

**INTRODUCTION TO THE REMUNERATION REPORT BY
THE CHAIR OF THE NOMINATION & REMUNERATION COMMITTEE
TRUDY VONHOFF
MBA, BBUS (HONS), GAICD, SF FIN
AT THE EIGHTY-EIGHTH (88TH)
ANNUAL GENERAL MEETING OF
RURALCO HOLDINGS LIMITED
FRIDAY 1 FEBRUARY 2019**

Welcome

Thank you Rick. Good afternoon ladies and gentlemen, on behalf of the Board and the Nomination & Remuneration Committee, I am pleased to present the Remuneration Report for the year ending 30 September 2018 and seek its adoption by shareholders.

Today I will highlight some key developments over the past year and then answer any questions you may have. The full Remuneration Report can be found on page 49 of the 2018 Annual Report.

I would like to begin today with a brief re-cap on the role of the Nomination & Remuneration Committee.

Committee responsibilities

The Committee has two main aims:

- first, to ensure that the Board is comprised of persons with a suitable range of skills, expertise and experience; and
- second, to ensure that remuneration policies, strategies and practices for directors and executives are transparent, consistent with broader market practice and aligned with the strategic objectives of the Company and the growth of shareholder value in the short, medium and long-term.

The operation of the Committee is governed by its Charter, which can be found on the company website.

Committee activities in 2018

My covering letter attached to the Remuneration Report gives an overview of some of the Committee's activities during 2018. The summary on page 50 – a new addition to our Remuneration report – provides a succinct overview of remuneration outcomes.

Today, I would like to discuss:

- the establishment of a New Remuneration Framework; and
- the balancing of difficult market and seasonal conditions with remuneration and equity ownership.

New Remuneration Framework

When I spoke at last year's AGM, I flagged that the Company intended to review our executive remuneration framework. During 2018, we worked with EY to conduct a comprehensive review of our remuneration framework and also explore structures which may be more appropriate for Ruralco, its employees and shareholders.

The key takeaway of this review was that the traditional remuneration framework, in particular, the setting of long-term incentives, can be challenging in the agriculture industry which is subject to seasonal and market volatility. Recognising this, we developed a new Ruralco Executive Performance Plan, the EPP, which came into effect from 1 October 2018. The EPP combines the existing Short Term and Long Term Incentive Plans into a single, strategically aligned incentive model with performance measured on an annual basis. Remuneration outcomes are delivered over 3 years in a mix of cash and deferred equity in order to ensure the alignment of executive remuneration with Group outcomes over the short, medium and long-term.

The EPP is structured to be flexible and includes:

- A strong focus on financial outcomes (e.g. Underlying NPAT, EBITDA & ROCE);
- “Tactical metrics” at both the Ruralco and Divisional levels considering the alignment of key focus areas to strategic imperatives and outcomes, which will be re-aligned annually; and
- “Individual metrics” for each executive, which are aligned to their specific role and key drivers of business outcomes for that year.

Full details of the EPP are included in the Remuneration Report. A one page comparison between the previous framework & the (new) EPP can be found on page 52.

With remuneration the subject of much debate across the country over the last 12 months, it is the view of the Board that the new plan:

- better aligns remuneration outcomes with the achievement of the Company’s strategy;
- increases executive and shareholder alignment with two thirds of all incentives being provided in deferred equity;
- increases executive engagement with annual targets, which are more relevant to the agriculture industry than the existing three-year long term targets;
- increases executive accountability through a greater weighting on divisional and individual metrics and strengthens the link to those activities for which the executives are directly accountable and responsible; and
- rewards responsible and sustainable business practices, as the Board retains discretion to re-assess awards in light of a governance modifier, including consideration of earnings sustainability, financial misstatement and misconduct.

The Board is confident that the revised remuneration framework complements existing talent and retention strategies and will ensure high-level executive engagement, encouraging them to grow the business and deliver sustainable shareholder returns through every season.

Remuneration, Policies and Equity Ownership

As acknowledged by Rick in his address, 2018 was a tough year for our industry. While Ruralco’s diversity of operation and geographic footprint buffered the Company’s results, Executive remuneration outcomes reflected the difficult conditions.

Remuneration

Executive Short Term Incentive payments for FY18 were 28 – 40% of maximum and the 2015 Long Term Incentives grant vested at 30% of maximum. Meanwhile, fixed remuneration increased 4.7% in aggregate over the year, to reflect the executive team’s maintained focus and energy in executing the Company’s strategy and driving efficiency, despite industry challenges.

Additionally, the Committee undertook a biennial review of Non-Executive Director’s fees against the market. This review provided for a small increase in fees for participation in committees from 1 July 2018 however, did not result in any increases in base fees or to the maximum fee pool.

Equity Ownership

The Executive Share Matching Plan was introduced last year as an interim measure for the 2017/ 2018 performance years, to increase executive share ownership ahead of the introduction of the EPP. This offered executives who elect to purchase shares with the after-tax proceeds of their Short Term Incentive payment a grant of an equal value of Matched Shares to a maximum value of \$20,000 per year, provided the executive remains employed at Ruralco for three years.

The Board is pleased to report the success of the Matching Plan. In 2018, all executives participated in the plan in relation to FY17 payments, and we anticipate that most executives will again participate in relation to STI payments for FY18.

Additionally, to further enhance equity participation, the Committee also oversaw the introduction of a Non-Executive Director minimum shareholding policy and minimum shareholding guideline for Executives.

Combined with the partial vesting of the 2015 LTI plan, these measures have increased the equity holdings of executives, demonstrating our commitment to align executive performance and shareholder outcomes.

Looking to the future

In the coming year, the Committee 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.

I would like to express my thanks to the Board and the Executive Team for their contribution to the Committee's activities this year.

I am 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.

Thank you. The Chair will now put the motion to approve the Remuneration Report to the meeting.