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# BRAINWORKS

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REMUNERATION REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018



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## LETTER TO SHAREHOLDERS



*Mr. George Sydney John Bennett  
Chairperson of the Remuneration Committee*

Dear Shareholders

At Brainworks Limited's Annual General Meeting ("AGM") held on the 26<sup>th</sup> of June 2018, Shareholders passed a non-binding advisory vote in favour of adopting Brainworks Limited's first ever Remuneration Policy. The adoption of the Remuneration Policy is one of the measures taken in 2018 to strengthen Brainworks Limited's corporate governance framework and to ensure that Brainworks Limited ("Brainworks" or the "Company") adheres to the principles and recommended practices on remuneration set out in the King IV Report on Governance for South Africa, 2016 ("the King IV Report").

In this Remuneration Report for the year ended 31 December 2018 ("the Report"), the Remuneration Committee ("the Committee") will update Shareholders on the measures taken by the Company in implementing the Company's remuneration philosophy as espoused in the Remuneration Policy, and in line with the King IV Report. Where applicable, the Company is also guided by the statutory provisions of the Companies Act of South Africa, 71 of 2008, as amended (the "Companies Act").

This Report has been prepared by Remuneration Committee and is organised in three sections. The three sections are as follows:

- i Letter to Shareholders (a background statement to the report);
- ii Remuneration Policy (a board overview of the main principles and objectives of the policy); and
- iii Implementation Report (an overview of the remuneration of individual directors and members of the executive management team).

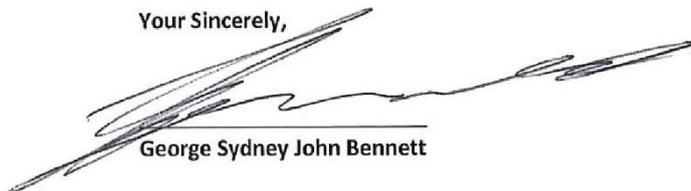
Ordinarily the Report would include a summary and analysis of the voting for the two non-binding advisory votes pertaining to the Remuneration Policy and the Remuneration Report. However, being that last year marked the adoption of the Remuneration Policy, and this year is the first time Brainworks Limited is submitting a Remuneration Report to Shareholders, no such analysis could be performed. In future a detailed analysis on the feedback given by Shareholders, and the measures taken to address their concerns, will be included in this Report.

Shareholders are advised that the Company's Remuneration Policy is available on the Company's website, <http://www.brainworkscapital.com/investor-relations/corporate-governance>, and its contents are incorporated herein by way of reference. Only the salient features of the Remuneration Policy will be repeated. No material changes have been made to the Remuneration Policy since its adoption in 2018. There is, however, a proposal to amend the Remuneration Policy and details of same can be found on the website on the aforementioned link.

Furthermore, Shareholders are encouraged to read the Annual Report for the year ended 31 December 2018 ("the Annual Report") as the Annual Report makes disclosures on remuneration which will assist Shareholders in understanding the content of this Report. The Annual Report is also available on the Company's website, <http://www.brainworkscapital.com/investor-relations/financial-results-reports>.

In the year ending 31 December 2019, the Remuneration and Nominations Committee are looking forward to improved implementation of the Remuneration Policy in order to give effect to Brainworks Limited's objectives. We are particularly looking forward to increasing our competitiveness as a corporate and to ensure that optimal conditions exists for our personnel so as to retain and attract talent that will promote the business and growth of the company.

Your Sincerely,



**George Sydney John Bennett**

# REMUNERATION POLICY

## Introduction

The Company's Remuneration Policy promotes the Company's overall values, strategy and growth. The Company's overall strategy is to:

- ∞ support Brainworks Limited by building a competitive, high performance and innovative company with an entrepreneurial culture that attracts, retains and rewards high-performing employees;
- ∞ promote / support positive outcomes across the economic and social context in which the company operates;
- ∞ promote the achievement of strategic objectives; and
- ∞ promote ethical practice and responsible corporate leadership.

## Employee Remuneration

In terms of the Remuneration Policy, the Company's remuneration structure for salaried employees consists of the following elements: guaranteed remuneration package (fixed) and variable remuneration (short-term and long-term incentives) and recognition. Fixed remuneration is guaranteed, and it is normally paid irrespective of the Company's performance. Variable remuneration is not guaranteed and it is directly linked to, and dependent on, the Company and individual achieving a certain level of agreed performance.

The guaranteed remuneration package includes the employee's total annual salary plus any non-cash benefits. Typically, these include company pension or provident fund and medical aid scheme contributions, group life and accident insurance cover, as well as other benefits.

