonus is calculated with reference to the ratio of the short-term bonus pool.

The discretionary performance bonus calculation could result in a portion of the discretionary performance bonus pool remaining undistributed. RemNomco exercises its discretion regarding the application of any undistributed balance to enhance the long-term incentive pool. During both 2016 and 2017 there was no surplus in this pool for re-distribution. The discretionary performance bonus is paid in two instalments, 75% in November, after the appraisal process, and the balance after the financial results have been finalised, usually in March/April.

Long-term incentive

The long-term incentive, which is a cash scheme, was implemented in 2006 and is designed to retain and reward critical staff members over the long term and is set at 10% of Net Profit after Tax.

Should the profits for any year be insufficient to constitute a pool, RemNomco has discretion, subject to Board approval, to determine an amount to constitute a pool. Guidelines are considered annually by RemNomco to ensure that the needs of the various stakeholders are met.

Participants are nominated each year by the CEO, in consultation with the Executives, for approval by RemNomco. Selection to participate in one year does not guarantee participation in future years.

Factors considered in the nomination and selection of participants includes:

- importance and role played in achieving the Company's strategic objectives;
- specialised skills or knowledge;
- mobility;
- business continuity, including succession planning; and
- achieving a minimum rating of a *Fair* in the appraisal process.

This is a 5 year scheme, with payments spread evenly over three years starting with year 3 and accruing interest at the corporate rate achieved by Strate.

Participants in the LTI scheme do not share equally in the pool. A participant's share in the available pool is calculated using the following inputs:

- a participant's guaranteed package; and
- a factor based on the participant's employment level.

The calculation achieves a weighted distribution of the available pool.

These multiples of the annual guaranteed base remuneration are:

- Executive Directors - 5 times
- Executives - 4 times
- All other staff levels - 2 times.

A participant's interest is capped to not exceed 20% of the long-term incentive pool.

PwC completed an independent review of all Strate's Remuneration policies and practices which was presented to the Committee in early 2016 and which was re-considered by RemNomco in 2017. Although PwC's recommendation was that the short-term bonuses could be simplified, Strate's incentive policies were not out of line with market practice.

The RemNomCo discussed the recommendations and agreed that the incentive schemes would not be changed for the current performance cycle, particularly as there was an insignificant impact of PwC's recommendations versus the *status quo*. RemNomco will, however, during the course of 2018 be giving further consideration to whether Strate's remuneration policies and practices should be amended.

OTHER AWARDS

Leave

Leave ranges from 16 days per annum for support staff with less than 5 years of service to 35 days per annum for Executive members who have served more than 5 years.

An additional 5 days leave are granted on every 5th anniversary or multiple thereof. This is granted for that year only and then reverts to the maximum for that category.

Special awards and recognition

To encourage excellent performance and achievement, Strate uses special awards that are flexible and meaningful. The factors considered in making these awards include:

- the contribution must be of measurable significance to Strate and the degree of that contribution will decide which award is given;
- initiative should be shown;
- where personal time has been infringed to a large extent, particularly lengthy projects; and
- effort expended and dedication shown in the successful completion.

They may be made to individuals or to teams, depending on circumstances. They are nominal in value and infrequent in occurrence.

Employment contracts

With the exception of the CEO, who had a six-month notice period, the service contracts of the Executive Directors, Heads of Divisions as well as General Managers of Strate are subject to a three-month notice period. There are no service contracts in place with non-executive directors.

The remuneration policy is tabled at the AGM for a non-binding advisory vote, in terms of King III.

Job evaluation and benchmarking

Job evaluations and benchmarking exercises are performed bi-annually (April and September) by independent consultants from PwC to ensure that employees are fairly remunerated.

The guaranteed base remuneration is developed around the job evaluations and grading of positions and the associated benchmark information using a wide variety of industries in South Africa at a national level. This is considered the most appropriate benchmark for Strate, since its activities are broader than pure financial services.

An employee's guaranteed base remuneration is benchmarked between the 40th and 75th percentile of the market on an annual basis according to certain marketability criteria.

