public enterprises

Department:
Public Enterprises
REPUBLIC OF SOUTH AFRICA

STATE OWNED ENTERPRISES

REMUNERATION GUIDELINES

PART A

CHAIRPERSONS & NON-EXECUTIVE DIRECTORS

AUGUST 2007

Contents

1. DEFINITIONS

Average	The arithmetic mean of all salaries in the sample. The sum total of all salaries in the sample divided by the number of salaries reported.
Lower quartile	75% of the sample earns more and 25% earns less than this salary level
Median	50% of the sample earns more and 50% earns less than this salary level
NED	Non-Executive Director
SOE	State owned enterprises
Upper quartile	25% of the sample earns more and 75% earns less than this salary level
90th percentile	10% of the sample earns more and 90% earns less than this salary level

2. PURPOSE

This Guideline is to assist boards and remuneration committees in the determination and negotiation of the remuneration of the chairpersons of SOE and to establish a related coherent remuneration policy and system for the non-executive directors (NEDs).

For purposes of this guideline a SOE categorisation model has been developed by the Department of Public Enterprises categorising SOE according to asset base and revenue. The model distinguishes between 4 bands of SOE size.

A remuneration model has been developed by the Department of Public Enterprises based on market data which distinguishes between 4 bands of SOE size, and links suggested annual guaranteed package for chairpersons and NEDs with SOE size.

Boards and remuneration committees are expected to apply this guideline in determining remuneration levels of chairpersons and NED's and in formulating remuneration policies.

This Guideline will be updated on a continuous basis in order to allow for improvements and incorporation of new precedence.

3. GENERAL

Boards are responsible for adopting remuneration policies and practices in accordance with this guideline. The policies and practices should be demonstrably aligned with the corporate objectives, business strategy, shareholders compact and reviewed regularly.

Remuneration Committees should be established in accordance with the provisions of the guideline and King II principles of Corporate Governance. They should comprise of independent directors and external committee members who bring independent thought and scrutiny to all aspects of remuneration. It is important to maintain a constructive and timely dialogue between boards and the shareholder regarding remuneration policies and practices.

4. REMUNERATION GUIDELINES

Base Pay

4.1 The board should determine the sizing of their SOE according to the categorization model prepared by the Department of Public Enterprises as detailed in Schedule 1. Reference can be made to the organization sizing grid prepared by the Department of Public Enterprises as detailed in Schedule 2.

SOE SIZE	ASSETS	REVENUE	SOE CATEGORY
A	>R16.3 Bn	>R2.54Bn	very large SOE
B	R1.55 Bn – R16.3 Bn	R243.2 Mil - R2.54Bn	large SOE
C	R143.5 Mil – R1.55 Bn	R22.8 Mil - R243.2 Mil	medium SOE
D	Up to R143.5 Mil	Up to R22.8 Mil	small SOE

Schedule 1: SOE Categorisation – assets and revenue

Revenue → / Assets ↓	R0-R0.45m	R0.45-R0.98m	R0.98-R2.11m	R2.11-R4.77m	R4.77-R10.4m	R10.4-R22.8m	R22.8-R50.2m	R50.2-R110.6m	R110.6-R243.2m	R243.2-R534.9m	R534.9m-R1.22b	R1.22-R2.54b	R2.54-R5.62b	R5.62-R12.5b	R12.5b-R27.6b	>R27.6b
R0-R1.22m	1	2	2													
R1.22-R2.8m	1	2	3	3												
R2.8-R6.0m	2	2	3	4	4											
R6.0-R13.5m		3	3	4	5	5										
R13.5-R29.7m			4	4	5	6	6									
R29.7-R65.3m				5	5	6	7	7								
R65.3-R143.5m					6	6	7	8	8							
R143.5-R315.8m						7	7	8	9	9						
R315.8-R694.7m							8	8	9	10	10					
R694.7m-R1.55b								9	9	10	11	11				
R1.55-R3.33b									10	10	11	12	12			
R3.33-7.42b										11	11	12	13	13		
R7.42-R16.3b											12	12	13	14	14	
R16.3-35.78b												13	13	14	15	15
R35.78-R78.8b													14	14	15	16
>R78.8b														15	15	16

Schedule 2: Organisation Sizing Grid

SOE sizes:

- **Size 1 - 6 is a small organisation (D);**
- **Size 7-9 a medium organisation (C);**

- **Size 11 – 12 is a large organisation (B); and**
- **Size 13 – 16 is a very large organisation (A).**

4.2 Chairpersons and NEDs annual retainer fees should be determined according to the remuneration model developed by the Department of Public Enterprises as detailed in Schedule 3.

4.3 Chairpersons and NEDs annual retainer fees should not exceed the median amount of the retainer fee model developed by the Department of Public Enterprises.

Non-Executive Directors	Position	Company Size	Annual Retainer Fee			
			Lower Quartile	Median	Upper Quartile	90th Percentile
	Chairperson	A	359,306	740,837	1,097,921	1,598,572
		B	297,462	600,934	893,113	1,309,037
		C	215,584	444,502	658,752	959,143
		D	151,768	319,511	471,151	695,324
	Board member	A	106,529	213,057	347,794	533,516
		B	69,586	128,386	208,139	312,209
		C	47,938	95,876	156,507	240,082
		D	31,608	64,905	104,659	156,466

Schedule 3: Annual retainer fee – main board

4.5 Chairpersons and NEDs are entitled to additional retainer fees for participation in the audit committee. Chairpersons and NEDs audit committee retainer fees should not exceed the median amount of the audit committee retainer fee model developed by the Department of Public Enterprises as detailed in Schedule 4.

Non-Executive Directors	Position	Company Size	Audit Committee Retainer Fee			
			Lower Quartile	Median	Upper Quartile	90th Percentile

	Chairperson	A	60,693	127,831	177,171	197,745
		B	46,430	95,873	132,878	150,286
		C	33,381	70,307	97,444	118,647
		D	25,637	55,132	76,029	86,012
	Committee member	A	31,959	79,896	128,024	216,074
		B	23,969	60,721	96,018	164,216
		C	15,660	39,149	62,732	105,876
		D	9,483	24,339	38,526	63,369

Schedule 4: Retainer Fee – Audit committee

4.6 Chairpersons and NEDs are entitled to additional retainer fees for participation in other sub-committees. Chairpersons and NEDs committee retainer fees should not exceed the median amount of the committee retainer fee model developed by the Department of Public Enterprises as detailed in Schedule 5.

	Position	Company Size	Sub-committee annual fee			
			Lower Quartile	Median	Upper Quartile	90th Percentile
Non-Executive Directors	Chairperson	A	36,416	87,157	134,220	218,351
		B	27,858	65,368	100,665	165,947
		C	20,029	47,937	73,821	131,010
		D	15,382	37,589	57,597	94,975
	Board member	A	21,305	56,194	98,941	165,870
		B	15,979	42,708	74,206	126,061
		C	10,440	27,535	48,481	81,276
		D	6,322	17,119	29,774	48,645

Schedule 5: Retainer fee – board sub-committees

Additional Guidelines

The following additional guidelines apply:

4.7 Chairpersons and NED's must attend a minimum of four board meetings annually.

4.8 Members of the audit committee must attend a minimum of four meetings of the audit committee annually.

4.9 Members of other sub committees must attend a minimum of two meetings of the sub committee that they are a member of annually.

4.10 The SOE is to reimburse business related travel expenses and incidental expenditure incurred by board members.

4.11 The level of remuneration of external committee members who are not board members should be in line with the fee structures above. Where there are exceptional factors based on skill level or scarcity of skill, the board may apply its discretion in determining the remuneration level subject to justification and shareholder approval.

4.12 Board members will be reimbursed for reasonable traveling time and expenses for attending board meetings, dependent on the relevant member's circumstances. Foreign members should only be entitled to claim one day's traveling time and reasonable traveling expenses. Local members not situated within a 90 km radius from the meeting venue should only be entitled to claim 3 hours traveling time and reasonable traveling expenses. Directors situated within a 90 km radius should not be entitled to claim traveling time or traveling expenses.

4.13 The quarterly retainer is to be paid at market median, unless a deviation from this can be substantiated to the shareholder. E.g. scarcity of skill. Any deviation requires justification and shareholder approval prior to implementation thereof,

4.14 NED's should enjoy Directors and Officers liability insurance cover, at the cost of the SOE.

4.15 Where there is a Chairpersons fund, this is to be used to enhance the image of the company and not for incidental expenditure incurred by the Chairperson.

4.16 International NED's fees should preferably be at the same level as Local NEDs, payable in local currency.

4.17 NED's should not receive incentive payments

5. TREATMENT OF SUBSIDIARIES

Subsidiaries should be sized in accordance with Schedules 1 and 2 above as a basis for the remuneration of NEDs.

6. ANNUAL INCREASES

The Remuneration Committee for each SOE must conduct annual reviews and make recommendations to the Board on changes to NED remuneration. The Board must then consider the Committee's suggestions and prepare proposals to the Minister. Proposals should be submitted to the Minister (or delegated authority) within at least 2 months subsequent to the financial year end of the SOE. The Minister (or delegated authority) will then assess the recommendation, and either approve or reject it.