The broad principles described above can be summarised as follows:

Remuneration element	Purpose	Other salient features
<b>Guaranteed package</b>	<p>The key objective of the guaranteed package is to provide the base element of remuneration that reflects the person's role or position in BWL. Guaranteed remuneration is payable for doing the expected job.</p> <p>Pays for overall job requirements, accountability and complexity of tasks. The guaranteed package ensures that the Company attracts and retains high performing individuals by paying market related guaranteed remuneration package.</p>	<p>Guaranteed remuneration is paid monthly on a total cost to Company, is generally targeted at the median or 50th percentile level and benchmarked against the financial services sector.</p>
<b>Short term incentives</b>	<p>The key objective of short term incentives is to create a performance culture. This will be achieved by rewarding individuals and or teams for achieving strong annual financial and non-financial results. Performance will be measured in terms of pre-determined targets.</p> <p>Short term incentives focus on the attainment of both short term and medium term results, whilst at the same time ensuring the successful execution of the strategic plan. Short term incentives offers opportunity for pay-for-performance to incentivise employees.</p>	<p>The short-term incentive remuneration, which is usually in the form of a performance bonus is payable annually in April. Performance bonuses above a certain threshold are paid out in 2 - 4 tranches within a 1-year period. The performance bonus is based on a performance balanced scorecard where the Company performance targets are set in terms of threshold, target and performance levels. The measurement period for assessing performance against the scorecard is</p> <p>In general, the short-term incentive applies to all employees.</p>
<b>Long term incentives</b>	<p>The broad purpose of the Long-Term Incentives Plan ("LTIP") is to attract, motivate, retain and reward key employees who can influence the Company's performance and strategic direction. Long-term incentives are aligned to multi-year targets of growth and long-term value creation.</p> <p>These are crucial in retaining critical employees. Long term incentives focus on longer term strategic imperatives and aligns performance with shareholder thinking and expectations. Long term incentives reward employees based on sustainable company performance.</p>	<p>The Company's Executive Committee ("Exco"), members and key management whose deliverables are essential and who are critical from a retention perspective, are eligible for</p> <p>Eligible individuals are selected by the Company's Exco, and or by the Chief Executive Officer under the oversight of the Remuneration and Nominations Committee ("REMC").</p>

The remuneration regime described above is designed to attract and retain talented individuals who can fit into the Company's corporate culture as well as contribute meaningfully to the development and growth of the Company. The same applies to the remuneration of Executive and Non-Executive Directors.

#### **Non-Executive Directors Remuneration**

The remuneration of Non-Executive Directors differs to that of salaried employees. Their fees comprise a base fee (retention) and an attendance fee component. Non-Executive Directors and the Chairperson do not receive performance incentive payments (short-term or long-term).

Non-Executive Directors are, however, entitled to receive attendance fees for attending meetings. They are also entitled to allowances where this is necessary to enable them to discharge their duties and obligations. Where Non-Executive Directors incur expenses attending meetings and discharging their duties and obligations, they are entitled to be fully reimbursed for said expenses. Non-Executive Directors are also entitled to consult independent advisers, including legal practitioners, where the situation may require them to. They will also be reimbursed for these expenses.

#### **Executive Directors Remuneration**

Executive Directors' remuneration is governed by the principles and practices applicable to other salaried employees.

#### **Termination of Employment**

Upon termination of employment, executive directors are entitled to standard terminal benefits in accordance with the laws of Mauritius.

#### **Performance Measure**

Executive Director performance is analysed on an annual basis by the Company's Remuneration Committee which reports to the Board on its recommendations.

#### **Annual Reporting Requirements**

In line with the King IV Report, the Remuneration Policy and the Remuneration Report will be tabled annually for a separate non-binding advisory vote by the Shareholders at each AGM. The Remuneration and Nominations Committee will engage Shareholders if 25% or more vote against the Remuneration Policy and or Remuneration Report. The key purpose of such an engagement process is to ascertain the reasons for the dissenting votes and where reasonable concerns are raised to address such concerns. This may include review and amendment to the Remuneration Policy or merely a clarification of the Remuneration Policy.

Reporting to Shareholders annually by means of the Remuneration Report strengthens the Company's objectives as it creates accountability to Shareholder. This is especially true as Shareholders are given an opportunity to challenge the Company's Remuneration Policy and the implementation thereof at each AGM in a manner that compels the Company to engage with the Shareholders.

#### **Remuneration and Nominations Committee**

The Remuneration and Nominations Committee consist of the same members; however, Nominations Committee matters are chaired by the Chairperson of the Board as a separate committee whilst Remuneration Committee matters are chaired by the Chairperson of the Remuneration Committee. The Remuneration Committee comprises of the following members:

- ∞ George Bennett (the Chairperson);
- ∞ Chipo Mtasa (the Company's Lead Independent Director); and
- ∞ Richard Muirimi (a Non-Executive Director).

