03 Governance

REMUNERATION REPORT

BACKGROUND STATEMENT

Dear Shareholder,

The Board engaged with shareholders on various matters during the course of the reporting period. Following on from these engagements, Huge shifted its emphasis to cash generation and balanced its aspirations for growth accordingly. Notwithstanding the shift in emphasis, the Board remains committed to the delivery of the Growing Huge Strategy and in so doing, ensuring that the Company's Remuneration Policy is suitably structured.

During the year under review, considerable work was done by executive management in developing performance measures and targets which are expected to be fully implemented by the start of the next financial year. In addition, suitable incentive schemes aligned with these performance measures and targets will similarly come into effect. As Huge drives the Growing Huge Strategy, the Board will engage with institutional investors and major shareholders in the appropriate manner with regard to proposals to introduce long-term incentives as a component of remuneration.

During the prior reporting period, the Remuneration Committee revised its charter with reference to the principles and recommended practices in King IV. In addition, the Board adopted the **2018 Remuneration Policy** (the **Remuneration Policy**), which was approved by shareholders at the annual general meeting on 30 August 2018 as part of the Remuneration Report. The Remuneration Policy can be found at www.hugegroup.com/policies. Since adopting the Remuneration Policy, the Remuneration Committee approved an amendment to the remuneration philosophy which provided for the Company to pay market related industry salaries in the median, rather than the upper, quartile.

Various factors influenced remuneration practices at Huge over the course of the year. While the Company generated greater amounts of cash, it did not deliver a significant acquisition in line with market expectations. The budgeting process for the current financial year took into account the challenging economic environment, as well as shareholders' expectations in respect of continued earnings growth.

In line with the Remuneration Policy, the Board approved a general increase in remuneration costs for the current financial year for all Group companies of 5.5%, which was the official average inflation rate for FY2019 (FY2018: 5.3%). Whilst the Board approved the overall percentage, the managing directors of the subsidiary companies were given the latitude to increase individual salaries in a manner they deemed most prudent and efficient for achieving their strategic objectives. Generally, a higher percentage increase was applied to employees at lower levels of remuneration.

At the Company's annual general meeting held on 30 August 2018, 96.38% of the votes cast by shareholders supported the Remuneration Policy and 100% of the votes cast by shareholders supported the Remuneration Implementation Report. Non-executive director fees received the support of 100% of the votes cast.

No remuneration consultants were used during the period under review. However, cognisance was had to the following independent public reports on remuneration:

- *Non-executive Directors: Practices and Remuneration Trends Report, PWC, 12th Edition*
- *Executive Directors: Practices and Remuneration Trends Report, PWC, 10th Edition*

The Remuneration Committee is of the view that it has achieved the stated objectives of its charter and will continue to focus on the alignment of the Company's Remuneration Policy with the sustainable delivery of the Growing Huge Strategy.

Duarte da Silva
Chairman of the Remuneration Committee

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The Board is aware of the recommended practice of King IV in respect of which the Chairman of the Board should not be the Chairman of the Remuneration Committee and the Chairman of the Remuneration Committee should be independent.

The Board has considered this recommended practice and believes that the appointment of Dr da Silva as the Chairman of the Remuneration Committee is in the best interests of the Company. Dr da Silva has substantial experience in respect of remuneration structures, particularly with regard to aligning same to strategic delivery. The balance of the Remuneration Committee membership comprises a non-executive director and independent non-executive director.

REMUNERATION POLICY

Governance of Remuneration

The Remuneration Committee assists the Board in discharging its responsibilities relating to the remuneration of Huge's executive directors and managing directors; developing and monitoring Huge's Remuneration Policy and Remuneration Implementation Plan; and ensuring that the disclosure of remuneration matters is accurate, complete and transparent.

The Remuneration Committee updated its charter during the prior reporting period in order to align it with the principles and recommended practices of King IV. All members of the Remuneration Committee are non-executive directors of the Company.
The Remuneration Committee met four times during the reporting period and the full report of its activities can be found on page 39.

The Chief Executive Officer, the Chief Financial Officer and the balance of the Board members attend the Remuneration Committee meetings by invitation. Executive directors do not participate in the deliberations relating to their own remuneration.

Key principles of the Remuneration Policy

The Remuneration Policy sets out Huge's remuneration philosophy. During the prior financial year, the Remuneration Committee agreed that it was necessary to amend the Remuneration Policy to reflect the Company's practice of paying market related industry salaries in the median quartile rather than paying market related industry salaries in the upper quartile. In determining remuneration, the Company gives consideration to the scarcity of the skills required, whether a position constitutes a critical position and the extent to which an employee is considered "top talent".