7. GOVERNANCE PROCESSES

In determining the quartile at which to pay, an entity should ideally refer to a remuneration strategy and/or policy document approved by the Minister for guidance. This remuneration strategy will at all times align to the strategic direction and specific value drivers of the businesses within which the SOE operates as included in the Shareholder Compact.

8. TRANSITIONAL ARRANGEMENTS

Where there are existing contractual arrangements which are not in line with the guideline, there should not be an adverse effect on such obligations. At the expiry of an existing contract the guideline should be applied in determining the remuneration terms in the event that reappointment occurs.

9. ANNEXURE A: REMUNERATION COMMITTEE GUIDELINES

REMUNERATION COMMITTEES AND THEIR RESPONSIBILITIES

Main Provisions

Remuneration committees should adopt the guideline and remuneration committee guidelines as their terms of reference, incorporating the Model Terms of Reference for Board Committees as contained in Appendix V of King 2002. Where any provision of the Model Terms of Reference for Board Committees as contained in Appendix V of King 2002 are contradictory to the guideline and the remuneration committee guidelines, the provisions of the guideline the remuneration committee guidelines should be adopted.

Remuneration committees are responsible for ensuring that the mix of incentives reflects the company's needs, establishes an appropriate balance between fixed and variable remuneration, and is based on targets that are stretching, verifiable and relevant. They should satisfy themselves as to the accuracy of recorded performance measures that govern vesting of variable remuneration.

They should establish effective procedures for disclosure and communication of strategic objectives, which enables the shareholder to take an informed and considered view of remuneration policy and its implementation.

They should ensure that remuneration levels properly reflect the contribution of executives and be rigorous in selecting an appropriate comparator group. They should guard against unjustified windfalls and inappropriate gains arising from incentives.
They should consider legal redress where performance achievements are subsequently found to have been significantly misstated so that incentives should not have been paid.

They should also pay particular attention to arrangements for senior executives who are not board members but have a significant influence over the company's ability to meet its strategic objectives.

COMPOSITION OF REMUNERATION COMMITTEE

The remuneration committee should:

- Consist of a minimum of three members, all of whom shall be non-executive directors and the majority deemed to be independent
- Be chaired by a non-executive director

RESPONSIBILITIES

The responsibilities of the remuneration committee should include a review of and recommendation to the board on:

- Executive remuneration and incentive policies
- Remuneration packages of senior management
- The company's recruitment, retention and termination policies and procedures for senior management
- The remuneration framework for directors

REMUNERATION POLICIES

The company should design its remuneration policy in such a way that it:

- Motivates directors and management to pursue the long term growth and success of the company within an appropriate control framework
- Demonstrates a clear relationship between key executive performance and remuneration

The remuneration committee may seek input from individuals on remuneration policies, but no individual should be directly involved in deciding his/her remuneration.

The remuneration committee should ensure that the board, management and the remuneration committee are provided with sufficient information to ensure informed decision making.
Executive remuneration packages should involve a balance between fixed and variable pay, reflecting short and long term performance objectives appropriate to the company's circumstance and goals.

The structure of non-executive directors' remuneration should be clearly distinguished from that of executives.

Non-executive directors should not participate in schemes designed for the remuneration of executives.

Non executive directors should not receive incentive payments.

BASE PAY AND INCENTIVES

Main Provisions

Remuneration committees should ensure that base pay reflects the contribution of the executives concerned and be robust in setting and monitoring targets for incentives.

They should ensure that incentives reflect actual achievements against these targets.

Any material payments that may be viewed as being ex-gratia in nature should be fully explained, justified and subject to shareholder approval prior to payment.

Remuneration committees should scrutinise all other benefits, including benefits in kind and other financial arrangements to ensure they are justified, appropriately valued and suitably disclosed.

Guidance on Base Pay and Incentives

Base Pay

Remuneration committees should ensure their policy on base pay is fully communicated to the shareholder. Where a company seeks to pay salaries above median, justification and shareholder approval is required.

Incentives

Annual incentives should be demonstrably related to performance. Both individual and corporate performance targets are relevant and should be tailored to the requirements of the business and reviewed regularly to ensure they remain appropriate.

Following payment of the incentive, the shareholder will expect to see a full analysis in the remuneration report of the extent to which the relevant targets were actually met.

The shareholder will expect increases, where approved, to be subject to correspondingly more stretching performance.

Remuneration committees should retain discretion to reduce or reclaim payments if the performance achievements are subsequently found to have been significantly misstated. Where there is doubt remuneration committees should work with the audit committees to ensure the basis of their decision is correct.

CONTRACTS AND SEVERANCE

Main Provisions

Remuneration committees should ensure that contracts protect the company from being exposed to the risk of payment in the event of failure.

The treatment of incentives should be clear and a contractual link established between variable pay and performance. In the event of early termination, there should be no automatic entitlement to incentives.

Guidance on Contracts and Severance

Remuneration committees should ensure that the policy and objectives on directors' contracts are clearly stated in the remuneration report.

When drawing up contracts, remuneration committees should calculate the likely cost of any severance and determine whether this is acceptable. All payments made should be based upon performance in relation to objectives and take account of the overall financial circumstances of the company.

Companies should justify their policies on contractual protection.

Contracts should commit companies not to pay for failure.

Phased payments are generally appropriate for fulfilling compensation on early termination.

The shareholder is less supportive of the liquidated damages approach which involves agreement at the outset on the amount that will be paid in the event of severance.

Remuneration committees should ensure that full benefit of mitigation is obtained. This includes the legal obligation on the part of the outgoing director to mitigate the loss incurred through severance by seeking other employment and reducing the need for compensation.

Contracts should make it clear that if a director is dismissed as a result of a disciplinary procedure, a shorter notice period than that given in the contract would apply.

Contracts should not provide additional protection in the form of compensation for severance as a result of change of control.

GOVERNANCE

The following should be included in the corporate governance section of the annual report:

- Disclosure of the company's remuneration policies
- The names of the members of the remuneration committee and their attendance at meetings of the committee
- An explanation for any departure from the remuneration guidelines as prepared by the Department of Public Enterprises from time to time

- Remuneration report

10. ANNEXURE B: KING 2002: APPENDIX V: MODEL TERMS OF REFERENCE FOR BOARD COMMITTEES – REMUNERATION COMMITTEE

Remuneration Committee

10.1 Constitution

Every company should establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of individual directors, within agreed terms of reference, to avoid potential conflicts of interest. A formal appointed remuneration committee of the board, composed wholly or substantially of non-executive directors, with access to independent surveys and consultants, can be a useful mechanism for facilitating the determination of all the essential components of remuneration and establishing remuneration credibility with shareowners. The Committee's function in relation to remuneration of non-executives, for reason of self-interest, should be limited to making recommendations to the full board and, as applicable, to the shareowners. The financial reward offered by the company should be sufficient to attract people of the required calibre. Failure to attract the right people will have a negative impact on the efficiencies of the company and, consequently, on the returns to its shareowners.

10.2 Membership

- The Remuneration Committee (”Committee”) shall consist of not less than three directors appointed by the board of directors (“board”), all of whom shall be non-executive directors and the majority deemed to be independent.
- The board shall appoint the Committee chairperson and determine the period for which he or she shall hold office. The chairperson of the board, if he or she is an independent non-executive director, may be eligible to be appointed as chairperson of the Committee.
- The Committee shall nominate a committee secretary.

10.3 Terms of reference

- The role of the Committee will be to work on behalf of the board and be responsible for its recommendations and will, within these terms of reference:
  - determine, agree and develop the company's general policy on executive and senior management remuneration;
  - determine specific remuneration packages for executive directors of the company, including but not limited to basic salary, benefits in kind, any annual bonuses, performance-based incentives, share incentives, pensions and other benefits; and
  - determine any criteria necessary to measure the performance of executive directors in discharging their functions and responsibilities.
- The Committee will aim to give the executive directors every encouragement to enhance the company's performance and to ensure that they are fairly, but responsibly rewarded for their individual contributions and performance.
- The Committee will review (at least annually) the terms and conditions of executive directors' service agreements, taking into account information from comparable companies where relevant.
- The Committee will determine any grants to executive directors and other senior employees made pursuant to the company's executive share scheme(s).
- The Committee will be kept informed of relevant information for other group executives and senior managers.
- The Committee will not determine the remuneration or terms of any consultancy agreement of any non-executive director, although it may make recommendations to the board if requested.
- The Committee will co-ordinate its activities with the chairperson of the board and the chief executive as well as consult them in formulating the Committee's remuneration policy and when determining specific remuneration packages.
- The broad framework and cost of executive remuneration should be a matter for the board on advice of the Committee.

- The Committee may wish to consult other non-executive directors in its evaluation of the chairperson of the board and the chief executive.
- The Committee will have due regard for the principles of governance and code of best practice.
- The Committee will liaise with the board in relation to the preparation of the Committee's report to shareowners as required and will consider each year (and minute its conclusions) whether the circumstances are such that the annual general meeting of the company should be invited to approve the remuneration policy set out in the Committee's report.

