

REMUNERATION REPORT

PART 1: BACKGROUND INFORMATION

Remuneration philosophy

The group's remuneration policy is based on a performance-related culture and strategy. The primary objective of this strategy is to motivate the group's human capital 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, with a performance-based culture, and with an ethical and responsible corporate citizenship.

Remuneration principles

The key principles embedded in the remuneration policy are to:

- Align remuneration practices with the delivery of the group's strategy and ensure that the remuneration of executive management is fair and responsible in the context of overall employee remuneration;
- Ensure that executive reward schemes are aligned with shareholders' interests;
- Attract, develop and retain employees in the health care industry who contribute to the group's sustained business growth;
- Establish remuneration packages that comprise of annual guaranteed pay, performance-based bonuses and other benefits;
- 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 among employees;
- Grant regular increases which are merit-based and in line with the job position;
- Job positions are benchmarked and reviewed on an annual basis with the internationally recognised Hay benchmarking system;
- Encourage career path aspirations and succession planning within the group; and
- Ensure compliance with all applicable legislation and regulatory codes.

Remuneration governance

The board has responsibility for the remuneration policy and has delegated responsibility to the Human Capital Committee ("HCC" or the "committee") for the group's remuneration practices.

The committee comprises three independent non-executive directors, being Dr Kinesh Pather (chairman), Andrew Marshall and George Sebulela, and conforms to the King IV guidelines. The committee is governed by a formal charter which is reviewed and approved by the board annually.

The committee meets at least three times a year and on an ad hoc basis when required. The 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 committee for review and approval.

The fees for non-executive directors are reviewed annually by the committee and presented to the board for approval. These fees are then presented to the shareholders for approval at the annual general meeting (AGM). The committee applies an external benchmarking survey every year to ensure that directors' fees are market related. The proposed directors' fees consider the level of responsibility and activity of each director in the meetings of the board and its sub-committees. The board is responsible for determining the remuneration of executive directors in accordance with the remuneration policy.

During the financial year the committee addressed the following key issues:

- development of the new long-term incentive scheme (refer to "Long-term incentive scheme" below)
- review of the executive directors' remuneration
- review of non-executive directors' fees
- termination of the CEO's employment (Thomas Thomsen) with effect from 23 May 2019
- appointed Andrew Marshall (chairman of the board) as acting CEO with effect from 23 May 2019, pending the replacement of the CEO
- the board created the role of lead independent non-executive director and appointed Bharti Harie to the fulfil the position on 7 June 2019.

After the end of the reporting financial year, the board appointed Mark Sardi as the new CEO and as an executive director of the board with effect from 14 October 2019.

Non-binding advisory votes

The remuneration policy and the implementation report are subject to separate non-binding advisory votes at the forthcoming AGM, in accordance with King IV.

At the AGM in November 2018, 85.73% of shareholders who voted supported the remuneration policy and 89.16% supported the implementation report in non-binding advisory votes.

Shareholder engagement

Ascendis Health encourages proactive engagement on remuneration-related issues with shareholders to ensure that informed decisions are made when voting on the group's remuneration policy and implementation report.

In line with the requirements of King IV, should either the remuneration policy or the implementation report receive 25% or more dissenting votes, management will engage directly with these shareholders to determine the reasons for the dissenting votes and take reasonable measures to address legitimate concerns. The steps taken to address legitimate and reasonable concerns will be disclosed in the following year's integrated report.

Board approval of the remuneration report

The remuneration report was approved by the board of directors on 14 October 2019.

Part 2: REMUNERATION POLICY

The remuneration policy covers:

- basic salary, including financial and non-financial benefits;
- commissions and allowances;
- termination payments;
- sign-on, retention and restraint payments;
- short-term and long-term incentive schemes; and
- fees for non-executive members of the board

This policy can be accessed on the company's website: <https://ascendishealth.com/wp-content/uploads/2015/08/Remuneration-Report>

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 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 annual business and 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.

Executive director terms of appointment

When recruiting executive directors, the size, nature and complexity of the role are considered.

Executive directors have standard terms and conditions of employment. None of the executive directors has an employment contract with a maximum notice period of longer than six months or any other special termination benefits in place.

Short-term incentive scheme

The executive directors and senior management participate in a short-term incentive scheme (STI) which is a cash-based performance bonus scheme and is subject to income tax. Financial targets are determined by the committee and approved by the board, and are set on the following metrics:

- EBITDA (earnings before interest, tax, depreciation and amortisation)
- RONA (return on net assets)
- Working capital management
- Operational and business goals

The executive directors' targets also include profit before tax and earnings per share. These targeted bonuses are included in the annual budgets and are accounted for in the audited annual financial statements.

