

# Remuneration report

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The group's remuneration policy is based on a performance-related culture and strategy. The primary objective of this strategy is to motivate the employees to contribute to the group's strategic growth by achieving operational and financial objectives.

The philosophy of the remuneration policy is that the growth and sustainability of the group's business is dependent on its ability to attract, motivate and retain employees with competent skills and commitment to their scope of responsibilities, and with a performance-based culture.

## REMUNERATION PRINCIPLES

The key principles embedded in the remuneration policy are to:

- Align remuneration practices with the delivery of the group's strategy
- Ensure that executive reward schemes are in line with the shareholders' interests
- Attract, develop and retain employees in the health care industry who contribute to the group's sustained business growth
- Recognise and reward employees by promoting a performance-based culture which incorporates both short-term and long-term objectives
- Be competitively and comparably positioned in the market with the group's remuneration structures
- Ensure internal equity amongst employees
- Remuneration packages to comprise annual guaranteed pay, performance based bonuses and other benefits
- Grant regular increases which are merit based and in line with the job position

- Encourage career path aspirations and succession planning within the group
- Ensure compliance with all applicable legislation and regulatory codes.

## REMUNERATION GOVERNANCE

The board carries ultimate responsibility for the remuneration policy and has appointed a remuneration committee which has been delegated responsibility for the group's remuneration practices. The membership of this committee comprises two independent non-executive directors and one non-executive director, and conforms to the King III guidelines. The remuneration committee is governed by the remuneration committee charter as approved by the board.

The remuneration committee meets three times a year and on an ad hoc basis when required. The dates of these meetings are aligned to the review and approval of the budgeted remuneration for each year, as well as the performance bonuses awarded to executives and senior management.

The executive directors are responsible for preparing and presenting the remuneration adjustments and incentive schemes to the remuneration committee for further review and approval.

The directors' fees for non-executive directors are reviewed annually by the remuneration committee and presented to the board for approval. These fees are then presented to the shareholders for approval at the annual general meeting (AGM). PricewaterhouseCoopers (PwC) was commissioned to undertake a benchmarking exercise for non-executive directors' fees, which took into account the roles and responsibilities fulfilled on the board sub-committees as well as the frequency of meetings. The findings of this survey indicated that the chairs of the board, audit and risk committee, remuneration committee and social and ethics committee were positioned in the lower quartile of the twelve selected JSE companies in the comparator group. The proposed fees for 2018 as detailed later in this report are positioning these non-executive directors' fees close to the median level of the ranges.

# Remuneration report (continued)

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The remuneration policy as formulated by the remuneration committee is tabled to shareholders for a non-binding advisory vote at the AGM, to allow shareholders to express their views on the remuneration policy. The board is responsible for determining the remuneration of executive directors in accordance with the remuneration policy put to the shareholders' vote

## REMUNERATION POLICY

The remuneration policy incorporates the following key components.

### EXECUTIVE DIRECTORS' REMUNERATION

The remuneration structure of the executive directors is closely linked to the achievement of the group's operating and financial targets and is therefore aligned to the shareholders' interests.

The remuneration packages of the executive directors include the following components:

- Annual guaranteed pay
- Company benefits
- Cash-based bonuses which are based on monthly, quarterly and annual financial performances.

Basic salaries are reviewed according to benchmarking of medium-sized market capitalisation companies on the JSE Limited, and which recognises the group's business model, range of product and service offerings, and the regulatory environment within the health care sector in which the group operates.

PwC was commissioned to benchmark remuneration for the three executive directors and senior management. This included the total guaranteed package and short-term incentives as compared to twelve selected JSE companies and using REMchannel benchmarking data. The key findings of the benchmarking exercise will be debated by the remuneration committee and proposed action plans presented to the board.

### CASH-BASED PERFORMANCE BONUS

The executive directors and senior management participate in a performance bonus scheme which is cash based. Financial targets were determined by the board and set on annual EBITDA (earnings before interest, tax, depreciation and amortisation) and on RONA (return on net assets) and working capital management, as well as operational and business goals. These targeted bonuses are included in the annual budgets.

The incentive scheme for the executive directors and senior management is designed on both financial and non-financial measurements across operational, financial, customer, people and internal business process improvement metrics.

### LONG-TERM INCENTIVE SCHEME

A long-term incentive scheme (LTI) is planned, based on a share option model, and will orientate itself on market-leading comparable schemes with a focus on creating more alignment with our shareholders' interests and the group's top managers and executives, and to retain and attract best talent.

Key features of the LTI are:

- Strike based options
- Annual award to senior management based on Paterson grading levels
- Annual award capped to a percentage of shares in issue
- Vesting in equal tranches over 3, 4 and 5 years
- Based on profit performance conditions using NHEPS compound growth target, including tiered performance hurdles
- Settlement is cash or net equity issued
- Option to be exercised within three months
- 100% hedge cover for the options
- Limited impact on the company's income statement
- JSE and shareholder approval are not applicable
- Scheme rules prepared dealing with change of control, remuneration committee governance and King III compliance.

# Remuneration report (continued)

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## **OTHER MANAGEMENT AND STAFF**

The directors, senior managers and selected key staff receive an annual guaranteed salary, which includes certain retirement and health care benefits. Salaries may include premiums for resources that are scarce and critical. An annual salary increase is applied which is performance based as well as market related. They may also participate in an annual performance bonus scheme.

## **INDEPENDENT NON-EXECUTIVE DIRECTORS**

The independent non-executive directors are paid a quarterly fee for their services as directors as well as for serving on board committees. The fees are determined and compared to similar listed companies and are based on an assessment of the independent non-executive director's participation in meetings as well as increased regulatory and governance responsibilities.

In accordance with best corporate governance practices, independent non-executive directors do not participate in the group's incentive schemes, nor do they have contracts with the group. No consultancy fees were paid to the independent non-executive directors during the year.