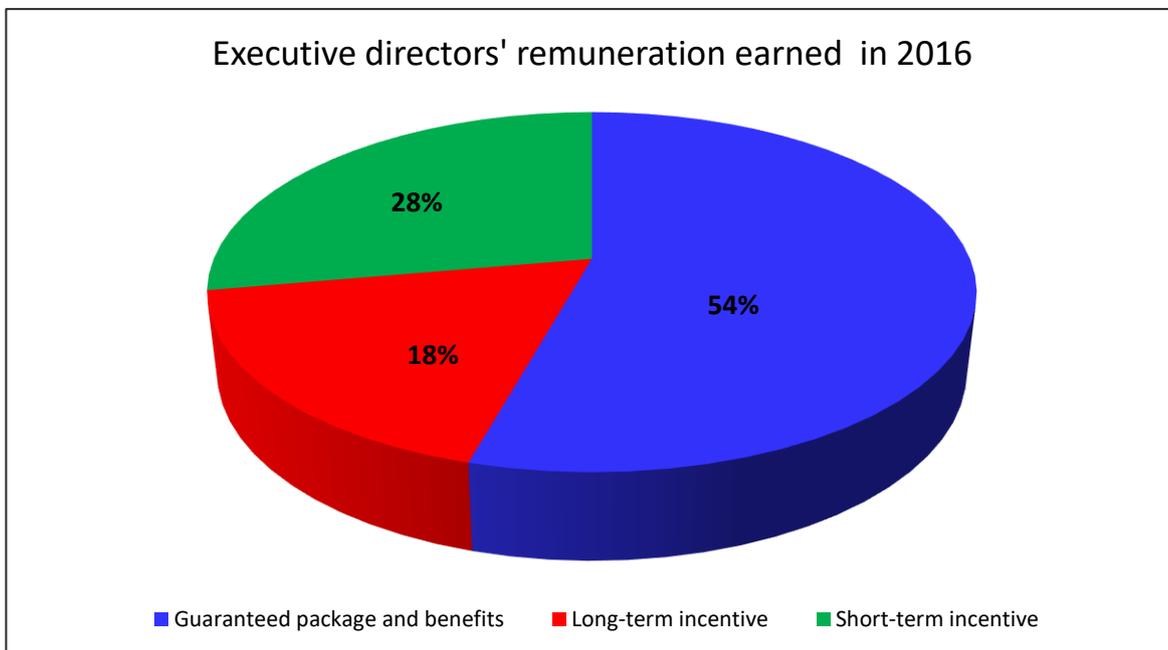
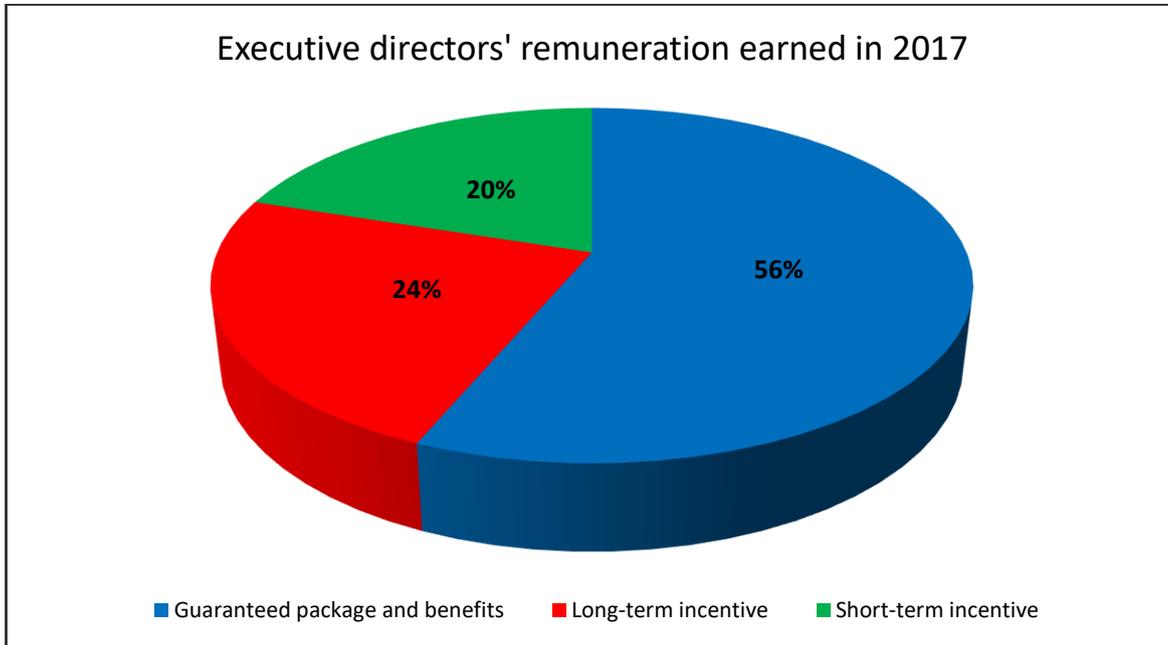
As per the Cost-to-Company Remuneration and Benchmarking Policy, where an employee is remunerated above the 75th percentile of the market the percentage increase granted is to be considered by the RemNomCo on an annual basis. It is recommended that affected staff receive an increase which is 2% less than a normal CPI related increase, however that reduction should be limited to the 75th percentile and not below it

Executive director remuneration

Executive director remuneration is disclosed in the annual financial statements.

