Group Five's Long-term Incentive Program:

Information additional to the Salient features provided in the company circular posted on 29 Oct 2012

1. Preamble

Group Five shareholders have requested that the management team and the Remuneration Committee provide additional information and clarification on the proposed Long-term Incentive Program (LTIP) that it seeks shareholder approval on. The intention of this document is to provide this additional information, including the suggested criteria to be applied in determining eligibility of award against pre-determined performance targets. It is the intent of the group to distribute this document to all stakeholders via a SENS announcement and via the company's website ahead of shareholders' voting on the LTIP on the 27th of November at its general meeting.

Deloitte has been retained as an external/independent remuneration consulting house to advise on the development of this scheme and will be assisting the Remuneration Committee with the implementation thereof.

Three levels of remuneration are deployed for executives and senior managers at Group Five:

- Salary or Guaranteed pay
- Annual Performance Bonus
- Long Term Incentivisation (LTIP)

2. LTIP Elements

A total reward strategy has been taken into account with the design of this LTIP.

The Long-term Incentive scheme forms part of variable compensation and is used to attract, retain and motivate staff that influence the long-term sustainability and strategic objectives of Group Five. The **purpose** is to foster sustainable performance, or value creation, over the long term, which is **aligned** with the Company's strategy and which enhances shareholder value. Its main characteristic is the promise to deliver value over a future vesting period once performance criteria are met or exceeded.

The Group Five LTIP has been developed in line with global best practice, and emerging South African practice, and provides for the inclusion of an array of performance conditions, designed to align the interests of participants with those of Group Five's shareholders and to reward company and individual performance, in dynamic and volatile market and economic conditions, more so than merely the performance of the economy or the sector in which the company operates.

The LTIP is made up of three elements namely

- **Share appreciation rights (SAR) –** *addresses share price*
- **Performance shares – full value shares-** *addresses return*
- **Bonus shares – full value shares** – *addresses performance*

2.1 SAR

Appreciation rights in excess of set strike prices.

The SAR element is largely the same as that existing currently in the Group Five SAR plan, approved in 2005, but with a number of minor variations to align it with the remuneration guidelines of King III and the JSE requirements.

Under the current 2005 approved plan, the LTIP constitutes only of SAR allocations in which annual allocations are made utilising

- a set, seniority determined, annual multiple of guaranteed earnings (AMOGE)
- divided by the volume-weighted average price (VWAP)
- to determine the face value and number of SAR to be issued.

A standard three year vesting period is applied but is not underpinned by any performance criteria.

The SAR element of the **new LTIP is enhanced** in that

- the new scheme will follow the same methodology for allocation,
- however the set AMOGE will be reduced to accommodate the additional LTIP elements introduced
- and performance criteria have been introduced as detailed below

Full value shares – performance and bonus shares

Full value shares (performance shares and bonus shares) differ from share appreciation rights in that there is no strike price; the full value of the share accrues to a participant on vesting thus during the vesting period the participant can "see" the value in the absolute share based on its price at that point in time. As such, full value shares are

- not as reliant on share price growth (appreciation),
- not as sensitive to the volatility of share prices,
- nor the timing of offers nor
- the external factors that can drive share prices

2.2 Performance shares

Performance shares closely align the interests of shareholders and executives by rewarding superior shareholder and financial performance in the future.

2.3 Bonus shares

Bonus shares provide for share based retention, based on the **past financial year's performance.**

3. LTIP Awards

Annually, the

- executives and selected senior managers of the company in Patterson grades F to D upper (peromnes 1 to 5)
- who are in good standing with the organisation and
- at the discretion of the Remuneration Committee

will be offered a weighted combination of the LTIP elements, and it envisaged that the combined implementation of the above long term incentive elements will allow Group Five to

- remain competitive in annual cash incentives and share based incentives,
- reward long term sustainable company performance,
- retain senior staff
- ensure that executives share a significant level of personal risk along with the company's shareholders.

The weighted combination also allows for the offset of the "pros" and "cons" of any one element issued in isolation.

The award mix will be disclosed proactively in the remuneration report in the annual report.

