

# THE GUIDE FOR STATE OWNED COMPANIES

REMUNERATION AND INCENTIVES

FOR

EXECUTIVE DIRECTORS, PRESCRIBED OFFICERS  
AND NON-EXECUTIVE DIRECTORS



public enterprises

Department:  
Public Enterprises  
REPUBLIC OF SOUTH AFRICA

# 2018



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**2018**

# Table of contents

- 1. Foreword .....5
- 2. Purpose.....8
- 3. Application .....9
- 4. Principles.....10
- 5. State owned companies: sizing considerations.....18
- 6. Non – executive director remuneration.....20
- 7. Prescribed officers and executive directors: guaranteed remuneration .....26
- 8. Prescribed officers and executive directors: short-term incentives .....28
- 9. Prescribed officers and executive directors: long-term incentives.....30
- 10. Transitional arrangements .....32
- Annexure a: King IV: Remuneration of Directors and  
Senior Executives .....34

# Glossary of Terms

<b>Chief Executive Officer (CEO)</b>	Accounting Officer of the SOC in terms of the PFMA.
<b>Chairperson</b>	The Chairperson of the Board of a SOC as appointed by the Executive Authority, approved by Cabinet.
<b>Companies Act</b>	The companies Act no. 71 of 2008
<b>Department of Public Enterprises (DPE)</b>	The National Department of Public Enterprises of the Republic of South Africa.
<b>Executive Director (ED)</b>	Executive Director and <i>ex officio</i> to the Board as appointed by the Shareholder Representative in terms of the SOC MOI.
<b>Executive Authority</b>	A member of Cabinet who has shareholder oversight of a SOC.
<b>Executive Employees</b>	Refers to Prescribed Officers and Executive Directors of the SOC.
<b>Gatekeepers</b>	A combination of non-negotiable targets which must be met before any performance incentives can be assessed.
<b>Inter-ministerial oversight committee on remuneration (IMC)</b>	Inter-Ministerial Oversight Committee on Remuneration as established in terms of this Guide.
<b>King Codes</b>	The King Code of Governance Principles and the King Report on Governance as published by the Institute of Directors in Southern Africa (IoDSA), formally, from time to time.
<b>Long Term Incentive (LTI)</b>	Long Term Incentives are only included as part of the SOC remuneration policy on the approval of the Shareholder Minister for the delivery of excellent performance levels of long term targets.
<b>Median</b>	The midpoint of earnings or salary levels based on representative state-linked benchmarks.
<b>Memorandum of Incorporation</b>	As defined in section 1 of the Companies Act, the document as amended from time to time that sets out the rights; duties; and responsibilities of shareholders, directors and others within and in relation to a SOC.
<b>Minister</b>	The Minister of Public Enterprises.
<b>Non – Executive Director of the Board (NED)</b>	Non – Executive Director of the Board as appointed by the Shareholder Representative, in terms of the MOI.
<b>Organisational Sizing</b>	An agreed methodology to differentiate between organisations based on appropriate sizing factors.

<b>Parent Department</b>	Government department that supports the Executive Authority who has shareholder oversight of the SOC.
<b>Performance Incentives</b>	Includes short term incentives and long term incentives. This form of reward is not guaranteed, but based on achieving performance targets.
<b>PFMA</b>	Public Finance Management Act no. 1 of 1999
<b>Presidential Review Committee Report on SOCs</b>	The final Report of the Presidential Review Committee on state owned entities as announced by government in June 2013, entitled, "Growing the Economy - Bridging the Gap".
<b>Shareholder's Compact</b>	As defined in the PFMA, the Shareholder's Compact documents the mandated key performance measures and indicators to be attained by a SOC, as agreed between the Board and Executive Authority.
<b>Shareholder Minister</b>	The Executive Authority responsible for the Shareholder oversight of the SOC.
<b>Short Term Incentive (STI)</b>	Short Term Incentives are only included as part of the SOC remuneration policy on the approval of the Shareholder Minister for the delivery of excellent performance levels annually.
<b>State Owned Company (SOC)</b>	For the purpose of this document "SOC" refers to a State Owned Company as incorporated in terms of the Companies Act, 71 of 2008 and those listed in Schedule 2, 3B and 3D of the Public Finance Management Act 1 of 1999.
<b>Total Cost Guaranteed Package</b>	The total fixed cost of employment which includes base pay and other benefits such as medical aid and pension, which may be offered by the SOC.