10.4 Guidelines for components of remuneration

As part of achieving and maintaining reasonable, acceptable levels of remuneration, the Committee is encouraged to consider the following guidelines:

Base fees

– the general level of hourly or daily rates of fees earned by directors in their professional capacities (e.g. as lawyers, accountants, executives, management consultants);

– the hours spent in travel and preparation for meetings, as well as actual attendance;

– while indirect costs pertinent to the role of directors are separately reimbursed, a fair and reasonable allowance for any direct costs should, however, be made in the base fee;

– in the case of companies of unusual size or complexity, a comparison can be made and a relativity established with the level of the chief executive officer's remuneration disregarding any incentive package;

– company performance (i.e. profit, dividend and share price) is not considered to be of special significance for the purpose of setting a base fee; and

– the fee must be fair.

- Forms of payment

  - cash;

  - shares or share options - this can have the advantage of aligning remuneration with the interests of the shareowners by increasing the focus of directors on company performance and share value. Where share options are to be offered to non-executive directors, shareowners must approve this offer in a general meeting prior to the allocation being implemented.

- Reviews

  The dates for review would also be an appropriate time to undertake evaluations of the performances of individual directors.

- Equal sharing

  In line with the principle of collective responsibility, base fees should, wherever possible, be shared equally except in the case of additional responsibility or workload such as the chairperson and deputy chairperson. The level will depend on the extent of their involvement with the company.

- Supplementary fees

  Supplementary work resulting from the membership of board committees (e.g. audit, remuneration, etc.) should be spread as evenly as possible among board members and recognised in the level of the base fee. If supplementary fees are charged separately, they may be calculated at an hourly or daily rate rather than annually, and should be subject to review in the same manner as base fees.

- Reimbursement of expenses

  - Directors should ensure that they are reimbursed for all direct and indirect expenses reasonably and properly incurred (e.g. office, secretarial, accommodation, traveling expenses).

  - Accommodation and traveling expenses should include those incurred in attending all meetings of directors and board committees, shareowners' meetings or otherwise in connection with company business.

- Where a director uses personal transport, traveling expenses should include a realistic kilometric allowance.
- Expenses applicable to multi-directorships should be apportioned on a fair and reasonable basis, having regard for the time spent on each directorship, including traveling costs.
- Directors should ensure that the company's articles of association do not restrict the reimbursement of expenses.

• Directors' and Officers' liability insurance

- Directors should, wherever practical, arrange for such insurance to be taken out, and for such insurance to be paid by the company.
- The cover provided by the insurance should be as extensive as permitted by law, including all risks relating to legal costs.
- Directors should ensure that the payment of insurance cover is authorised by the company's articles of association.

• Payments on termination

- The payment of retirement benefits to executive directors is an accepted practice in many companies and should be determined by the company's particular circumstances. Alternatively, a termination payment can be negotiated as part of their overall remuneration package.
- If retirement benefits are paid it is recommended that unless authorised otherwise by shareowners, the lump sum amount or the base for the pension should not exceed the total remuneration of the director in his or her capacity as a director in any three years chosen by the Committee.
- The Committee should ensure that the payments or benefits of any nature on termination are not restricted by the company's articles of

association but are fair to the company and can be adequately justified to shareowners if called on to do so.

- Flexibility

  All the components of remuneration are, in the normal course, a matter of negotiated commercial contract and, accordingly, should be sufficiently flexible to suit each individual circumstance.

10.5 Shareholder acceptance

- Every effort should be made to promote acceptance of the necessity for, and benefits of, a realistic realignment of director remuneration.
- Requirements to disclose remuneration in the annual report is seen as a constructive opportunity to communicate with shareholders on all aspects of remuneration.
- The information disclosed could in relation to each director, usefully include such matters as a breakdown of remuneration into its individual components, the remuneration package as a total cost to the company, the number of meetings attended and, if practicable, the number of hours worked.
- The adoption by companies of formal remuneration policies, encompassing such matters as the philosophy behind remuneration assessments, the criteria for remuneration setting, the remuneration components, the composition and role of the Committee, and the disclosure of such policies to shareholders, can also indicate to the public a responsible approach by companies to remuneration issues.

10.6 Meetings

- Meetings of the Committee will be held as the Committee deems to be appropriate; however, the Committee should meet at least once each year. Further meetings may be called by the chairperson of the Committee or any member of the Committee.
- The notice of each meeting of the Committee, confirming the venue, time and date and enclosing an agenda of items to be discussed, shall other than under

exceptional circumstances, be forwarded to each member of the Committee not less than four working days prior to the date of the meeting.

- The quorum for decisions of the Committee shall be any two members present who shall vote on the matter for decision.
- The Committee shall normally invite the chairperson of the board and the chief executive to attend meetings to discuss the performance of other executive directors and to make proposals as necessary.
- The chairperson (or in his/her absence, an alternative member) of the Committee shall attend the annual general meeting and be prepared to answer questions concerning the appointment of executive and non-executive directors and maintain contact as required with the company's principal shareholders about the appointment of executive and non-executive directors in the same way as for other matters.

10.7 Proceedings

- Unless varied by these terms of reference, meetings and proceedings of the Committee will be governed by the company's articles of association regulating the meetings and proceedings of directors and committees.
- The committee secretary shall take minutes of meetings. Any director may, provided that there is no conflict of interest and with the consent of the chairperson, obtain copies of the Committee's minutes.
- No Committee attendee shall participate in any discussion or decision in respect of their own remuneration.

10.8 Remuneration

- Having regard for the functions performed by the members of the Committee in addition to their functions as directors in relation to the activities of the Committee, and pursuant to the specific power conferred upon the board by the articles of association of the company, members of the Committee may be paid such special remuneration in respect of their appointment as shall be fixed by the board.

- Such special remuneration shall be in addition to the annual fees payable to directors.

10.9 General

- The Committee, in carrying out its tasks under these terms of reference, may obtain such outside or other independent professional advice as it considers necessary to carry out its duties.
- The board will ensure that the Committee will have access to professional advice both inside and outside the company in order for it to perform its duties.
- These terms of reference may from time to time be amended, as required, subject to the approval of the board.

public enterprises
Department:
Public Enterprises
REPUBLIC OF SOUTH AFRICA

STATE OWNED ENTERPRISES

REMUNERATION GUIDELINES

PART B:

EXECUTIVE DIRECTORS

AUGUST 2007

CONTENTS

1. DEFINITIONS

Average	The arithmetic mean of all salaries in the sample. The sum total of all salaries in the sample divided by the number of salaries reported.
Execu-Measure	A job grading model that assumes that (1) it is logical to pay the most for jobs contributing the most toward the attainment of the organisational goals (and objectives) and (2) executives feel more fairly treated if remuneration is based on the relative worth of their jobs; (3) the goals of the enterprise are furthered by maintaining an executive job structure based on relative worth.
Guaranteed Total Package	Refers to the total fixed cost of employment and typically includes base pay, medical aid, retirement fund, car benefits and any other fixed benefits offered by the organization.
IPO	Initial public offering, offer for sale of shares to the general public
Long-term incentives (LTI)	Refers to incentives that are paid over a period of **several years, typically over 3 to 5 years**, such as equity schemes, deferred compensation and rolling or “banked” incentives.
Lower quartile	75% of the sample earns more and 25% earns less than this salary level
Median	50% of the sample earns more and 50% earns less than this salary level

Short-term incentives (STI)	Refers to incentives that are paid over a period **of up to one year**, such as bonus, profit share or commission schemes / incentives
Upper quartile	25% of the sample earns more and 75% earns less than this salary level
Variable Pay	Short-term incentive and Long-term incentive combined
90th percentile	10% of the sample earns more and 90% earns less than this salary level

2. PURPOSE

This Guideline is to assist boards and remuneration committees in the determination and negotiation of the remuneration of the chief executive officers' (CEOs) of SOE and to establish a related coherent remuneration policy and system for the executive directors (EDs).

For purposes of this guideline a SOE categorisation model has been developed by the Department of Public Enterprises categorising SOE according to asset base and revenue. The model distinguishes between 4 bands of SOE size.

A remuneration model has been developed by the Department of Public Enterprises, based on market data sourced from a survey conducted on over 600 South African companies, which distinguishes between 4 bands of SOE size and links suggested annual guaranteed package for CEOs and EDs with SOE size.

Boards and remuneration committees are expected to apply this guideline in determining remuneration and incentives of CEO's and ED's and in formulating remuneration policies.

The guideline will be updated on a continuous basis in order to allow for improvements and incorporation of new precedence.

3. GENERAL

Boards are responsible for adopting remuneration policies and practices in accordance with this guideline. The policies and practices should be demonstrably aligned with the corporate objectives, business strategy, shareholders compact and reviewed regularly. The policies should be designed in such a way that that a clear relationship between key executive performance and remuneration is demonstrated.

Remuneration committees should be established in accordance with the guideline and the provisions of the King II principles of Corporate Governance. They should comprise of independent directors and external committee members who bring independent thought and scrutiny to all aspects of remuneration. It is important to maintain a constructive and timely dialogue between boards and the shareholder regarding remuneration policies and practices. Executive remuneration should be linked to individual and corporate performance through graduated targets that align the interests of executives with those of shareholders. The resulting arrangements should be clear and readily understandable.

4. REMUNERATION GUIDELINES

Base Pay

4.1 The board should determine the sizing of their SOE according to the categorization model prepared by the Department of Public Enterprises as detailed in Schedule 1. Reference can be made to the organization sizing grid prepared by the Department of Public Enterprises as detailed in Schedule 2.