Annual awards will be made vs. "once off" offers which supports the concept of sustainability rather than once off opportunistic rewards.

Awards will be based on **eligibility to the scheme**, as described above**,** and based on **achievement of performance criteria** as described below.

3.1 LTIP – SAR awards

Annual allocations are made utilising

- a set, seniority determined, annual multiple of guaranteed earnings (AMOGE)
- divided by the volume-weighted average price (VWAP)
- to determine the face value and number of SAR to be issued.
- with performance criteria as detailed below

3.2 LTIP – Full value share awards – Performance shares

These are awarded predominantly to executives and senior managers who can influence and impact long term strategic performance.

It closely aligns the interests of shareholders and executives by rewarding superior shareholder and financial performance in the future. As such, it is envisaged that the awards of performance shares will feature at all executive and senior management levels, but feature more strongly the higher the participant's grade within the organisation

3.3 LTIP – Full value share awards – Bonus shares

Bonus shares provide for share based retention, based on the **past financial year's performance,** which will be based on the STI (short-term/annual incentive) measures.

Their emphatic linkage to the prior years annual cash incentive establishes a firm **link between company and individual performance, and individual reward and retention.**

On an annual basis, executives, senior managers and key talent will receive a grant of bonus shares in the form of a banked cash allocation. The value of bonus shares granted will be linked to the annual cash bonus scheme, matching, according to a specified ratio, the annual cash incentive accruing to the executive.

The linkage of bonus shares to an annual cash incentive in which both financial performance and sustainability/strategic measures are considered results in a strong linkage between reward and retention and operational performance.

The Bonus Share element provides for share based retention to those executives who through their previous loyalty and / or their performance on an annual basis have demonstrated their value to the company.

4. LTIP Vesting

All **three elements will require three year vesting periods** from date of allocation.

4.1 SAR

- Three year vesting period from date of allocation
- In equal tranches, no earlier than the 3rd, 4th and 5th anniversaries of their allocation with the proviso that the performance underpin has first been achieved

4.2 Performance shares,

- vesting only occurs to the extent that the company's performance warrants it
- they will vest on the 3rd anniversary of their award,
- to the extent that the company has met specified performance criteria over the intervening period.

4.3 Bonus shares

- have already been "earned" and no performance criteria should govern their vesting as they are effectively granted in recognition of an individual's past performance but are then not tied additionally to future company performance.
- will vest after three years conditional only on continued employment. However the company may reserve the right to invoke a claw back clause at the time of grant.

5. LTIP Performance criteria

5.1 SAR

When a participant exercises a share appreciation right the value that accrues to the participant is the positive gain (appreciation) of the share above the strike price. Many would deem that, the fact that the reward attendant to a SAR requires positive share price growth is in itself a measure of shareholder alignment and / or performance.

However the **additional performance criteria** introduced that will be used by the remuneration committee is:-

- **Increase in share price / share price growth**

5.2 Performance shares

The Remuneration committee will adopt a shareholder return evaluation. It is suggested that examples of performance criteria that should be considered include

- A three year rolling average of either indicator mention below will be applied
- Return on equity - with a target set in excess of cost of equity (targets to be quantified annually in the remuneration report)
- Return on capital - with a target set in excess of weighted cost of capital (WACC) (targets to be quantified annually in the remuneration report)
- Targets to be moderated with a comparison to
  - Peer return on equity or capital (depending on the criteria selected for evaluation)
  - Return to JSE Alsi index
  - Return to Industrial Index
  - Return to a basket of shares developed for this comparison and pre-assigned ahead of allocation

The Main Board of Directors and the Remuneration committee may from time to time revise the performance criteria for future awards and will communicate this proactively, prior to the awards, in the annual remuneration report.

To illustrate the methodology of vesting, a generic example is described below:-.

