

**INTRODUCTION TO THE REMUNERATION REPORT BY THE CHAIR OF THE
NOMINATION & REMUNERATION COMMITTEE
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AT THE 86TH ANNUAL GENERAL MEETING OF
RURALCO HOLDINGS LIMITED
FRIDAY 17 FEBRUARY 2017**

Welcome

Good afternoon and thank-you Rick. On behalf of the Board, I am pleased to present the Remuneration Report for the year ended 30 September 2016 and seek its adoption by shareholders.

The Remuneration Report can be found on page 40 of the Annual Report and of course, on the company website. I don't propose to repeat the information that appears in the Annual Report, but I'd like to cover some key points and answer any questions you may have.

Firstly – a short re-cap on the role of the Nomination & Remuneration Committee.

Committee Responsibilities

The role of the Committee is set out in its Charter and covers two key areas:

- To ensure that the Board is comprised of persons with a suitable range of skills, expertise and experience
- To ensure that remuneration policies, strategies and practices for directors and executives are transparent, consistent with broader market practice and, in the case of executives, reward the creation of value for shareholders

In short:

- Having the right people, with the right skills, in the right roles
- Having a sound remuneration framework which delivers a fair day's pay for a fair day's work...

All aimed at delivering the right outcomes for Ruralco, its shareholders and our employees.

It sounds rather simple, but in reality this area is becoming increasingly complex and a key area of focus.

Recent Discussion in this area

If I look at recent literature from experts in this area – topics of regular interest include:

- Remuneration – how much CEO's and executives are paid; how they are paid (fixed; short term incentives; long term incentives) and in what form payments are made (cash or equity)
- Remuneration frameworks - are they aligned to the strategy of the company and with shareholder interests
- Performance measures - for Short & Long term incentives – and the mix between financial and non-financial measures; and
- Ways to deliver simpler (easier to read) Remuneration Reports

It is clear that there is no perfect answer, or standardized approach – for us, it's about ensuring that our remuneration framework is responsive, robust and reflective of current market practices and expectations – that we get the balance "right" between all our stakeholders and that appropriate controls are in place.

So what have we done this year ?

Ruralco's Activities this year

This year the Committee has undertaken the following activities:

Skills

- Completed the search for a new Chairman of the Board, and we were delighted to have Rick Lee commence as Chairman of Ruralco in September 2016 - the Board unanimously recommends you vote in favour of his election outlined in Resolution 2
- With the assistance of an external consultant, we conducted an independent Board evaluation and agreed the Board skills matrix (and Rick has outlined earlier the approach to filling our casual vacancy on our Board); and
- Undertook a Talent and Succession Planning process for our CEO and Executive Team

Policies

- Introduced the Ruralco Paid Maternity Leave scheme

Remuneration

- Reviewed the Non-Executive Director fees against companies of similar complexity and size
- Approved the revised Short-Term Incentive scheme
- Reviewed the Long-Term Incentive plan and agreed to a change in performance measure from Total Shareholder Return to cumulative underlying Earnings Per Share for the 1 October 2015 grant onwards

I'd like to take a moment to expand on that last point and outline the logic for the changes made to the Long Term Incentive Plan performance measure.

A closer look at Ruralco's Long Term Incentive Plan

The main purpose of a Long Term Incentive Plan (as a remuneration tool) is to align the interests of executives with those of shareholders over the period they impact shareholder value.

The design of LTI plans typically involves allocating share rights or options that convert (or vest) into shares over a period of years (usually 3 years or longer) subject to meeting performance hurdles.

What has changed? – the performance hurdle. The detail is outlined in the Report – in summary:

- **Previously** - the performance hurdle was aligned to Total Shareholder Return (TSR) over 3 years – the threshold for the vesting of any grant was based on Ruralco's performance compared to the performance of the S&P/ASX Small Ordinaries Accumulation Index. If RHL's performance was less than the index return, no shares vested; if RHL's performance matched the index, 50% vested and so on...
- **Now** – the performance hurdle is aligned to cumulative underlying Earnings Per Share (EPS) over 3 years – the threshold for vesting of any grant is based on Ruralco's performance compared to expected cumulative EPS. The benchmark is calculated with reference to various analysts' forecasts for the performance period. If RHL's performance is at consensus, 30% of performance rights will vest; if between consensus & stretch, straight line pro-rata between 30% & 100% vesting; if at stretch

or above – 100% vesting. No LTI will vest if cumulative EPS is below consensus expectations.

Why have we changed the performance hurdle?

As I stated previously, no measure is perfect, neither does one size, fit all – however, it is the view of the Board that:

With the previous measure:

- Relative TSR provided limited value in motivating executives to deliver outstanding performance as this measure is subject to many external factors beyond their control.
- This issue is further impacted by RHL's concentrated share ownership & low liquidity
- TSR performance payouts (historically) have been driven primarily from Ruralco's high dividend payout ratio rather than share price performance.

With the new EPS measure:

- It more closely aligns executive pay with the achievement of the Ruralco's growth strategy
- It better aligns the interests of executives with shareholders – it has a stronger focus on improving operating leverage and cost efficiency.
- It does not discourage the executives from pursuing activities that support Ruralco's investment and innovation strategies

And some things, of course, **stay the same**:

- The Board has absolute discretion to adjust the LTI targets or vesting outcomes in the event of significant corporate events
- The Board will continue to assess overall performance in light of market events, and;
- If Board discretion is applied, it will be clearly disclosed and explained.

In terms of the **overall remuneration framework** – after reviewing fixed remuneration; the short-term incentive plan; the long-term incentive plan and assessing how each piece interacts, we are confident that our remuneration framework is appropriate to drive Ruralco's performance to achieve our strategic priorities and deliver shareholder value.

In the coming year, we will continue to monitor and review the performance of all components of the remuneration framework to ensure we achieve the right "balance" of motivation and challenge for our executives – encouraging them to both grow the business and deliver sustainable shareholder returns.

I have spent a significant amount of time on the topic of remuneration – understandably there is a lot of focus on this – but remuneration is only part of what drives people. Current & potential employees also search for companies where diversity of thought and experience is valued; where they have challenging work that develops their skills and capability; and where their work serves a strong purpose like Ruralco's.

My **thanks** to the Board, Committee members, Travis and the Executive Team for their contribution to the Committee's activities this year.

I'd be happy to take any questions now, or if anyone would like a more detailed explanation on the remuneration changes, I would be pleased to discuss them after the meeting.

Any questions?

Thank you, Rick as Chair will now put the motion to the meeting.