SOE SIZE	ASSETS	REVENUE	SOE CATEGORY
A	>R16.3 Bn	>R2.54Bn	very large SOE
B	R1.55 Bn – R16.3 Bn	R243.2 Mil - R2.54Bn	large SOE
C	R143.5 Mil – R1.55 Bn	R22.8 Mil - R243.2 Mil	medium SOE
D	Up to R143.5 Mil	Up to R22.8 Mil	small SOE

Schedule 1: SOE Categorisation – assets and revenue

Revenue → / Assets ↓	R0-R0.45m	R0.45-R0.98m	R0.98-R2.11m	R2.11-R4.77m	R4.77-R10.4m	R10.4-R22.8m	R22.8-R50.2m	R50.2-R110.6m	R110.6-R243.2m	R243.2-R534.9m	R534.9m-R1.22b	R1.22-R2.54b	R2.54-R5.62b	R5.62-R12.5b	R12.5b-R27.6b	>R27.6b
R0-R1.22m	**1**	2	2													
R1.22-R2.8m	1	**2**	3	3												
R2.8-R6.0m	2	2	**3**	4	4											
R6.0-R13.5m		3	3	**4**	5	5										
R13.5-R29.7m			4	4	**5**	6	6									
R29.7-R65.3m				5	5	**6**	7	7								
R65.3-R143.5m					6	6	**7**	8	8							
R143.5-R315.8m						7	7	**8**	9	9						
R315.8-R694.7m							8	8	**9**	10	10					
R694.7m-R1.55b								9	9	**10**	11	11				
R1.55-R3.33b									10	10	**11**	12	12			
R3.33-7.42b										11	11	**12**	13	13		
R7.42-R16.3b											12	12	**13**	14	14	
R16.3-35.78b												13	13	**14**	15	15
R35.78-R78.8b													14	14	**15**	16
>R78.8b														15	15	**16**

Schedule 2: Organisation Sizing Grid

SOE sizes:

- **Size 1 - 6 is a small organisation (D);**
- **Size 7-9 a medium organisation (C);**
- **Size 11 – 12 is a large organisation (B); and**
- **Size 13 – 16 is a very large organisation (A).**

4.2 CEOs and EDs annual total guaranteed package should be determined according to the remuneration model developed by the Department of Public Enterprises as detailed in Schedule 3.

4.3 CEOs and EDs annual total guaranteed package should not exceed the median amount of the remuneration model developed by the Department of Public Enterprises.

Market Data and Proposed Pay Scale					
Position	Company Size	Annual Total Guaranteed Package			
		Lower Quartile	Median	Upper Quartile	90th Percentile
CEO	A	1,946,640	3,156,463	4,292,362	5,848,735
	B	1,047,152	1,852,386	2,257,457	3,002,419
	C	875,988	1,420,408	1,931,563	2,631,931
	D	592,010	1,075,496	1,441,400	1,917,062
Executive Directors	A	1,190,086	1,917,324	2,587,987	3,442,023
	B	733,006	1,296,670	1,580,221	2,101,693
	C	535,539	862,796	1,164,594	1,548,910
	D	395,143	717,852	962,079	1,279,565

Schedule 3: Remuneration Model

4.4 Should a Board seek to offer an annual guaranteed package that exceeds the median the chairperson of the board should seek approval from the shareholder prior to the offer being tabled with the Board.

4.5 Upon seeking approval from the shareholder for an offer for an annual guaranteed package exceeding the median, the chairperson should prepare a detailed motivation to the shareholder identifying a clear relationship between the key executive performance and the proposed annual total guaranteed package and that the proposed package properly reflects the actual contribution of the executive. The motivation should include information expressing the value of the executive in the following context:

- Impact on the economy;
- Nature of competition;
- Market capitalisation;
- Complexity of industry; and
- Strategic freedom to act.

The motivation should be accompanied by an evaluation in terms of the Execu-Measure Guidelines. The Execu-Measure Guidelines are attached as Annexure “A”.

4.6 SOE categorized in bands B - D of the categorization model prepared by the Department of Public Enterprises should not motivate an offer for a total guaranteed package greater than the median in the band immediately above the one in which the SOE is then located.

4.7 The Board must define a coherent rationale for the remuneration of other executives in relation to the CEO, which rationale should motivate executives to pursue the long term growth and success of the company within an appropriate control framework, while demonstrating a clear relationship between key executive performance and remuneration.

4.8 Prior to implementation the shareholder must indicate in writing that the remuneration of the CEO and EDs conforms to this Guideline.

4.9 Inflation adjustment increases should not exceed a percentage that is 0.5% less than the previous year's officially reported rate of inflation.

4.10 The remuneration of each individual CEO and ED should be disclosed in accordance with the Companies Act, PFMA and King Code 2002.

4.11 The annual disclosure should include the nature and element of each component of the remuneration.

4.12 The remuneration of each of the 5 highest paid officers of the SOE should be disclosed in the same manner as that required of CEOs and EDs.

Short Term Incentives

4.13 The Board should determine an annual short term incentive system for the CEO and a related and aligned system for EDs.

4.14 CEOs and EDs short term incentives should be determined according to the short term incentive value model developed by the Department of Public Enterprises as detailed in Schedule 4.

Roles	STI as a % of Guaranteed Package		
	Lower Quartile	Median	Upper Quartile
CEO	35%	50%	75%
Executives Directors	25%	35%	50%

Schedule 4: Short Term Incentive Values as a % of Guaranteed Package

4.15 Short term incentives should not exceed the median. Should a Board seek to offer a short term incentive that exceeds the median, the chairperson of the Board should seek approval from the shareholder prior to the offer being tabled with the Board.

4.16 Upon seeking approval from the shareholder for an offer for a short term incentive exceeding the median, the chairperson should prepare a detailed motivation to the shareholder, clearly setting out all circumstances present that support the motivation. The motivation should include information expressing the value of the executive as per paragraph 4.5 above, and at least include the following additional information:

4.16.1 Eligibility: Attract, retain and motivate the correct candidates.
4.16.2 Allocation quanta: guaranteed remuneration versus variable remuneration.
4.16.3 Vesting periods.
4.16.4 Governance: Defensible and equitable (internally and externally).

4.17 On determining a short term incentive system the Board and remuneration committee should be guided as follows:

4.17.1 Short term incentives should be demonstrably related to performance.

4.17.2 The key performance indicators must be precisely defined and must relate to the key performance areas and criteria set out for the SOE in the shareholder compact.

4.17.3 Key performance indicators relate to both individual and corporate performance targets.

4.17.4 The relation of the amount paid to the level of achievement must be stated.

4.17.5 Situations in which no short term incentive will be paid and where a penalty on the short term incentive will be applicable must be defined.

4.17.6 Following payment of a short term incentive an analysis should be set out in the remuneration report of the extent to which the relevant target was actually met.

Long Term Incentives

4.18 The Board should determine a long term incentive system for the CEO and a related and aligned system for EDs.

4.19 CEOs and EDs long term incentives should be determined according to the long term incentive percentage value model developed by the Department of Public Enterprises as detailed in Schedule 5.

Roles	LTI as a % of Guaranteed Package		
	Lower Quartile	Median	Upper Quartile
CEO	50%	75%	100%
Executive Director	25%	50%	90%

Schedule 5: Annualised Long Term Incentive Values as a % of Guaranteed Package

4.20 Long term incentives should not exceed the median. Should a Board seek to offer a long term incentive that exceeds the median, the chairperson of the Board should seek approval from the shareholder prior to the offer being tabled with the Board.

4.21 Upon seeking approval from the shareholder for an offer for a long term incentive exceeding the median, the chairperson should prepare a detailed motivation to the shareholder, clearly setting out all circumstances present that support the motivation. The motivation should include information expressing the value of the executive as per paragraph 4.5 above, and at least include the following additional information:

4.21.1 Eligibility: Attract, retain and motivate the correct candidates.

4.21.2 Allocation quanta: guaranteed remuneration versus variable remuneration.

4.21.3 Vesting periods.

4.21.4 Governance: Defensible and equitable (internally and externally).

4.22 On determining a long term incentive system the board and remuneration committee should be guided as follows:

4.22.1 Long term incentives should be demonstrably related to performance.

4.22.2 The key performance indicators shall be limited and must relate to the key performance areas and criteria set out for the SOE in the shareholder compact.

4.22.3 Key performance indicators relate to both individual and corporate performance targets.

4.22.4 The relation of the amount paid to the level of achievement must be stated.

4.22.5 Situations in which no long term incentive will be paid and where a penalty on the long term incentive will be applicable must be defined.

4.22.6 A formula should be established whereby a percentage of the annual total remuneration package shall vest upon the achievement of the defined performance indicators over the period. Vesting shall begin from the end of the second year of the contract period.

4.22.7 The situation in which no or any part of the term of contract incentive will not vest in any year must be clearly defined.

4.22.8 The maximum amount that can accrue over the term of the contract in the form of this incentive bonus shall not be more than 2 to 4 times the annual total guaranteed package in the final year of the contract.

