

The implications of King III on remuneration practice

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Remuneration principles in King III

- Comply or explain vs. Comply or else approach
- Focus on Directors and Senior executives and less on general remuneration guidelines
- Principles:
 - Shareholders must approve companies remuneration policies
 - Reward directors and executives fairly and responsibly
 - Disclose directors and executive remuneration

Practice Note 1

Remuneration philosophy and strategy

- Companies should explain their remuneration policies in the annual report focusing on executive management (181)
- Benchmarks to be explained (182)
- Annually remuneration policies should be tabled for a non-binding advisory vote at AGM (186)
- Board determine executive director remuneration according to the remuneration policy (187)

Practice Note 2

Fixed pay

- Remuneration Committee should scrutinise all benefits and ensure they are correctly valued and disclosed ⁽¹⁵²⁾
- The Remuneration Committee to ensure that the remuneration mix meet the company's needs and strategy ⁽¹⁵³⁾
- Remuneration levels must reflect the contribution of executives and compare rigorously to compatible peers in the market ⁽¹⁵⁷⁾

Practice Note 3

Short -term incentives

- STIs must create value, aligned with company strategy and contribute to performance (147)
- Uncontrolled factors taken into account (148)
- Targets fair and achievable (149)
- The ratio fixed to variable pay should allow for flexibility (157)
- STIs must relate to performance and be regularly reviewed (158)
- “Gate keeper” criteria (159)
- Performance drivers not to be duplicated across plans (160)

Practice Note 3

Long-term incentives

- LTIs must be regularly reviewed to avoid unjustified windfalls (166)
- LTIs linked to performance over appropriate period (168)
- Too much leveraging must be avoided (169)
- Regular grants preferred (170)
- Price of grants based on average of preceding day (171)
- No issues during closed periods and backdating (172)
- Vesting after 3 years exercised within 10 years (173)

Practice Note 3

Long-term incentives (continued)

- LTIs should only vest if conditional performance criteria were achieved (174)
- Vesting should be on a sliding scale and not 'all or nothing' (175)
- To retain employees, remuneration policies may be adjusted. Retention plans should be separate plans (176)
- No automatic waving of performance conditions (177)
- Leaving before vesting means options will lapse (178)
- At the end of employment early vesting should be allowed provided performance conditions are met (179)

Practice Note 4

Remuneration Committee and Governance

- Policies and practices must align with company strategy (147)
- The Remuneration Committee set and administer remuneration policies for all levels (150)
- The remuneration committee must ensure the remuneration mix support the company's strategy (151)
- The Remuneration committee function within the TOR of the board (156)

Practice

Note 4

Remuneration Committee and Governance

- Performance targets should be tailored to the needs of the business and reviewed regularly to ensure they remain appropriate. ⁽¹⁵⁸⁾
- Regular review of STIs ⁽¹⁶⁶⁾
- Approve eligibility of LTIs ⁽¹⁶⁷⁾
- Approve performance conditions for LTI vesting ⁽¹⁶⁸⁾
- Give full disclosure of executives, directors and 3 top paid employees' remuneration as per the Act ⁽¹⁸⁰⁾
- Remuneration policy to be explained the annual report ^(181 & 182)

Practice Note 4

Remuneration Committee and Governance

- Annually remuneration policies should be tabled for a non-binding advisory vote at AGM ⁽¹⁸⁶⁾
- Board determine executive director remuneration according to the remuneration policy ⁽¹⁸⁷⁾
- Policies regarding executive employment to be disclosed in the annual remuneration report covering the contract term and restraint ^(183 & 184)
- Disclose maximum and expected dilution effect of executive remuneration in the current year ⁽¹⁸⁵⁾

Practice Note 5

Remuneration of Non- Executive Directors

- Fees for responsibility during the year plus fee for meetings attended ⁽¹⁵³⁾
- No shares or incentives ⁽¹⁵⁴⁾
- Approval by shareholders in advance and by special resolution every two years ⁽¹⁵⁵⁾