The incentive scheme for the executive directors and senior management is designed on both financial and non-financial measurements across operational, financial, customer, human capital and internal business process improvement metrics. The annual STI scheme is reviewed and approved by the committee.

Key components of the STI are:

- Bonus measurements are more weighted at business division level and central support functions
- Increased weighting on financial targets
- Financial targets include revenues, profit and cash management goals
- Recognition of high performers within the peer group
- Raised the set base of financial performance measures to 95% of targets, with a maximum of 150% of target

Long-term incentive scheme

The executive directors and senior management participate in a long-term incentive scheme (LTI scheme). The board has approved the introduction of a new share option scheme with effect from December 2019 to enable the group to become more competitive in the market. The scheme is subject to the JSE approval and shareholders' approval at the AGM.

Further details on the LTI scheme are contained in the notice of AGM. The full scheme document is available on request from the company secretary.

The key components and objectives of the revised LTI scheme are:

- Share option value to be based on the share price which provides alignment to shareholders' interests
- Share option issue price will be based on the 30-day VWAP at the date of issue
- Retention of key management and critical skills
- Maximum number of share options will not exceed 5% of the Company's issued share capital
- LTI scheme is dilutive to shareholders
- Maximum number of share options that may be allocated to any participant in the scheme may not exceed 1% of the issued share capital
- 27 executive and senior management to participate in this LTI scheme in the 2020 financial year
- Net equity settlement is made directly to the participant after deduction of PAYE tax
- Issue of the share options shall be done annually and within the 5% limit, and is subject to review and approval by the HCC
- The exercise of the share options will be subject to the company performance targets being met, based on the three-year compound annual growth rate in normalised headline earnings per share, on a sliding scale as follows:
+4% = 100%/ +3% = 90%/ +2% = 80%/ +1% = 70%/ 0% = 60%
- Vesting periods of the share options shall be over two, three, four and five years on the anniversary date of issue.

Other management and staff

Senior managers and selected key staff receive an annual guaranteed salary, which includes certain retirement and health care benefits as well as a performance based annual bonus. 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.

Non-executive directors

The 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, as well as external market surveys, and are based on an assessment of the non-executive director's participation in meetings as well as regulatory and governance responsibilities.

In accordance with best corporate governance practices, non-executive directors do not participate in the group's incentive schemes, nor do they have employment contracts with the group. The following emoluments were paid to non-executive directors during the year in addition to their fees for serving as directors:

- R574 194 Dr NY Jekwa for managing a large disposal project for the group
- R416 666 AB Marshall for compensation for serving as acting CEO of the group for the month of June 2019. During his tenure as acting CEO, Mr Marshall did not receive non-executive directors' fees.

PART 3: IMPLEMENTATION REPORT 2019

The committee is satisfied that the objectives of the remuneration policy were achieved over the past year.

Details of the remuneration paid to executive and non-executive directors for the financial year ended 30 June 2019 are provided in this section of the report, which payments are considered by the committee, to be in line with the group's remuneration policy.

The committee approved an average 4.5% increase in the executive directors' fixed remuneration for the 2019 financial year. The overall remuneration paid to executive directors decreased by 37.6% due to (i) 50% reduction in the number of executive directors, partially offset by (ii) the termination of the CEO's employment which required a six-month notice period and he was paid in lieu of serving his notice period.

Directors' emoluments 2019

R'000	Basic salary	Short-term incentives	Retirement/ medical benefits	Other benefits	Termination cost*	Non-executive Directors' fees	Non-executive Directors' other services	Total
Executive directors								
TB Thomsen*	6 600	6 688	-	854	3 600			17 742
K Futter	3 304	1 056	88	46				4 494
Total executive directors	9 904	7 744	88	900	3 600	-		22 236
* terminated 23 May 2019								
Non-executive directors								
JA Bester*	-	-	-	-	-	908		908
AB Marshall**						93	417	510
B Harie	-	-	-	-	-	668		668
MS Bomela	-	-	-	-	-	475		475
Dr KS Pather	-	-	-	-	-	665		665
GJ Shayne***	-	-	-	-	-	187		187
Dr NY Jekwa	-	-	-	-	-	462	574	1 036
JG Sebulela#						390		390
PM Roux**##	-	-	-	-	-	21		21
Total non-executive directors	-	-	-	-	-	3 869	991	4 860
Total directors	9 904	7 744	88	900	3 600	3 869	991	27 096

* retired 3 May 2019

** appointed 3 May 2019

*** resigned 31 March 2019

appointed 2 October 2018

resigned 7 June 2019

Other than as is recorded above, no other remuneration was paid by the company nor was any consideration paid to or by any third party, or by the company itself, in respect of services of the company directors, as directors of the company, during the year ended 30 June 2019.