4.22.9 Such term of contract incentives shall only be applicable for contracts with a term of a minimum of 3 years.

4.22.10 In the event that a contract is renewed the same terms of contract provisions shall continue for the renewal period provided that all renewals shall be for no longer than two years and at the end of the seventh year a new contract must be entered into.

4.22.11 At the end of the contract the long term incentive shall be paid in two equal installments. The first upon termination of employment and the second no later than six months after the termination of the contract with interest, provided that by agreement the payments can be converted into more installments or an annuity.

4.22.12 Following payment of a long term incentive an analysis should be set out in the remuneration report of the extent to which the relevant target was actually met.

Combined Short and Long Term Market Median Incentive Quanta

4.23 SOE should not implement share based incentive schemes.

4.24 Incentive payments are to be cash based.

4.25 Where an employee share option scheme exists in a SOE and CEOs and EDs are participants, their total remuneration should conform to this guideline. The incentive system recommended by this guideline may not be applied concurrently with an employee share option scheme.

4.26 A combined short term incentive and long term incentive system should be implemented by the board.

4.27 The median, subject to paragraphs 4.15 and 4.20 above, should be adopted for the harmonized implementation of the combined short term incentive and long term incentive system as detailed in Schedule 6. A recommended implementation system is detailed in Annexure "B" of the guideline.

Roles	**Total Incentive Quanta (% of Guaranteed Package)**		
	Short Term Incentives Median	**Long Term Incentives Median**	**Total Incentives**
CEO	50%	75%	**125%**
Executives Management	35%	50%	**85%**

Schedule 6: Combined Short and Long Term Market Median Incentive Quanta

5. TREATMENT OF MAJOR DIVISIONS AND SUBSIDIARIES

Major divisions and subsidiaries should determine the sizing of their SOE according to the categorization model prepared by the Department of Public Enterprises as detailed in Schedule 1. Reference can be made to the organization sizing grid prepared by the Department of Public Enterprises as detailed in Schedule 2. This guideline should also be applicable to such subsidiaries and main divisions.

6. TRANSITIONAL ARRANGEMENTS

Where there are existing contractual arrangements which are not in line with the guideline, there should not be an adverse effect on such obligations. At the expiry of an existing contract the guidelines should be applied in determining the remuneration terms in the event that reappointment occurs.

7. ANNEXURE A: EXECU-MEASURE GUIDELINE

The evaluation process should commence with the most senior position in the organisation to be evaluated, such as the Group CEO.

The following steps provide a guideline to evaluating each position-:

A- COMPANY SIZE

Establish the appropriate Company Size using the Revenue / Asset Grid see below. The company size ranges from 1 to 16**.**

Revenue → Assets ↓	R0- R0.42m	R0.42- R0.92m	R0.92- R1.99m	R1.99- R4.5m	R4.5- R9.8m	R9.8- R21.5m	R21.5- R47.4m	R47.4- R104.3m	R104.3- R229.4m	R229.4- R504.6m	R504.6m- R1.15b	R1.15- R2.4b	R2.4- R5.3b	R5.3- R11.8b	R11.8b R26b	>R26b
R0-R1.15m	**1**	2	2													
R1.15-R2.6m	1	**2**	3	3												
R2.6-R5.7m	2	2	**3**	4	4											
R5.7-R12.7m		3	3	**4**	5	5										
R12.7-R28m			4	4	**5**	6	6									
R28-R61.6m				5	5	**6**	7	7								
R61.6-R135.4m					6	6	**7**	8	8							
R135.4-R297.9m						7	7	**8**	9	9						
R297.9-R655.4m							8	8	**9**	10	10					
R655.4m-R1.46b								9	9	**10**	11	11				
R1.46-R3.14b									10	10	**11**	12	12			
R3.14-7b										11	11	**12**	13	13		
R7-R15.4b											12	12	**13**	14	14	
R15.4-33.75b												13	13	**14**	15	15
R33.75-R74.3b													14	14	**15**	16
>R74.3b														15	15	**16**

The quantum ranges used in the company size grids were established based on extensive research which involved sizing the same executive positions using both Execu-Measure and other grading systems whose criteria included revenue figures. The company size grid was adapted until the resulting grades achieved the optimal level of correlation. The result was 16 levels of turnover and 16 levels of value added. Using a linear regression line a factor of approximately 2.2 per level was used between levels.

Company Size Guidelines-:

- For group positions use the group turnover and asset value, for divisional positions use the division's turnover and asset value added.
- Find the column within which the Asset Value and Turnover figures fall. Read off the number found at the intercept of the two values.

- If only one of the two company size measures is available use the company size number highlighted in bold.
- If the intercept falls to the right of the bold number, the company would be regarded as a high value added (margin) business. Similarly if the intercept falls to the left of the bold number, the company would be regarded as a low value added (margin) business.
- If in extreme cases the intercept of valued added and turnover is blank, use the nearest value. However this may be a sign that you do not have an accurate value added figure (re-look at the definition).
- If a company is on the border of any of the turnover or value added cut-off's use the higher value if the company is in growth or the lower number if it is mature or stagnating. The objective is to evaluate the company with the longer term in mind, so that the evaluation will remain stable for some time.

B- STRATEGIC LEVEL

Establish the appropriate Strategic Level for each executive using the definitions below. The strategic level of an executive can range between 2 and 8. Strategic Level imperfect matches can be slightly higher (H) add 1 to final Level or slightly lower (L) subtract 1 from the final Executive Level).

7	Global Corporate Governance (Major Owner)	Cross-national and global-regional strategy formulation. Determining of overall multi-national organisation's strategy and direction. Owns a major share of the group. No other influence other than legal and public interest (e.g. Group Executive Chairman, Group CEO).
6	Global Corporate Governance (Minimal Board Influence)	Cross-national and global-regional strategy formulation. Determining of overall multi-national organisation's strategy and direction. Decides the "what" alone as long as shareholders are happy. There is minimal board influence (e.g. Group Executive Chairman, Group CEO).
5	Strategic Intent (Multiple Diverse SBU)	Formulation of multiple diverse SBU's vision and strategy to ensure long-term viability, while influencing global group strategy. Assessment of environmental impacts (such as expansion or contraction of markets) coming from the domains of national politics, economics, technology, industry, legislation, general national social issues, etc., in order to accommodate or adapt to changes in this environment. Competitive positioning of multiple diverse SBU's in the national market (e.g. CEO; MD; Senior Executive Director).
4	Strategic Intent (Company Strategy)	Formulation of SBU (large unitary company or large division or multiple related divisions) vision and strategy to ensure long-term viability, while influencing group strategy. Assessment of environmental impacts (such as expansion or contraction of markets) coming from the domains of national politics, economics, technology, industry, legislation, general national social issues, etc., in order to accommodate or adapt to changes in this environment. Competitive positioning of SBU (large unitary company or large division or multiple related divisions) in the national market (e.g. CEO; MD; Senior Executive Director).
3	Strategy Execution (Specialist)	Influencing of the strategic intent and direction of the organisation through specialist knowledge inputs to ensure long-term viability. Assessment of environmental impacts (such as knowledge changes) in order to accommodate or adapt to changes in the

		environment.
3	Strategy Execution (Operations)	Translation of strategic organisation goals into operational practice/goals. The translation of general business strategy into operational systems, practices and processes through the contribution of knowledge inputs. Setting and monitoring of functional direction for the organisation in respect of a specific specialist discipline. (e.g. Director; Unit Executive; MD or Country Manager).
2	Tactical / Practice (Specialist)	Ensuring best operational practice through development. Operates within / adapts to the strategy / policy with after the event review by next level. Can only change the "how" by "whom" in own area. Research, design and development of systems, practices and processes to achieve best operating practice. Understanding of the requirements and the application of the standards and regulations governing the discipline in which the specialist works.
2	Tactical / Practice (Operational)	Ensuring best operational practice through development. Operates within / adapts to the strategy / policy with after the event review by next level. Can only change the "how" by "whom" in own area. Optimisation of resources by planning, organising and co-coordinating the required resources, namely money, people, materials, equipment, information and technology, to achieve given objectives in the most productive and cost effective way. Management of systems, processes and practices in such a way as to achieve best operating practice. (e.g. General Manager, Divisional Manager).
1	Routine	Works under ongoing supervision; organises own time (Not executive level).

Strategic Level Guidelines-:

- Establish the strategic level of the most senior position first where possible. For a Group CEO the key to establishing the strategic level is the relationship and influence with the group board. The key difference between Global Corporate

Governance, Strategic Level's 8, 7 and 6 is the following (in addition to the criteria described in the definition at each level)-:

  - Strategic Level 8 is where the executive head effectively acts as the owner, whose only influence is legal and public interest.
  - Strategic Level 7 is where the executive head effectively decides the group's strategy and direction with minimal influence from the board.
  - Strategic Level 6 is where the executive head effectively decides the group's strategy and direction jointly with the board. There are likely to be directors on the board representing other organizations with sizeable shareholding in the group able to significantly influence strategy and direction.

- Establish the strategic level of each executive working down through each level of the organization.
- Where an exact match is not possible (i.e. an executive matches elements of 2 strategic levels), use the level with the greater fit (i.e. the level that matches more than 50% of the role). Indicate the imperfect match using an H for higher or L for lower as appropriate. For example if both strategic level 3 and 4 fit but the executive mostly operates at level 3, the strategic level would be 3H, in other words a high 3 (because it has elements of the higher level above 3). Similarly if both strategic level 3 and 4 again fit but the executive mostly operates at level 4, the strategic level would be 4L, in other words a low 4 (because it has elements of the lower level 3).