Only executive directors and, where applicable, their alternates, are viewed as prescribed officers of the company.

Composition of Executive Directors' total remuneration for the year



Included in the Executive Directors' remuneration for 2017 is an amount of R8m paid to the previous CEO on termination of service, of which R1.9m came from the LTI pool.

Non-executive director remuneration

A comprehensive analysis of the fee and time spent for Board and committee activities was undertaken in 2015.

Based on this analysis, non-executive director fees were determined for a three-year period ending December 2018. The annual fee during this period is adjusted for inflation. These fee proposals apply to the independent directors but not to shareholder nominated directors who receive no fees from the Company. The fees are subject to shareholder approval in each year.

The non-executive directors' fees for 2017 were approved by the shareholders at the AGM.

Non-executive director remuneration is disclosed in the annual financial statements.

The proposed emoluments of independent non-executive Directors for 2018 and the actual emoluments paid for 2017 are:

		2018		2017	
		Retainer (annual)	Meeting (fee per meeting)	Retainer (annual)	Meeting (fee per meeting)
1.1	Chairman of the Board ¹	R1 143 230	-	R1 094 000	-
1.2	Lead independent	R60 350 ²	-	R57 750 ²	-
1.3	Board Member	R33 230	R36 850	R31 800	R35 200
1.4	Audit and Risk Chairman	R161 000	R48 300	R154 000	R46 200
1.5	Audit and Risk Member	-	R40 080	-	R38 400
1.6	Regulatory & Supervisory Chairman	R201 250	R72 450	R192 500	R69 300
1.7	Regulatory & Supervisory Member		R60 120 ³ or R23 380 ⁴	-	R57 600 ³ or R22 400 ⁴
1.8	Remuneration & Nominations Committee Chairman (where the Chairman is an independent non-executive director)	R120 750	R32 200	R115 500	R30 800
1.9	Remuneration & Nominations Committee Member	-	R26 720	-	R25 600
1.10	Social and Ethics Committee Chairman	R60 375	R16 100	R57 750	R15 400
1.11	Social and Ethics Committee Member (where the Member is an independent non-executive director)	-	R13 360	-	R12 800
	Other Committees		Per hour		Per hour
1.12	Participant Failure Committee Chairman	-	R4 025	-	R3 850
1.13	Participant Failure Committee Member	-	R3 340	-	R3 200
1.14	Urgent Issues Committee Chairman	-	R4 025	-	R3 850
1.15	Urgent Issues Committee Member	-	R3 340	-	R3 200
1.16	Ad hoc rate per hour Chairman	-	R4 025	-	R3 850
1.17	Ad hoc rate per hour Member	-	R3 340	-	R3 200

¹The Chairman's retainer is inclusive of meeting fees. The Chairman is a member of the Remuneration and Nominations Committee and the Chairman of the Regulatory and Supervisory Committee and will be entitled to remuneration in his capacity as member/chairman of those Committees.

²An additional fee of R4 025 per hour is payable if the time spent by the Lead Independent exceeds 15 hours per annum.

³ Fee payable to a member for attending Committee training sessions, the confidential and the non-confidential parts of the meeting.

⁴ Fee payable to a member for attending Committee training sessions and the non-confidential parts of the meeting.

Board and Executive Succession Planning

The Committee considered succession for the Board and Executive Committee and believes that the company has an adequate pipeline and/or a succession plan in place for all key positions. There is a Lead Independent Director should the Chairman of the Board be incapacitated for any reason, or to deal with any actual or perceived conflicts of interest.

A sub-committee of the Board has been constituted for the recruitment of a new Chief Executive Officer and the process is well underway. An announcement regarding the appointment is expected to be made shortly.

I wish to express my gratitude to the members of the committee and management for their efforts and contributions during the year. I also wish to express my appreciation to Murray Stocks, the previous Chairman of RemNomco, for his contribution to the Committee during his tenure as chairman of the committee.

Charl Bruyns

Chairman: Remuneration and Nominations Committee