# 1. Foreword



**Mr Pravin Gordhan, MP**  
Minister of Public Enterprises

**P**resident Cyril Ramaphosa in his February 2018 State of the Nation Address emphasised that: “Growth, development and transformation depend on a strong and capable state.

“Many of our State-Owned Enterprises are experiencing severe financial, operation and governance challenges, which has impacted on the performance of the economy and placed pressure on the fiscus.

“We will intervene decisively to stabilise and revitalise State-Owned Enterprises.

“Government will take further measures to ensure that all state owned companies fulfil their economic and developmental mandates.

“As we address challenges in specific companies, work will continue on the broad architecture of the State Owned Enterprises sector to achieve better coordination, oversight and sustainability.”

It is therefore my pleasure, as Minister of Public Enterprises, to issue the new Guide for the Remuneration and Incentive for State Owned Companies’ (SOCs’) Executive

Directors, Prescribed Officers and Non-Executive Directors (the Remuneration Guide).

Standardising the practice of remuneration and performance incentives advances Government’s goals for transparent and accountable corporate governance of SOCs, and assists SOCs to demonstrate their social consciousness and responsibility.

Inequality is our collective national challenge, and it is imperative that the Boards of SOCs operate in alignment with their Shareholder’s (that is, Government’s) policy of fiscal prudence – as well as the best interests of the people – when taking decisions on remuneration policies.

Before the publication of the new Guide, it was the responsibility of each SOC’s Board’s remuneration committee to develop remuneration policies and practices that achieve the best value for all stakeholders. This non-standardised approach led to some individuals being offered better remuneration packages than others; and did not necessarily deliver the best value for the peoples’ money.

The discussions on what form of new system to introduce were fascinating. A number of widely divergent views were expressed and considered. Proposals that were considered ranged from capping executive pay until the gap between executives and lower income earners is reasonably reduced, to simply applying public sector salary scales to all SOCs. A more widely held view was one that, while appreciating the inherent socio-economic mandate of SOCs in the developmental state, SOCs competed with the private sector for executive talent and are therefore bound to offer commensurate remuneration packages.

The Guide seeks to find the proverbial middle ground, bearing in mind the commercial and inherent developmental objectives of SOCs. Austerity checks and balances are applied by many States to contain executive salaries to reasonable levels, and improve accountability and transparency. The Guide allows the Boards and Government (as Shareholder) to collectively address payments to Directors and Prescribed Officers.

The application of the Guide will require changes in the behaviour and mind-set of SOCs. The Boards will have to pay closer attention to the remuneration policy holistically, and consider the views of the Shareholder on remuneration levels and incentives paid for good performance.

The Guide must be applied without deviation or exception and effectively replaces the Cabinet-approved 2007 DPE Remuneration Guidelines. This ensures that SOCs, in the further development of their remuneration policies, immediately adhere with the principles of the Guide.

Adherence to the Guide will be further enforced through each SOC's Memorandum of Incorporation and their annual Shareholder's Compact.

Cabinet, in April 2013, accepted the final Report of the Presidential Review Committee (PRC) on State Owned Entities. Among the Report's recommendations is the need for Government to establish a Central Remuneration Authority to independently develop and oversee the remuneration policies and practices of SOCs.

The Inter-Ministerial Oversight Committee on Remuneration is henceforth established to oversee the implementation of this Guide, and in due course the Guide will be integrated into Government's single overarching legislation subsequent to the development of Government's Shareholder Management Bill for all SOCs.