C- IMPACT LEVEL

Establish the appropriate Impact Level for each executive using the definitions below. The impact level of an executive can range between D and I.

D	Direct Impact	Has primary, direct impact on end results though involvement in core activities
J	Joint Impact	Has shared accountability, provides support services directly related, or close to core business activities
I	Indirect Impact	Influences others, interprets, advises, facilitates, provides incidental or support services remotely associated with core business activities

Impact Level Guidelines-:

- Identify which impact level is most appropriate for each executive position.
- Only one executive can have a direct impact on each business unit be it at group, company, or divisional level. For example the Group CEO alone has direct impact on group turnover / value added as the ultimately accountable executive for that unit; the other group executives have either a joint or indirect impact on group turnover / value added.
- As a guideline the most frequent impact level for each executive role is as follows-:
    - Direct – Chief Executive Officer / Managing Director / General Manager
    - Joint – Financial, Human Resources, Manufacturing, Supply Chain, Technical
    - Indirect – Corporate Communications, Research & Development, Audit

D- COMPLEXITY & PROBLEM SOLVING LEVEL

Establish the appropriate Complexity & Problem Solving Level for each executive using the definitions below. The complexity & problem solving level of an executive can range between 1 and 3.

3	Highly complex business environment	Problem Solving is in the context of an extremely complex, highly sophisticated environment. The planning cycle time and/or the time taken for the consequences or impact to be felt is 5 years or more.
2	Moderately complex business environment	Problem Solving is in the context of a typically complex, moderately sophisticated environment. The planning cycle time and/or the time taken for the consequences or impact to be felt is typically 2 to 5 years.
1	Business environment is less complex than most	Problem Solving is in the context of a less complex, less sophisticated environment. The planning cycle time and/or the time taken for the consequences or impact to be felt is typically up to 2 years.

Complexity & Problem Solving Level Guidelines-:

- Identify which complexity and problem solving level is most appropriate for each executive position.
- It would be expected that global positions in complex industries with long range planning cycles would be found at level 3.
- Most positions by default would be found at level 2, as this level is intended to reflect the norm / typical executive / organization level of complexity & problem solving.
- It would be expected that a few positions in less complex industries with shorter range planning cycles would be found at level 1.

APPLYING THE FACTOR SCORES TO THE GRID

Having established the score for each of the 4 factors the Execu-Measure grid is now used to establish the executives Execu-Level.

		Impact																						
Company Size		I	J	D	I	J	D	I	J	D	I	J	D	I	J	D	I	J	D	I	J	D		Complexity & Problem Solving Level
		21	22	23	24	25	26	26	27	28	29	29	30	31	31	32	33	33	34	35	35	36	3	
	16	20	21	22	23	24	25	25	26	27	28	28	29	30	30	31	32	32	33	34	34	35	2	
		19	20	21	22	23	24	24	25	26	27	27	28	29	29	30	31	31	32	33	33	34	1	
		21	22	23	24	25	26	26	27	28	29	29	30	31	31	32	33	33	34	35	35	36	3	
	15	20	21	22	23	24	25	25	26	27	28	28	29	30	30	31	32	32	33	34	34	35	2	
		19	20	21	22	23	24	24	25	26	27	27	28	29	29	30	31	31	32	33	33	34	1	
		20	21	22	24	25	26	26	27	28	28	29	29	30	31	31	32	33	33	34	35	35	3	
	14	19	20	21	23	24	25	25	26	27	27	28	28	29	30	30	31	32	32	33	34	34	2	
		18	19	20	22	23	24	24	25	26	26	27	27	28	29	29	30	31	31	32	33	33	1	
		20	21	22	23	24	25	25	26	27	28	28	29	30	30	31	32	32	33	34	34	35	3	
	13	19	20	21	22	23	24	24	25	26	27	27	28	29	29	30	31	31	32	33	33	34	2	
		18	19	20	21	22	23	23	24	25	26	26	27	28	28	29	30	30	31	32	32	33	1	
		20	21	22	23	24	25	25	26	27	27	27	28	29	29	30	31	31	32				3	
	12	19	20	21	22	23	24	24	25	26	26	26	27	28	28	29	30	30	31				2	
		18	19	20	21	22	23	23	24	25	25	25	26	27	27	28	29	29	30				1	
		19	20	21	22	23	24	24	25	26	27	27	28	29	29	30	31	31	32				3	
	11	18	19	20	21	22	23	23	24	25	26	26	27	28	28	29	30	30	31				2	
		17	18	19	20	21	22	22	23	24	25	25	26	27	27	28	29	29	30				1	
		19	20	21	22	23	24	24	25	26	26	26	27	28	28	29	30	30	31				3	
	10	18	19	20	21	22	23	23	24	25	25	25	26	27	27	28	29	29	30				2	
		17	18	19	20	21	22	22	23	24	24	24	25	26	26	27	28	28	29				1	
		19	20	21	21	22	23	23	24	25	26	26	27	28	28	29	30	30	31				3	
	9	18	19	20	20	21	22	22	23	24	25	25	26	27	27	28	29	29	30				2	
		17	18	19	19	20	21	21	22	23	24	24	25	26	26	27	28	28	29				1	
		18	19	20	21	22	23	23	24	25	25	25	26	27	27	28							3	
	8	17	18	19	20	21	22	22	23	24	24	24	25	26	26	27							2	
		16	17	18	19	20	21	21	22	23	23	23	24	25	25	26							1	
		18	19	20	20	21	22	22	23	24	25	25	26	27	27	28							3	
	7	17	18	19	19	20	21	21	22	23	24	24	25	26	26	27							2	
		16	17	18	18	19	20	20	21	22	23	23	24	25	25	26							1	
		18	19	20	20	21	22	22	23	24	25	25	25										3	
	6	17	18	19	19	20	21	21	22	23	24	24	24										2	
		16	17	18	18	19	20	20	21	22	23	23	23										1	
		17	18	19	19	20	21	21	22	23	24	24	25										3	
	5	16	17	18	18	19	20	20	21	22	23	23	24										2	
		15	16	17	17	18	19	19	20	21	22	22	23										1	
		17	18	19	19	20	21	21	22	23													3	
	4	16	17	18	18	19	20	20	21	22													2	
		15	16	17	17	18	19	19	20	21													1	
		16	17	18	18	19	20	20	21	22													3	
	3	15	16	17	17	18	19	19	20	21													2	
		14	15	16	16	17	18	18	19	20													1	
		16	17	18	18	19	20																3	
	2	15	16	17	17	18	19																2	
		14	15	16	16	17	18																1	
		16	17	18	18	19	20																3	
	1	15	16	17	17	18	19																2	
		14	15	16	16	17	18																1	
		2			3			4			5			6			7			8				
		Strategic Level																						

Grid Guidelines-:

- Start on the left hand side of the grid and establish the row applicable for Company Size.
- Move to the bottom of the grid and establish the Strategic Level ignoring the H or L if applicable for now.
- Identify the block that represents the intercept of Company Size (left hand side) and Strategic Level (bottom).

- Move to the top of the grid and establish the column applicable for Impact (within the selected strategic level column).
- Move to the right of the grid and establish the row applicable for Complexity & Problem Solving (within the selected company size row).
- You will now find a single Execu-Measure Level number between 14 and 36.
- If the Strategic Level is an H add one point to the Execu-Measure Level, if the Strategic Level is an L subtract one point from the Execu-Measure Level. This score represents the executives final Execu-Measure Level.
- The following rules should be considered when establishing if the evaluation is appropriate within the overall structure, particularly compared to the Execu-Measure Level of executives above, below, and on a similar level to the executive being evaluated -:
    - A single level difference in Execu-Measure Levels represents a 15% difference in level work. For example therefore, the difference between level 23 and 24 is 15%.
    - A one level difference of 15% is described as a barely perceptible difference (e.g. 23 to 24). This means you can just tell there is a difference and perceive that while they are close the two positions are not at the same level. As a rule it is very unusual for two positions with a one level difference to report to each other, and should only occur in exceptional (often temporary) circumstances.
    - A two level difference of 30% is described as a clear difference (e.g. 23 to 25). This means there is more than a barely perceptible difference between two positions but the difference is not large. As a rule this is the minimum level difference for positions reporting to each other.
    - A three or more level difference of 45% or more is described as an obvious difference (e.g. 23 to 26+). As a rule this is the most typical and optimal level difference for positions reporting to each other comfortably (i.e. the difference is not too small or too large)

8. ANNEXURE B: COMBINED SHORT TERM INCENTIVE (STI) AND LONG TERM INCENTIVE (LTI)

The situation and nature of SOE make share incentive schemes impractical and inappropriate, accordingly incentive payments should be cash based. In the instance where there is an Employee Share Option Scheme (ESOP), and where the CEOs and EDs are participants, their total remuneration should be in line with this Guideline. The incentive scheme and ESOP may not be applied concurrently.

In the event of there being an Initial Public Offering (IPO) or any form of employee share ownership scheme the Executive Management will participate on the terms and conditions of such a scheme or IPO.