The role of the Remuneration Committee is to make recommendations to the Company's Board of Directors ("the Board"), and otherwise to assist the Board with its oversight responsibilities, in relation to:

- ∞ recruitment and remuneration strategies and policies for directors and senior executives; and
- ∞ performance evaluation, appointments and succession planning.

The ultimate responsibility for, and power to make decisions on behalf of the Company with respect to these matters remains with the full Board.

The Company acknowledges the importance of the Committee in ensuring that the Company has qualified and experienced personnel to help it achieve its objectives. Consequently, the Company sees to it that the Committee is adequately empowered by availing the necessary resources and information, including access to management, to enable the Committee to undertake its duties.

The Committee values, and has undertaken to promote equity, fairness and transparency in the remuneration of all employees and executives. Where the Committee suspects there may be disparities in the remuneration of employees based on race, gender and any other form of discrimination, the Committee investigates and remedies the disparity.

#### Proposed Amendments to the Remuneration Policy

In order to keep ensure that the Company remains competitive, the Committee will, during the course of this year, undertake to review remuneration and performance conditions against market best practice. In line with the reporting obligations, Shareholders will be advised of, and vote in relation to, and proposed amendments to the Remuneration Policy.

## IMPLEMENTATION REPORT

#### Introduction

This section of the Report forms constitutes the implementation Report and is subject to a separate non-binding advisory vote by Shareholders at the AGM to be held on Friday the 28<sup>th</sup> of June 2019. It deals with the remuneration received by the Company's executive and Non-Executive Directors as well as proposed remuneration for the year ending 31 December 2019.

Remuneration of the Company's directors is considered annually by the Committee and is fixed according to the level of responsibility undertaken by the directors and the Company's financial performance. The Committee also considers the market norms in setting remuneration for its directors. Periodic peer group comparisons using publicly available information is undertaken by the Company. As previously stated, Non-Executive Directors' remuneration consists of a base fee (retention) and an attendance fee component. Executive Directors' remuneration is governed by the principles and practices applicable to other salaried employees, that is it consists of a guaranteed base salary, benefits as well a variable portion including short-term cash and long-term cash or share incentives. They also receive sitting fees similar to the Non-Executive Directors.

The amount awarded for the variable short-term portion considers the performance of the individual and the overall performance of the Company Long-term share incentives participation and allocation are based on defined individual performance criteria.

#### Executive Directors' Remuneration

Remuneration for Executive Directors for the year ended 31 December 2018 stood as follows:

	2018				2017			
	Basic salary US\$	Pension US\$	Medical aid US\$	Total US\$	Basic salary US\$	Pension US\$	Medical aid US\$	Total US\$
Chief Executive Officer	211 776	-	-	<b>211 776</b>	176 670	-	-	<b>176 670</b>
Chief Finance Officer	240 000	13 400	3 960	<b>257 360</b>	180 000	12 000	2 970	<b>194 970</b>
	<b>451 776</b>	<b>13 400</b>	<b>3 960</b>	<b>469 136</b>	<b>469 170</b>	<b>14 000</b>	<b>2 970</b>	<b>486 140</b>

Note – the 2017 comparatives represent remuneration of 10 months and 11 months for the Chief Executive Officer (“CEO”) and the Chief Finance Officer (“CEO”) respectively. These executive directors assume their respective roles during the first quarter of 2017.

### Non-Executive Directors’ Remuneration

Remuneration for Non-Executive Directors for the year ended 31 December 2018 stood as follows:

Non-executive directors	2018			2017		
	Retainer US\$	Sitting Fees US\$	Total US\$	Retainer US\$	Sitting Fees US\$	Total US\$
S. Village	42 308	25 001	67 309	38 462	15 385	53 847
M. Wood	21 892	15 384	37 276	23 077	13 461	36 538
R. Muirimi	26 923	17 788	44 711	25 000	15 384	40 384
G. Bennett	26 923	16 826	43 749	25 000	15 384	40 384
R. Charrington	26 923	16 346	43 269	25 000	15 384	40 384
A. Mothupi	21 154	12 019	33 173	21 154	11 538	32 692
C. Mtasa*	1 992	-	1 992	-	-	-
S. Nyarota*	1 992	1 922	3 914	-	-	-
	<b>170 107</b>	<b>105 286</b>	<b>275 393</b>	<b>157 693</b>	<b>86 536</b>	<b>244 229</b>

\* appointed on 19 November 2019

### Executive Directors - Short-Term Incentives

The Company’s short-term incentive (“SIT”) takes the form of a Cash Incentive Plan (“CIP”). The core elements of this CIP are as follows:

- 1.1 The team will be provided cash incentive payments out of a pool funded through the allocation of a percentage of the Consolidated Net Profit Before Tax (“NPBT”) of the Company;
- 1.2 There is a minimum threshold level of Net Profit Before Tax (“NPBT” or “Hurdle Rate”) that underpins the existing contribution from the business; profits in excess of this threshold are shared between the team and the business; and
- 1.3 The allocation of any of the reward pool is submitted and approved by the Committee.

