

The implications of King III on remuneration practice

28 October 2009

Remuneration principles in King III

- Apply or explain vs. Comply or else approach
- Special focus on Directors and Senior executives but other remuneration policies should also be disclosed
- Main Principles:
 - Shareholders must approve companies' remuneration reports at AGM
 - Reward directors and executives fairly and responsibly
 - Far more emphasis on disclosure of remuneration

Practice Note 1

Remuneration philosophy and strategy

Lukas de Swardt

- Remuneration Committee assists board in setting and administering remuneration policies (150)
- Incentive targets should be stretching, verifiable and relevant (151)
- Companies should annually explain their remuneration policies applicable to all levels, but with a special focus on executive management (181)
- Annually remuneration reports (incorporating policies) should be tabled for a non-binding advisory vote at AGM (186)
- Board determines executive director remuneration according to the remuneration policy (187)

Practice Note 2

Fixed pay

Ronél Nienaber

- Remuneration Committee should scrutinise all benefits and ensure they are correctly valued and disclosed (152)
- The Remuneration Committee to ensure that the remuneration mix meets the company's needs and strategy (153)
- Remuneration levels must reflect the contribution of executives and be compared rigorously to comparable groups in the market (157)
- Policy on base pay should be explained as well as use of benchmarks (>median) (182)
- Any material ex-gratia payments to be explained in the annual report (182)

Practice Note 3

Short -term incentives

Martin Hopkins

- STIs must create value, be aligned with company's strategy and be linked to the executive's contribution to performance⁽¹⁴⁷⁾
- Uncontrolled factors taken into account ⁽¹⁴⁸⁾
- Targets fair and achievable ⁽¹⁴⁹⁾
- The ratio of 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

Martin Hopkins

- LTIs must be regularly reviewed to avoid unjustified windfalls ⁽¹⁶⁶⁾
- LTIs linked to performance over an appropriate period ⁽¹⁶⁸⁾
- Highly leveraged schemes should be avoided ⁽¹⁶⁹⁾
- Regular annual grants preferable ⁽¹⁷⁰⁾
- Price of grants not less than share price on preceding day ⁽¹⁷¹⁾
- No issues during closed periods and no backdating ⁽¹⁷²⁾
- Vesting after 3 years, exercised within 10 years (old schemes) or 7 years (new schemes) ⁽¹⁷³⁾

Practice Note 3

Long-term incentives (continued)

- LTIs should only vest if conditional performance criteria are 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)
- On termination employment early vesting may be allowed pro-rated with reference to performance conditions and time served (179)

Practice Note 4

Remuneration Committee and Governance

Jerry Botha

- *Also refer to Practice note 1*
- The Remuneration committee should function within the Terms of Reference approved by the board ⁽¹⁵⁶⁾
- Performance targets should be tailored to the needs of the business and reviewed regularly to ensure they remain appropriate ⁽¹⁵⁸⁾

Practice Note 4

Remuneration Committee and Governance

Jerry Botha

- 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 (180)
- Remuneration policy to be explained the annual report (181 & 182)
- Annually remuneration reports (including policies) should be tabled for a non-binding advisory vote at AGM (186)

Practice Note 4

Remuneration Committee and Governance

Jerry Botha

- Board determines 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 (base fee) plus fee for meetings attended ⁽¹⁵³⁾
- No shares or incentives ⁽¹⁵⁴⁾
- Approval by shareholders in advance and by special resolution at least every two years ⁽¹⁵⁵⁾

Jerry Botha