In issuing the Guide, Government calls for improved governance, greater transparency and enhanced accountability by all Boards.

My sincere appreciation goes to Cabinet, the Directors-General Technical Task Team and officials who have worked with me to refine the Guide. Special thanks go to the Inter-Ministerial Committee on SOC Reform and the Presidency in supporting this initiative. Going forward we trust that the Guide will be part of a harmonised and systematic legal framework to oversee the governance of SOCs. The critical work of implementation begins!

**Mr Pravin Gordhan, MP**

Minister of Public Enterprises



## 2. Purpose

- 2.1 These principles have been compiled to assist SOC Boards and its Remuneration Committees in the determination and negotiation of all related remuneration for EDs, POs and NEDs.
- 2.2 The Board and Remuneration Committees of SOCs are expected to apply the Guide to EDs, POs and NEDs in formulating related remuneration and incentive policies.



Equality



Justice

## 3. Application

This Guide is applicable and considered binding to<sup>1</sup>:

- 3.1 SOCs;
- 3.2 PFMA Schedule 2 entities;
- 3.3 PFMA Schedule 3B entities and;
- 3.4 PFMA Schedule 3D entities.

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<sup>1</sup> PFMA scheduled entities that have a commercial mandate and subject to Labour Relations Act.

# 4. Principles

## 4.1 General

- 4.1.1 The Minister will issue a directive for a maximum annual increase, for the relevant financial year to be applied to SOC EDs, POs and NEDs.
- 4.1.2 It is the responsibility of the Board of Directors (Accounting Authority in terms of the PFMA), to ensure financial affordability of a SOC. Where revenue/income does not cover the directive, the Board, after approval of the relevant Shareholder Minister, is to determine the increase or remuneration level to be awarded at a lower percentage to the Minister's directive.
- 4.1.3 The directive may be issued by 31 May each year.
- 4.1.3.1 The amounts should be calculated as at a point in time which for the purposes of the Guide is April each year. It is expected that the annual rate of increase will be guided by the Consumer Price Index (CPI) percentage released by STATSA for April each year.
- 4.1.4 The annual increase will not exceed the increase negotiated with organised labour for employees not covered by the Guide.
- 4.1.5 Compliance to the principles contained in the Guide will be provided for in the SOC's Memorandum of Incorporation (MOI) and Shareholder's Compact<sup>2</sup>.
- 4.1.6 Each SOC shall provide the following policies and documents to the relevant Executive Authority for approval, prior to its implementation:



- 4.1.6.1 Remuneration strategy and philosophy;
- 4.1.6.2 Guaranteed Remuneration policy;
- 4.1.6.3 Short – Term Incentive policy and rules;
- 4.1.6.4 Long – Term Incentive policy and rules (if applicable);
- 4.1.6.5 Corporate scorecards which translate the Shareholder's Compact into measureable targets;
- 4.1.6.6 Individual executive scorecards which are derived from the corporate scorecard; and
- 4.1.6.7 An executive grading system.

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Compact or equivalent governance tool that sets out the annual performance targets of the SOC.

- 4.1.7 Payments of a variable nature (including, but not limited to: sign-on bonuses, exit payments, or other ad hoc payments) that are not defined and regulated in STIs and LTIs approved by the Shareholder Minister shall not be made to EDs, POs and NEDs of SOC's.
- 4.1.8 Boards and remuneration committees should design remuneration and incentive policies so as to align the provisions of such policies to:



- 4.1.8.1 drive individual and organisation performance;
- 4.1.8.2 promote value to the SOC and its stakeholders;
- 4.1.8.3 ensure applicability of individual and organisation Shareholder's Compacts and scorecards;
- 4.1.8.4 align to the SOC's mandate, vision and strategy;
- 4.1.8.5 ensure the financial sustainability of the SOC; and
- 4.1.8.6 ensure adequate risk management within the SOC.