Accordingly, one of the objectives of the Company's remuneration philosophy is the delivery of the Growing Huge Strategy, particularly with regard to:

- creating incentives that will deliver growth, both organically and acquisitively;
- promoting and entrenching a culture of excellent service delivery; and
- improving gender and racial representation and overall B-BBEE compliance.

The Remuneration Policy incorporates principles for ensuring compliance with the recommended practices of King IV and provides Huge with a basis for ensuring it remunerates its employees fairly, responsibly and transparently, in order to promote the achievement of the Growing Huge Strategy and positive outcomes in the short-, medium- and long-term.

Overview of the Remuneration Policy

Remuneration elements and design principles for executives and employees

Huge remunerates its employees on the following basis:

- Salaries are calculated on a total gross package (**TGP**) basis
- Salaries are reviewed annually durig February and increases are implemented with effect from 1 March
- In benchmarking salaries, comparatives are made against market related industry salaries in the median quartile
- Executive director remuneration is considered in light of peer group comparatives and relevant remuneration surveys

Various employee benefits are available to employees, as part of their TGP. These benefits however depend upon the subsidiary company by which they are employed. Benefits include:

- Membership of provident fund
- Membership of medical scheme
- Car insurance benefits
- Study assistance

Details of any obligations in employment contracts that could give rise to payments on termination

Executive directors' employment contracts do not commit the Company to make payments on termination arising from the directors' failure to perform his or her agreed duties.

Executive directors' employment contracts do provide for a restraint of trade, alternatively for compensation related to a restraint of trade. Executive directors' contracts may also provide for differentiated notice periods based on the reason for termination and the possibility of certain payments being made to the executive director in the event of termination for change of control.

Framework and performance measures used to assess strategic objectives and positive outcomes, including the relative weighting of each performance measure and the period of time over which it is measured

Executive director contracts provide for the award of performance-based incentives on an annual basis in June of each calendar year, after the publication of the annual financial statements. The amount of this award is determined by the Board, acting on the recommendation of the Remuneration Committee and with reference to the financial performance of Huge in the prior year. Consideration is also given to non-financial performance which contributed to the long-term sustainability of Huge.

In prior years the Board, in conjunction with the executive directors, agreed not to award performance incentives. This decision was not based on the performance of the executive directors, which the Board had otherwise considered satisfactory and in line with its expectation. For the period under review, the Board has approved a performance incentive for Mr Herbst in respect of FY2019.

Mr Herbst was evaluated against the following agreed criteria, which criteria was equally weighted and measured over the previous 12-month period:

- Stabilising the executive management team
- Closing out M&A activity with at least one large transaction
- Ensuring Huge Telecom remained a viable, high growth engine for the Group
- Delivering core earnings growth in excess of 20%

In assessing Mr Herbst's performance against the aforementioned criteria, the Board recognised that there were key personnel changes during that period but noted that the current health of the Group is a tribute to Mr Herbst's ability to step in and assume managerial responsibility when executives exited the Group.

The Board remains committed to concluding significant M&A transactions which will deliver Huge's growth aspirations, despite the demanding M&A environment currently being experienced. Mr Herbst is considered a key driver of the Company's acquisition activity.

Notwithstanding the challenges experienced in bringing full suite telephony (**FST**) to the market, it has proved to be a viable offering which will position Huge Telecom for solid growth in the future.

The Group has produced pleasing earnings growth despite a challenging year and the Board is satisfied that, excluding IFRS adjustments and once-off items, this objective has been achieved.

The Board is of the opinion that Mr Herbst has demonstrated outstanding capabilities in the following areas:

- Drive
- Commitment
- Adapting to change
- Communication
- Attention to detail
- Negotiation
- Managing and mitigating risks
- Planning
- Problem solving
- Strategic thinking

The Board is of the view that Mr Herbst has met its expectations as far as decision-making, leadership and relationship building is concerned. Overall, the Board is satisfied that Mr Herbst has delivered against the agreed performance criteria.

Explanation of how the Remuneration Policy addresses fair and reasonable remuneration of executive directors in the context of overall employee remuneration

The Board and executive directors are of the view that Huge has a duty to narrow the earnings gap between employees in the lowest remuneration levels and those in the highest. This practice continues to be implemented incrementally through the process of annual increases across the Group.

Application and justification of remuneration benchmarks

In considering executive director remuneration, reference was made to *PWC's Executive Directors: Practices and Remuneration Trends Report* and in particular, small capitalisation companies in the financial services sector, with appropriate adjustments made to align with the reporting period.

The application of these remuneration benchmarks is illustrated in the Remuneration Implementation Report.

Basis for setting the fees for non-executive directors

Non-executive directors are paid a monthly retainer for their services and a fee for attending Board meetings, committee meetings and Special Board meetings. Members who tender apologies for meetings do not receive the relevant meeting attendance fee. The Remuneration Committee believes that this structure is the most appropriate for remunerating non-executive directors, particularly given their availability to the executive directors for ongoing strategic matters.