The median should be adopted for the harmonised implementation of a combined LTI and STI approach. In accordance with this approach, the total value of incentives that may vest in any year may be 125% of the total annual guaranteed package as illustrated in Schedule 6 below.

Roles	Total Incentive Quanta (% of Guaranteed Package)		
	Short Term Incentives Median	Long Term Incentives Median	Total Incentives
CEO	50%	75%	**125%**
Executives Management	35%	50%	**85%**

Schedule 6: Combined Short and Long Term Market Median Incentive Quanta

Since short-term targets are aimed at achieving long-term sustainability targets, it is not always possible to distinguish between STI and LTI. Accordingly, this Guideline recommends the adoption of a rolling scheme that combines short-term and long-term rewards and supports a progressive build-up towards sustainability.

The most common rolling percentages over 3 years are:

- 50%, 30% and 20% or

- 33%, 33% and 34%.

The 50%, 30% and 20% approach is recommended. A new three-year rolling cycle commences every year, allowing a standard 50% of the 125% incentive package to potentially vest every year (provided that the annual targets are met) and to be considered as the STI. All other incentive percentages potentially vesting in any year (up to 50% of the 125% incentive package) are applied as the LTI and only vest when there is sufficient evidence that achievement of the long-term targets have been achieved or are on track.

The net effect of the rolling scheme is that in year 1 only the 50% STI is payable and as from year 2 the LTI component potentially starts vesting. In year 2, a 30% LTI may vest and from year 3 onwards a 50% LTI (comprised of 20% of the old cycle and 30% of the new cycle) may vest. Thus, during the first three-year cycle a progressive increase LTI is applied to encourage achievement of sustainable performance at the end of year 3. Sustainable performance is thereafter rewarded with the full 125% incentive vesting every year.

Whilst the guidelines does not detail Incentive system rules, where targets are not met in full, only the percentage achieved must be rewarded, e.g. 80% achievement equals 80% reward. In the case of the LTI component, the difference may be deferred for payment to the next year provided that the next year's targets are met. If less than 50% is achieved there is a 0% payout.

In instances where there are issues with retention of highly skilled personnel, the 30% and 20% in year 2 and year 3 respectively may be swapped.

In order to focus attention even harder on the long-term strategic performance, the system could provide that the LTI (30% assessed in Year 2 and 20% in Year 3) can be "geared up" based upon performance achieved against the long-term targets. Thus, in year 2, if long-term performance exceeded targets, say 110%, then instead of 30% being earned, 33% would be earned.

Application

Application of the rolling combined incentive scheme is illustrated in the tables below using the following assumptions:

- Guaranteed Pay: R1 000 000
- Incentive quanta: 125% of Guaranteed pay: R1 250 000
- Rolling Scheme: 50%, 30%, 20%

Pay Element	Remuneration
Guaranteed Pay	R1 000 000
Short Term Incentive (50% of 125%)	R 625 000
Total Remuneration	**R1 625 000**

Table B1: Year 1 Total Remuneration

Pay Element	Remuneration
Guaranteed Pay	R 1 000 000
Short Term Incentive (50% of 125%)	R 625 000
Long term incentive (30% of 125%, accrued from year 1)	R 375 000
Total Remuneration	**R 2 000 000**

Table B2: Year 2 Total Remuneration

Pay Element	Remuneration
Guaranteed Pay	R 1 000 000
Short Term Incentive (50% of 125%)	R 625 000
Long term incentive (20% of 125%, accrued from year 1)	R 250 000
Long term incentive (30% of 125%, accrued from year 2)	R 375 000
Total Remuneration	**R2 250 000**

Table B3: Year 3 Total Remuneration Total

The Tables B1 to B3 above illustrate that over the initial three-year cycle, the maximum potential value of the rolling incentive package of a Guaranteed Total Package of R1, 000,000 is R2, 875,000.

9. ANNEXURE C: REMUNERATION COMMITTEE GUIDELINES

REMUNERATION COMMITTEES AND THEIR RESPONSIBILITIES

Main Provisions

Remuneration committees should adopt the guideline and remuneration committee guidelines as their terms of reference, incorporating the Model Terms of Reference for Board Committees as contained in Appendix V of King 2002. Where any provisions of the Model Terms of Reference for Board Committees as contained in Appendix V of King 2002 are contradictory to the guideline and the remuneration committee guidelines, the provisions of the guideline the remuneration committee guidelines should be adopted.

Remuneration committees are responsible for ensuring that the mix of incentives reflects the company’s needs, establishes an appropriate balance between fixed and variable remuneration, and is based on targets that are stretching, verifiable and relevant. They should satisfy themselves as to the accuracy of recorded performance measures that govern vesting of variable remuneration.

They should establish effective procedures for disclosure and communication of strategic objectives, which enables the shareholder to take an informed and considered view of remuneration policy and its implementation.

They should ensure that remuneration levels properly reflect the contribution of executives and be rigorous in selecting an appropriate comparator group. They should guard against unjustified windfalls and inappropriate gains arising from incentives.

They should consider legal redress where performance achievements are subsequently found to have been significantly misstated so that incentives should not have been paid.

They should also pay particular attention to arrangements for senior executives who are not board members but have a significant influence over the company’s ability to meet its strategic objectives.

COMPOSITION OF REMUNERATION COMMITTEE

The remuneration committee should:

- Consist of a minimum of three members, all of whom shall be non-executive directors and the majority deemed to be independent
- Be chaired by a Non-Executive Director

RESPONSIBILITIES

The responsibilities of the remuneration committee should include a review of and recommendation to the board on:

- Executive remuneration and incentive policies
- Remuneration packages of senior management
- The company's recruitment, retention and termination policies and procedures for senior management
- The remuneration framework for directors

REMUNERATION POLICIES

The company should design its remuneration policy in such a way that it:

- Motivates directors and management to pursue the long term growth and success of the company within an appropriate control framework
- Demonstrates a clear relationship between key executive performance and remuneration

The remuneration committee may seek input from individuals on remuneration policies, but no individual should be directly involved in deciding his/her remuneration.

The remuneration committee should ensure that the board, management and the remuneration committee are provided with sufficient information to ensure informed decision making.

Executive remuneration packages should involve a balance between fixed and variable pay, reflecting short and long term performance objectives appropriate to the company's circumstance and goals.

The structure of non-executive directors' remuneration should be clearly distinguished from that of executives.

Non-executive directors should not participate in schemes designed for the remuneration of executives.

Non executive directors should not receive incentive payments.

BASE PAY AND INCENTIVES

Main Provisions

Remuneration committees should ensure that base pay reflects the contribution of the executives concerned and be robust in setting and monitoring targets for incentives. They should ensure that bonuses reflect actual achievements against these targets.

Any material payments that may be viewed as being ex-gratia in nature should be fully explained, justified and subject to shareholder approval prior to payment.

Remuneration committees should scrutinise all other benefits, including benefits in kind and other financial arrangements to ensure they are justified, appropriately valued and suitably disclosed.

Guidance on Base Pay and Incentives

Base Pay

Remuneration committees should ensure their policy on base pay is fully communicated to the shareholder. Where a company seeks to pay salaries above median, justification and shareholder approval is required.

Incentives

Annual incentives should be demonstrably related to performance. Both individual and corporate performance targets are relevant and should be tailored to the requirements of the business and reviewed regularly to ensure they remain appropriate.

Following payment of the incentive, the shareholder will expect to see a full analysis in the remuneration report of the extent to which the relevant targets were actually met.

The shareholder will expect increases, where approved, to be subject to correspondingly more stretching performance.

Remuneration committees should retain discretion to reduce or reclaim payments if the performance achievements are subsequently found to have been significantly misstated. Where there is doubt remuneration committees should work with the audit committees to ensure the basis of their decision is correct.

CONTRACTS AND SEVERANCE

Main Provisions

Remuneration committees should ensure that contracts protect the company from being exposed to the risk of payment in the event of failure.

The treatment of incentives should be clear and a contractual link established between variable pay and performance. In the event of early termination, there should be no automatic entitlement to incentives.

Guidance on Contracts and Severance

Remuneration committees should ensure that the policy and objectives on directors' contracts are clearly stated in the remuneration report.

When drawing up contracts, remuneration committees should calculate the likely cost of any severance and determine whether this is acceptable. All payments made should be based upon performance in relation to objectives and take account of the overall financial circumstances of the company.

Companies should justify their policies on contractual protection.

Contracts should commit companies not to pay for failure.

Phased payments are generally appropriate for fulfilling compensation on early termination.

The shareholder is less supportive of the liquidated damages approach which involves agreement at the outset on the amount that will be paid in the event of severance.

Remuneration committees should ensure that full benefit of mitigation is obtained. This includes the legal obligation on the part of the outgoing director to mitigate the loss incurred through severance by seeking other employment and reducing the need for compensation.

Contracts should make it clear that if a director is dismissed as a result of a disciplinary procedure, a shorter notice period than that given in the contract would apply.

Contracts should not provide additional protection in the form of compensation for severance as a result of change of control.