- *If Group Five's performance over the three year period exactly equals **"x"%,** then the targeted number of performance shares awarded will vest.*
- *If Group Five's performance over the three year period is equal to or less than **"y"%**, then all performance shares awarded will lapse, and no performance shares will vest.*
- *If Group Five's performance over the three year period equals or exceeds **"z"%**, then three times the targeted number of performance shares awarded will vest.*
- *If Group Five's performance over the three year period lies between any of the above points, then a prorated number of performance shares will vest.*
- *"x", "y" and "z" may be stipulated in absolute terms, or in comparative terms in relation to an index or a comparator group, or a weighted combination of the two.*

5.3 Bonus shares

Bonus shares provide for retention, based on the preceding **performance in the financial year at the time of the allocation** which will be based on the STI (short-term/annual incentive) measures which include meeting the Group's annual financial targets of

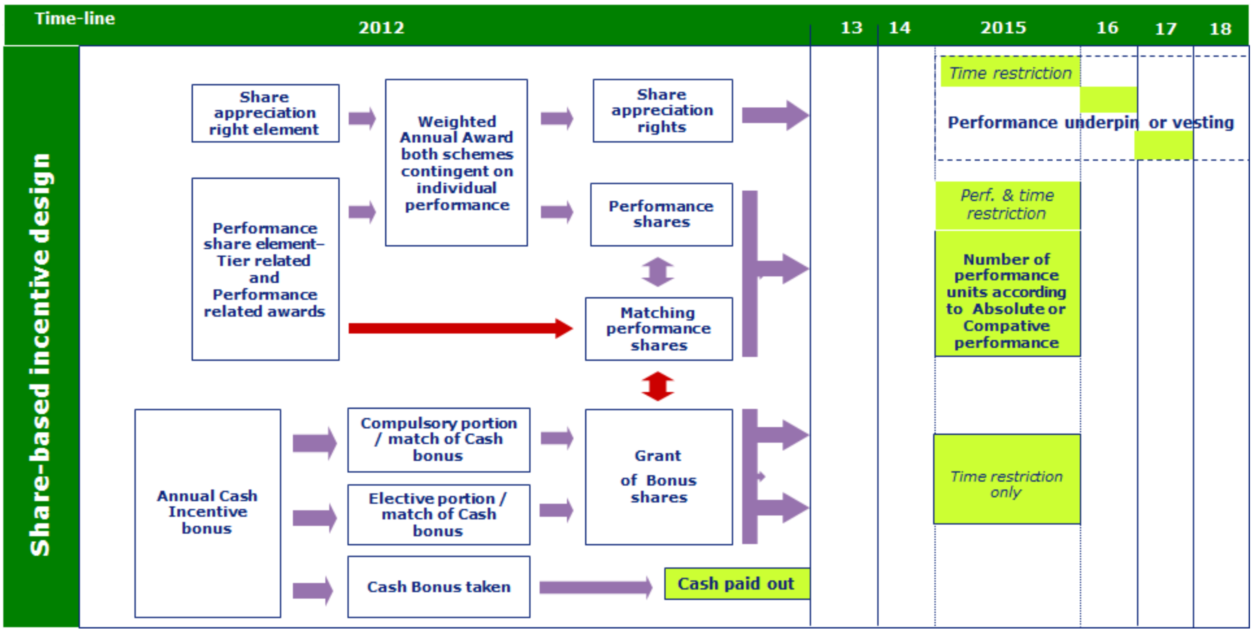
- Real headline earnings growth
- Targets to be moderated against market performance including
  - Peer real headline earnings growth
  - Real headline earnings growth relative to a basket of shares developed for this comparison and pre-assigned ahead of allocation
- cash generation,
- meeting the company's strategic non-financial measures in the year and
- meeting the individual personal performance measures and
- have shown their value to the company.

It is believed that the combining of the above performance criteria will result in a situation in which reward and retention will result from a full spectrum of share, strategic and operational performances. As such shareholder alignment is comprehensively catered for.

6. The Combination of the LTIP Elements

It is believed that the combining of a full value share plan element (in its two variations) with the existing share appreciation right scheme will serve to reward the required attributes of shareholder alignment, retention of key talent and long-term, sustained performance.

The following schematic captures the essence of the combined elements of the LTIP.