In considering fees for non-executive directors, reference was made to *PWC's Non-Executive Directors: Practices and Remuneration Trends Report* and in particular, small capitalisation companies in the financial services sector, with appropriate adjustments made to align with the reporting period.

The application of these remuneration benchmarks is illustrated in the Remuneration Implementation Report.

REMUNERATION IMPLEMENTATION REPORT

Summary of remuneration activities and decisions taken

During the reporting period, the Remuneration Committee undertook the following activities and approvals:

- Approved an annual budget increase of 5.5% to the remuneration of employees of Huge
- Assessed the performance of the Chief Executive Officer against agreed criteria
- Mandated executive management to develop performance criteria for senior executives, which process is currently underway

Executive director remuneration

Fixed remuneration

During the reporting period, the executive directors of Huge consisted of Mr Herbst, the Chief Executive Officer and Mr Bulbulia, the Chief Financial Officer. In reviewing the annual increase to the remuneration of each executive, the Remuneration Committee considered the requirements from executive directors for the delivery of the Growing Huge Strategy.

Particular regard was had to the operational responsibilities undertaken by Mr Bulbulia, in addition to his responsibilities as Chief Financial Officer. The Remuneration Committee agreed that an inflationary related increase was not appropriate for Mr Bulbulia. Having cognisance of the market related remuneration of Chief Financial Officers in small capitalisation companies in the financial services sector, it was agreed that Mr Bulbulia's remuneration should be increased by 31.9% (2017: 0%).

The Remuneration Committee recommended an increase of 5.22% (2017: 6.6%) for Mr Herbst. This was below the median increases of 15.1% for Chief Executive Officers in small capitalisation companies in the financial services sector.

The Remuneration Committee also considered and approved an annual salary increase of 5.3% for members of executive management.

The annual salary increases for executive directors in respect of the current financial year will be reviewed by the Remuneration Committee during June 2019 and, if approved by the Board, will be applied retrospectively from 1 March 2019. The Remuneration Committee recommended, and the Board approved, an annual salary increase of 5.5% for Mr Herbst.

Total remuneration outcomes (actual amounts paid) for executive directors and prescribed officers for the period ended 28 February 2019

Director	Salary	Risk, retirement and medical contributions	Total salary and benefits	Incentive payments	Total annual remuneration
JC Herbst[1]	R3 847 152	R150 907	R3 998 059	R0	R3 998 059
Z Bulbulia[2]	R3 995 487	R0	R3 995 487	R0	R3 995 487
Prescribed officers:					
RR Burger[3]	R590 073	R92 732	R682 806	R0	R682 806
G Engling[4]	R2 000 470	R132 388	R2 132 858	R0	R2 132 858
A Lessing[5]	R2 086 909	R92 913	R2 179 822	R0	R2 179 822
SM Oberholzer[6]	R1 791 790	R53 436	R1 851 226	R0	R1 851 226
CWE Rowan[7]	R674 312	R0	R674 312	R0	R674 312

Note: the total annual remuneration includes UIF and Skills Development Levies.

1 *In FY2018, JC Herbst received apportioned remuneration in respect of his appointment as the Chief Executive Officer of Huge Group and Managing Director of Huge Telecom. During FY2019, Mr Herbst's remuneration has been only in respect of his appointment as the Chief Executive Officer of Huge Group.*

2 *Z Bulbulia resigned with effect from 31 December 2018 and received an ex gratia payment of R660 000.*

3 *Following his appointment as Acting Managing Director and subsequently Managing Director of Huge Telecom, RR Burger became a prescribed officer of the Company on 7 November 2018.*

4 *Prior to his resignation as Managing Director of Huge Telecom on 6 November 2018, G Engling was a prescribed officer of the Company.*

5 *A Lessing, in his capacity as Managing Director of Huge Connect, is a prescribed officer of the Company. Mr Lessing receives personal car insurance through a company insurance scheme which benefits the employees of Huge Connect.*

6 *SM Oberholzer, in his capacity as Managing Director of Huge Networks, is a prescribed officer of the Company.*

7 *CWE Rowan, in his capacity as Managing Director of Huge Software, is a prescribed officer of the Company.*

Variable remuneration

Based on the outcomes of the performance appraisal of the Chief Executive Officer, the Board has approved a discretionary incentive for Mr Herbst in respect of FY2019 of 100% of his annual gross remuneration for that period, being R3.96 million.

The Board is cognisant that Mr Herbst has been at the helm of the Group since 1 March 2008. In the last two years the Group experienced an inflection point in terms of both earnings and size. Mr Herbst was last awarded an incentive of R1.5 million, which was awarded in February 2014.