GOVERNANCE

The following should be included in the corporate governance section of the annual report:

- Disclosure of the company's remuneration policies
- The names of the members of the remuneration committee and their attendance at meetings of the committee
- An explanation for any departure from the remuneration guidelines as prepared by the Department of Public Enterprises from time to time
- Remuneration report

10. ANNEXURE D: KING 2002: APPENDIX V: MODEL TERMS OF REFERENCE FOR BOARD COMMITTEES – REMUNERATION COMMITTEE

Remuneration Committee

10.1 Constitution

Every company should establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of individual directors, within agreed terms of reference, to avoid potential conflicts of interest. A formal appointed remuneration committee of the board, composed wholly or substantially of non-executive directors, with access to independent surveys and consultants, can be a useful mechanism for facilitating the determination of all the essential components of remuneration and establishing remuneration credibility with shareowners. The Committee's function in relation to remuneration of non-executives, for reason of self-interest, should be limited to making recommendations to the full board and, as applicable, to the shareowners. The financial reward offered by the company should be sufficient to attract people of the required calibre. Failure to attract the right people will have a negative impact on the efficiencies of the company and, consequently, on the returns to its shareowners.

10.2 Membership

- The Remuneration Committee ("Committee") shall consist of not less than three directors appointed by the board of directors ("board"), all of whom shall be non-executive directors and the majority deemed to be independent.
- The board shall appoint the Committee chairperson and determine the period for which he or she shall hold office. The chairperson of the board, if he or she is an independent non-executive director, may be eligible to be appointed as chairperson of the Committee.
- The Committee shall nominate a committee secretary.

10.3 Terms of reference

- The role of the Committee will be to work on behalf of the board and be responsible for its recommendations and will, within these terms of reference:

  - determine, agree and develop the company’s general policy on executive and senior management remuneration;
  - determine specific remuneration packages for executive directors of the company, including but not limited to basic salary, benefits in kind, any annual bonuses, performance-based incentives, share incentives, pensions and other benefits; and
  - determine any criteria necessary to measure the performance of executive directors in discharging their functions and responsibilities.
- The Committee will aim to give the executive directors every encouragement to enhance the company’s performance and to ensure that they are fairly, but responsibly rewarded for their individual contributions and performance.
- The Committee will review (at least annually) the terms and conditions of executive directors’ service agreements, taking into account information from comparable companies where relevant.
- The Committee will determine any grants to executive directors and other senior employees made pursuant to the company’s executive share scheme(s).
- The Committee will be kept informed of relevant information for other group executives and senior managers.
- The Committee will not determine the remuneration or terms of any consultancy agreement of any non-executive director, although it may make recommendations to the board if requested.
- The Committee will co-ordinate its activities with the chairperson of the board and the chief executive as well as consult them in formulating the Committee’s remuneration policy and when determining specific remuneration packages.
- The broad framework and cost of executive remuneration should be a matter for the board on advice of the Committee.
- The Committee may wish to consult other non-executive directors in its evaluation of the chairperson of the board and the chief executive.

- The Committee will have due regard for the principles of governance and code of best practice.

- The Committee will liaise with the board in relation to the preparation of the Committee's report to shareowners as required and will consider each year (and minute its conclusions) whether the circumstances are such that the annual general meeting of the company should be invited to approve the remuneration policy set out in the Committee's report.

10.4. Guidelines for components of remuneration

As part of achieving and maintaining reasonable, acceptable levels of remuneration, the Committee is encouraged to consider the following guidelines:

- Base fees
  - the general level of hourly or daily rates of fees earned by directors in their professional capacities (e.g. as lawyers, accountants, executives, management consultants);
  - the hours spent in travel and preparation for meetings, as well as actual attendance;
  - while indirect costs pertinent to the role of directors are separately reimbursed, a fair and reasonable allowance for any direct costs should, however, be made in the base fee;
  - in the case of companies of unusual size or complexity, a comparison can be made and a relativity established with the level of the chief executive officer's remuneration disregarding any incentive package;
  - company performance (i.e. profit, dividend and share price) is not considered to be of special significance for the purpose of setting a base fee; and
  - the fee must be fair.
- Forms of payment
  - cash;

- shares or share options - this can have the advantage of aligning remuneration with the interests of the shareowners by increasing the focus of directors on company performance and share value. Where share options are to be offered to non-executive directors, shareowners must approve this offer in a general meeting prior to the allocation being implemented.

- Reviews

  The dates for review would also be an appropriate time to undertake evaluations of the performances of individual directors.

- Equal sharing

  In line with the principle of collective responsibility, base fees should, wherever possible, be shared equally except in the case of additional responsibility or workload such as the chairperson and deputy chairperson. The level will depend on the extent of their involvement with the company.

- Supplementary fees

  Supplementary work resulting from the membership of board committees (e.g. audit, remuneration, etc.) should be spread as evenly as possible among board members and recognised in the level of the base fee. If supplementary fees are charged separately, they may be calculated at an hourly or daily rate rather than annually, and should be subject to review in the same manner as base fees.

- Reimbursement of expenses

  - Directors should ensure that they are reimbursed for all direct and indirect expenses reasonably and properly incurred (e.g. office, secretarial, accommodation, travelling expenses).

  - Accommodation and travelling expenses should include those incurred in attending all meetings of directors and board committees, shareowners' meetings or otherwise in connection with company business.

  - Where a director uses personal transport, travelling expenses should include a realistic kilometric allowance.

- Expenses applicable to multi-directorships should be apportioned on a fair and reasonable basis, having regard for the time spent on each directorship, including travelling costs.
- Directors should ensure that the company's articles of association do not restrict the reimbursement of expenses.

- Directors' and Officers' liability insurance
  - Directors should, wherever practical, arrange for such insurance to be taken out, and for such insurance to be paid by the company.
  - The cover provided by the insurance should be as extensive as permitted by law, including all risks relating to legal costs.
  - Directors should ensure that the payment of insurance cover is authorised by the company's articles of association.
- Payments on termination
  - The payment of retirement benefits to executive directors is an accepted practice in many companies and should be determined by the company's particular circumstances. Alternatively, a termination payment can be negotiated as part of their overall remuneration package.
  - If retirement benefits are paid it is recommended that unless authorised otherwise by shareowners, the lump sum amount or the base for the pension should not exceed the total remuneration of the director in his or her capacity as a director in any three years chosen by the Committee.
  - The Committee should ensure that the payments or benefits of any nature on termination are not restricted by the company's articles of association but are fair to the company and can be adequately justified to shareowners if called on to do so.
- Flexibility

  All the components of remuneration are, in the normal course, a matter of negotiated commercial contract and, accordingly, should be sufficiently flexible to suit each individual circumstance.

10.5 Shareholder acceptance

- Every effort should be made to promote acceptance of the necessity for, and benefits of, a realistic realignment of director remuneration.
- Requirements to disclose remuneration in the annual report is seen as a constructive opportunity to communicate with shareholders on all aspects of remuneration.
- The information disclosed could in relation to each director, usefully include such matters as a breakdown of remuneration into its individual components, the remuneration package as a total cost to the company, the number of meetings attended and, if practicable, the number of hours worked.
- The adoption by companies of formal remuneration policies, encompassing such matters as the philosophy behind remuneration assessments, the criteria for remuneration setting, the remuneration components, the composition and role of the Committee, and the disclosure of such policies to shareholders, can also indicate to the public a responsible approach by companies to remuneration issues.

10.6 Meetings

- Meetings of the Committee will be held as the Committee deems to be appropriate, however, the Committee should meet at least once each year. Further meetings may be called by the chairperson of the Committee or any member of the Committee.
- The notice of each meeting of the Committee, confirming the venue, time and date and enclosing an agenda of items to be discussed, shall other than under exceptional circumstances, be forwarded to each member of the Committee not less than four working days prior to the date of the meeting.
- The quorum for decisions of the Committee shall be any two members present who shall vote on the matter for decision.
- The Committee shall normally invite the chairperson of the board and the chief executive to attend meetings to discuss the performance of other executive directors and to make proposals as necessary.

- The chairperson (or in his/her absence, an alternative member) of the Committee shall attend the annual general meeting and be prepared to answer questions concerning the appointment of executive and non-executive directors and maintain contact as required with the company's principal shareholders about the appointment of executive and non-executive directors in the same way as for other matters.

10.7 Proceedings

- Unless varied by these terms of reference, meetings and proceedings of the Committee will be governed by the company's articles of association regulating the meetings and proceedings of directors and committees.

- The committee secretary shall take minutes of meetings. Any director may, provided that there is no conflict of interest and with the consent of the chairperson, obtain copies of the Committee's minutes.

- No Committee attendee shall participate in any discussion or decision in respect of their own remuneration.

10.8 Remuneration

- Having regard for the functions performed by the members of the Committee in addition to their functions as directors in relation to the activities of the Committee, and pursuant to the specific power conferred upon the board by the articles of association of the company, members of the Committee may be paid such special remuneration in respect of their appointment as shall be fixed by the board.

- Such special remuneration shall be in addition to the annual fees payable to directors.

10.9 General

- The Committee, in carrying out its tasks under these terms of reference, may obtain such outside or other independent professional advice as it considers necessary to carry out its duties.

- The board will ensure that the Committee will have access to professional advice both inside and outside the company in order for it to perform its duties.

- These terms of reference may from time to time be amended, as required, subject to the approval of the board.