In awarding payments from the CIP account is taken of the individual’s performance against the Company’s financial performance, which in turn are based on the core organisational objectives of growth, profitability, business development and capital management.

The minimum threshold for NPBT Hurdle Rate is determined by the annual budget as approved by the Board. If an amount in excess of the budget is realised participants will participate in the upside. The Hurdle Rate will be adjusted for any acquisitions, disinvestments or other transactions which require an adjustment in order to maintain a true and accurate benchmark against which to measure the team’s performance. A tiered sharing rate will apply where the Hurdle Rate is exceeded. This is designed to encourage the team to focus on preserving the existing profitability whilst at the same time incentivizing the team to make difficult decisions as regards non-performing assets, resources, etc and being highly incentivised to grow the future reserves of the Company.

The basic mechanics of the model will be a stepped NPBT participation (“the Award”) above the Hurdle Rate:

- 2.1 If the Hurdle Rate is achieved, then 5% of Hurdle Rate is allocated to the CIP;
- 2.2 If the Hurdle Rate is exceeded by more than 10% but less than 20% then an additional 20% of the NPBT exceeding the Hurdle Rate is allocated to CIP; and
- 2.3 If the Hurdle Rate is exceeded by more than 20% then an additional 25% of difference between the actual NPBT and the Hurdle Rate plus 20% of the Hurdle Rate is allocated to CIP.

An example of how the above principles apply is shown below:

<b>Assume budgeted NPBT (Hurdle Rate) is</b>	\$ 5,000,000.00		
<b>Assume actual audited NPBT is</b>	\$ 5,000,000.00	\$ 6,000,000.00	\$ 8,000,000.00
<b>Bonus Pool</b>			
5.0%	of	5,000,000	\$ 250,000.00
20.0%	of	1,000,000	\$ 200,000.00
25.0%	of	2,000,000	\$ 500,000.00
			\$ 950,000.00
	<b>as % of NPBT</b>		5.0%      7.5%      11.9%

For the year ended 31 December 2018 the CIP was calculated and allocated as follows:

<b>2018 Budgeted Net profit before tax (HURDLE RATE)</b>	<b>9 166 294</b>
<b>2018 Actual Audited PBT (before Brainworks bonus)</b>	<b>15 371 852</b>
Fair value gains on investment property	(979 561)
<b>2018 Actual adjusted NPBT (ANPBT)</b>	<b><u>14 392 291</u></b>
Cash Incentive Award payable - 5% of HURDLE RATE	<b>458 315</b>
Excess of ANPBT above HURDLE RATE (US\$)	4 767 682
Excess of ANPBT above HURDLE RATE (%)	52%
Allocation to the CIP POOL - 1st layer	1 833 259      20%      366 652
Allocation to the CIP POOL - 2nd layer	<u>2 934 424</u> 25%      733 606
	<b><u>4 767 682</u></b>
<b>TOTAL POSSIBLE CIP ALLOCATION IN TERMS OF POLICY</b>	<b><u>1 558 572</u></b>
<b>FINAL ALLOCATION TO CIP APPROVED BY THE BOARD</b>	<b><u>1 000 000</u></b>

#### Remuneration of Executive Directors 2019

The following remuneration is being proposed, after consideration was given to industry standards, for approval by Shareholders for the year ending 31 December 2019:

	Basic salary US\$	2019 Pension US\$	Medical aid US\$	Total US\$
Chief Executive Officer	211 992	-	-	<b>211 992</b>
Chief Finance Officer	240 000	13 400	3 960	<b>257 360</b>
	<b>451 992</b>	<b>13 400</b>	<b>3 960</b>	<b>469 352</b>

### Non-Executive Director Fees 2019

The following board fees are being proposed, after consideration was given to industry standards, for approval by Shareholders for the year ending 31 December 2019:

	<b>2019 proposed fees (US\$)</b>		
<b>Board Retainer</b>	Chairman	<b>Annual</b> 38 462	<b>Quarterly</b> 9 616
	Director	17 308	4 327
<b>Committee Retainer</b>	Chairman	3 846	962
	Member	1 923	481
<b>Board Sitting</b>	Chairman	<b>Annual</b> 15 385	<b>Per sitting</b> 3 846
	Member	7 692	1 923
<b>Committee Sitting</b>	Chairman	3 846	962
	Member	1 923	481

### AGM Resolutions

The up-coming AGM will be the Company's first-time submitting a Remuneration Report to Shareholders. In future Remuneration Reports, the Company will report back to Shareholders on voting on the non-binding advisory votes and the actions taken by the Committee in addressing Shareholders concerns.

## **BRAINWORKS**

**REGISTERED OFFICE:**

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