Ex gratia payments to executive directors

During the reporting period, Mr Bulbulia resigned with effect from 31 December 2018. While the Company was under no obligation to make any payments to Mr Bulbulia upon his resignation, it was agreed by the Board that an *ex gratia* payment of R660 000 would be made to Mr Bulbulia upon his departure from the Company.

Non-executive director remuneration

During the reporting period, the following remuneration was paid to non-executive directors in accordance with the approval by shareholders of the special resolution tabled at the annual general meeting held on 30 August 2018:

Director	Total retainer paid during FY2019	Total Board attendance fees paid during FY2019	Total fees paid for attendance at special Board meetings[1]	Total
DF da Silva	R630 000	R80 000	R37 000	R747 000
SP Tredoux	R334 800	R64 000	R37 000	R425 300
VM Mokholo	R334 800	R80 000	R37 000	R451 800
DR Gammie	R334 800	R80 000	R37 000	R451 800
CWJ Lyons	R334 800	R80 000	R37 000	R451 800
BC Armstrong	R334 800	R80 000	R37 000	R451 800

Note: These figures exclude VAT payments, where applicable.

[1] *Three special board meetings where held during FY2019. Due to the fact that two of the special meetings endured for a full day, directors were remunerated on the basis of standard board attendance fees.*

During the reporting period, Craig Lyons and Steve Tredoux provided consulting services to the Board, which related specifically to the enhancement of Board functionality. Mr Lyons and Mr Tredoux were paid R32 000 and R38 606 respectively, which fees were pre-approved by the Remuneration Committee. The rendering of these consulting services and the related payment were not considered by the Board to impede the independence of Mr Lyons and Mr Tredoux. Dr da Silva received an additional fee related to the preparation for the annual general meeting.

Casa da Luz Proprietary Limited, a professional advisory service represented by Dr da Silva, rendered consulting services to the Group, for which the Group paid R838 100. Accordingly, Dr da Silva is not considered by the Board to be independent.

Increase in remuneration payable to non-executive directors

Having due regard to the growth that Huge is experiencing, its future expectations in respect of growth and the formation of the Group structure, the Board will propose an increase in fees to non-executive directors for FY2020.

In determining the fees payable to the Chairman and the non-executive directors, consideration has been given to the following:

- increased risk and responsibility on non-executive directors
- the market related increases to non-executive directors' remuneration applied to small capitalisation companies in the financial services sector, where the fees increased by 6.3% and 7% for the Chairman and non-executive directors respectively
- the 5.5% increase applied to employee remuneration

Accordingly, the Remuneration Committee has recommended that the monthly retainer payable to non-executive directors for FY2020 be increased as follows:

	Current	Proposed	% increase	Prior year increase
Chairman	R52 500	R60 000	14.3%	16.3%
Non-executive directors	R27 900	R31 000	11%	5.3%

The Remuneration Committee has recommended that the Board meeting attendance fees for FY2020 be increased as follows:

	Current	Proposed	% increase	Prior year increase
Board attendance fees	R16 000	R18 000	12.5%	14.2%
Special Board attendance fees	R5 000	R6 000	20%	0%

The Chairman's monthly retainer payable in FY2019 is in the proximity of the upper quartile for small capitalisation companies in the financial services sector. The non-executive directors' monthly retainer was in the proximity of the median for small capitalisation companies in the financial services sector.

Applying the percentages proposed in respect of FY2020, the monthly retainer payable to the Chairman would remain within the upper quartile and the monthly retainer payable to the non-executive directors would be positioned between the median and upper quartile for small capitalisation companies in the financial services sector.

As a result of the increased volume of matters being brought to the Board for deliberation, an increase of 12.5% for Board meeting attendance is proposed. No increase in special Board attendance fees was applied in the previous two financial years and accordingly, an increase of 20% has been proposed.

The proposed increases to non-executive director remuneration will be tabled at the annual general meeting by way of special resolution where shareholders will be asked to consider and approve the proposed increase. If approved, the increase will take effect from 1 March 2019.

NON-BINDING ADVISORY VOTE

The Remuneration Policy and the Remuneration Implementation Report will be presented to shareholders for separate, non-binding advisory votes at the annual general meeting. Should shareholders vote against the Remuneration Policy and the Remuneration Implementation Report by more than 25%, the Remuneration Committee will engage with shareholders.

Subsequent to any shareholder engagement, the Company will include the following detail in the Background Statement of its next Remuneration Report:

- The number of votes against the Remuneration Policy and Remuneration Implementation Report
- The subsequent engagement process undertaken with shareholders
- The manner of the engagement process
- Reasonable and material issues raised by shareholders
- Actions implemented by the Company to address the issues raised

Interests of directors and prescribed officers

Details of directors' and prescribed officers' contractual interests in Huge are set out on pages 139 to 140 of the annual financial report.