7. Settlement

7.1 SARS

SAR'S will be settled, subject to the achievement of the performance underpin, in equal thirds on the 3rd, 4th and 5th anniversaries but need not be exercised until the 6th anniversary, at which time they must be exercised or they will lapse. SARS will be equity settled based, as far as is practical, with shares purchased in the open market.

7.2 Performance shares

For the performance shares it is envisaged that, as far as is practical, for executives settlement will be equity settled with shares purchased in the open market and for other participant's settlement will be in cash.

7.3 Bonus shares

The bonus share it is envisaged that settlement will be, as far as is practical, cash settled.

It is expected that the total number of shares to be issued in honouring this LTIP over the suggested 5 year allocation period and the seven year vesting will not be expected to exceed 3% of total issued stated capital.

8. Eligibility

Any executive or senior manager of Group Five or its subsidiaries may be selected by the Board to be participants in the LTIP. It is envisaged that all executives and senior managers will receive on an annual basis, allocations in terms of the share appreciation right element, awards in terms of the performance share element, and grants in terms of the bonus share element.

9. Termination of Employment

Termination of employment is based on the definition of no fault termination versus that of fault termination. No fault termination is the termination of employment of a participant by the company by reason of –

- death;
- injury, disability or ill health, in each case as certified by a qualified medical practitioner nominated by the company;
- Dismissal based on Operational Requirements as contemplated in the LRA;
- retirement on or after his retirement date;
- the company by which he is employed ceasing to be a member of Group Five;
- mutual agreement; or
- the undertaking in which he is employed being transferred to a transferee which is not a member of Group Five;

Fault termination will be a dismissal for misconduct, poor performance or a resignation by the participant.

The following provisions will apply under circumstances of termination:-

9.1 Share appreciation rights

If employment is terminated for no fault reasons prior to the settlement of share appreciation rights, all share appreciation rights allocated, whether vested or not, will immediately be settled.

If a participant ceases to be employed by reason of a fault termination, all share appreciation rights not previously settled shall be deemed to have been cancelled, unless the Board determines otherwise.

9.2 Performance Shares

If employment is terminated for no fault reasons, then the performance shares will be prorated for the time period until the termination date as if the target performance criteria had been met at date of termination, and then settled.

If employment is terminated for fault reasons, then the performance shares will be cancelled.

9.3 Bonus Shares

In the case of Bonus Shares that have been granted,

- If employment is terminated for no fault reasons, then accelerated vesting of the bonus shares will occur and they will be settled.
- If employment terminated for fault reasons, the bonus shares will be cancelled.

10. Duration of the Scheme

It is envisaged that that the scheme will have five annual offers (with a combination of allocations of SAR's, award of performance shares and grants of bonus shares) and vesting over a 7 year period.

11. Summary Table of respective LTIP elements

LTIP Element	Eligibility	Vesting period	Performance Criteria	Termination	Settlement
SAR – *addresses share price*	Executives and Senior Managers	3 years from date of allocation, in equal tranches on the 3rd, 4th and 5th anniversaries on condition that performance criteria met	Share price underpinned relative to strike price	No fault termination – all SAR regardless of whether vested or not will be settled Fault termination including resignation – all SARS not previously settled will be cancelled	Equity settled, as far as is practical through share purchase on the open market
Performance Share – *addresses returns*	Executives and selected Senior Managers	on 3rd anniversary of award to the extent that performance indicators are met	A three year rolling average of either indicator mention below will be applied -Return on equity - Return on capital. Targets to be proactively set and disclosed in remuneration report in advance Targets to be moderated with a peer or index comparison	No fault termination – performance shares will be pro-rated and settled Fault termination including resignation – all performance shares will be cancelled	Executives will be equity settled, as far as is practical, through share purchase on the open market
Bonus Share – *addresses performance*	Executives and Senior managers	On 3rd anniversary conditional on continued employment	Real headlines earnings and non-financial targets as informed by the short-term incentive criteria in the year prior to allocation Targets to be proactively set and disclosed in remuneration report in advance Targets to be moderated with a peer or index comparison	No fault termination – all bonus shares will be settled Fault termination including resignation – all bonus shares will be cancelled	As far as is practical, cash settled