Directors' emoluments 2018

R'000	Basic salary	Travel allowances	Short-term incentives	Retirement/ medical benefits	Other benefits	Long term service award	Non-executive Directors' fees	Total
Executive directors								
Dr KUHH Wellner**	5 200	177	1 404	88	296	13 680	-	20 845

CB Sampson**	3 850	-	800	-	49	3 500	-	8 199
TB Thomsen*	2 246	-	106	-				2 352
K Futter	3 119	-	800	81	42			4 042
Total executive directors	14 415	177	3 110	169	387	17 180	-	35 438

*appointed 1 March 2018

**resigned 29 June 2018

Non-executive directors

JA Bester	-	-	-	-	-	-	875	875
B Harie	-	-	-	-	-	-	495	495
MS Bomela	-	-	-	-	-	-	353	353
Dr KS Pather	-	-	-	-	-	-	475	475
GJ Shayne	-	-	-	-	-	-	-	-
Dr NY Jekwa*	-	-	-	-	-	-	-	-
CD Dillon**	-	-	-	-	-	-	-	-
Total non-executive directors	-	-	-	-	-	-	2 198	2 198
Total directors	14 415	177	3 110	169	387	17 180	2 198	37 636

*appointed 22 June 2018

**resigned 22 June 2018

Non-executive directors' fees

Non-executive directors' fees ("NED") amounting to R3.3 million in respect of the 2019 financial year, were approved at the 2018 AGM. The additional NED fees incurred of R569 000 were due to (i) changes in the board members; (ii) an additional sub-committee (Investment Committee) being formed and members being appointed by the board; and (iii) fees for additional board and Investment committee meetings being held during the year.

The fees payable to non-executive directors comprise an annual fee based on the role fulfilled by each director, with the expectation of attendance at a pre-determined regular number of meetings per annum: board (four meetings); Audit and Risk committee (four meetings); Human Capital committee (three meetings); Social, Ethics and Transformation committee (three meetings) and a number of Investment committee meetings. All travel and accommodation expenses incurred by directors to attend board and committee meetings are paid by the company.

The following NED fees for the 2020 financial year will be proposed to shareholders at the 2019 AGM for consideration and approval. These proposed NED fees reflect a decrease of (9.9)% as compared to the fees for NEDs which were paid in the 2019 financial year. The proposed fees are aligned to a market survey provided by the Institute of Directors South Africa.

Proposed NED fees 2020	R'000
AB Marshall	
• Chairman of the board	1000
• Member of the Human Capital committee	60
• Member of Social, Ethics and Transformation committee	40
• Member of the Investment committee	60
B Harie	
• Member of the board	250
• Chairman of the Audit and Risk committee	250
• Member of the Investment committee	60
MS Bomela	
• Member of the board	250
• Member of the Audit and Risk committee	90
• Chairman of the Social, Ethics and Transformation committee	85
Dr KS Pather	
• Member of the board	250
• Member of the Audit and Risk committee	90
• Chairman of the Human Capital committee	140
• Member of the Social, Ethics and Transformation committee	40
JG Sebulela	
• Member of the board	250
• Member of the Human Capital committee	60
• Member of the Investment committee	60

Dr NY Jekwa	
• Member of the board	250
• Member of the Audit and Risk committee	90
• Chairman of the Investment committee	110
Total	3 485

Short-term incentive scheme:

Awards made in the 2019 financial period were as follows:

Performance measured used (and the weighting of each)	Target	Achievement	Value
Revenue, EBITDA, cash conversion, strategic and personal KPIs	100%	53%	R27.8m

Directors and associates' shareholdings

Directors and associates' shareholdings at 30 June 2019

Director	Direct beneficial shares	Indirect beneficial shares	Indirect non-beneficial shares	Total
B Harie	3 548	115 783	12 535	131 866
Dr KS Pather	24 650	20 000		44 650
Dr NY Jekwa	2 222			2 222
K Futter	296 286			296 286
Total	326 706	135 783	12 535	475 024

Directors and associates' shareholdings at 30 June 2018

Director	Direct beneficial shares	Indirect beneficial shares	Indirect non-beneficial shares	Total
JA Bester	16 200			16 200
B Harie	3 548	95 783	12 535	111 866
Dr KS Pather	24 650	20 000		44 650
GJ Shayne	253 647	117 686 681	1 632 756	119 573 084
CD Dillon*	1 018 900	20 768 238	1 032 000	22 819 138
Dr KUHH Wellner**	2 887 307	1 500		2 888 807
CB Sampson**	211 175	250 000		461 175
K Futter	296 286			296 286
Total	4 711 713	138 822 202	2 677 291	146 211 206

* resigned 22 June 2018

** resigned 29 June 2018