- 4.1.9 Remuneration and incentive policies and practices developed by the Board and Remuneration Committees should be concise, void of complexity and easily understandable.

## 4.2 Creating the State-Linked Market

- 4.2.1 The Minister will determine the methodology for determining the State-Linked Market survey.
  - 4.2.1.1 It is not considered necessary or cost effective to run a full survey every year. If the market has been unstable, surveys may be run more frequently, but under normal market circumstances, it is policy to conduct a survey of CEO roles in the State-Linked Market every three years, and use annual market movement (increase percentages) and the comparison to the general market (both private and public sector) to keep the survey updates in between the three year formal survey years.

- 4.2.2 This practice is tried and tested, and provides a high level of accuracy, and the cost benefit as a result of not conducting a full survey each year is obvious. Should there ever be a particular concern though, the Minister has the right to commission a survey outside the usual cycle.
- 4.2.3 Every third year, when the survey is conducted, it is a requirement that an adequate number of companies must be in the survey to ensure broad representability of the results.
- 4.2.4 To ensure that data remains confidential and is interpreted uniformly, it is best practice that the selected remuneration specialist will conduct the survey.

### 4.3 Reporting on Remuneration

- 4.3.1 Each SOC's Annual Report shall include detailed information on:



- 4.3.1.1 The SOC's remuneration philosophy and strategy;
- 4.3.1.2 Individual and organisation's shareholder compacts and scorecards against which incentives were paid and the level of achievement against the targets set by the performance scorecards;
- 4.3.1.3 Individual and organisation's performance scorecards for the following financial year;
- 4.3.1.4 Remuneration paid to EDs and POs. Such information shall include details on a year on year comparison, per individual, of total cost guaranteed package and percentage movements on the year on year remuneration paid; and
- 4.3.1.5 NED fees paid.

- 4.3.2 SOC's are required to report anticipated incentive pay-outs to the Shareholder Minister prior to any such payments being made.
- 4.3.3 The Minister will issue an increase mandate to be applied to EDs, POs and NEDs, in line with paragraph 4.1.1 above.

## 4.4 Inter-Ministerial Oversight Committee (IMC) on the Remuneration

- 4.4.1 The Minister will establish a consultative Remuneration Oversight Committee comprising of the Minister of Public Enterprises and the Minister of Finance as permanent members with the relevant Minister of the Parent Department being invited as and when necessary, to make recommendations regarding the remuneration of EDs, POs and NEDs of SOCs.
- 4.4.2 The Inter-Ministerial Oversight Committee on Remuneration is a sub-committee of the IMC on SOC Reform.
- 4.4.3 The Minister will approve the Terms of Reference TORs at the first meeting of the Committee.
- 4.4.4 The Inter-Ministerial Committee will be supported by the Technical Task Team comprising of the DPE, National Treasury and Public Service and Administration.
- 4.4.5 The functions of the Committee will include, but is not limited to, the following:



- 4.4.5.1 Roll-out and implementation, training and awareness to enable transition and change management for adaption to the Remuneration Guide;
- 4.4.5.2 The Committee will recommend an annual remuneration increase to the Minister to be applied to EDs, POs and NEDs of the SOC. The recommendation will consider, *inter alia*, application of the state linked benchmark, inflation and wage settlements with respective SOC bargaining units. The Committee will consider issues such as guarantee conditions in making recommendations regarding the payment of incentives to EDs and POs at each SOC;
- 4.4.5.3 Ad hoc submissions must be submitted by Parent Departments no later than the 31st of May each year. The submission should include anticipated Short – Term Incentive payments, proposed Long – Term Incentive allocations and proposed vesting of Long – Term Incentives. Each submission should include the following supporting documentation:

4.4.5.3.1 Strategic Intent Statement (where relevant);

4.4.5.3.2 Shareholder's Compact;

4.4.5.3.3 Corporate Plan;

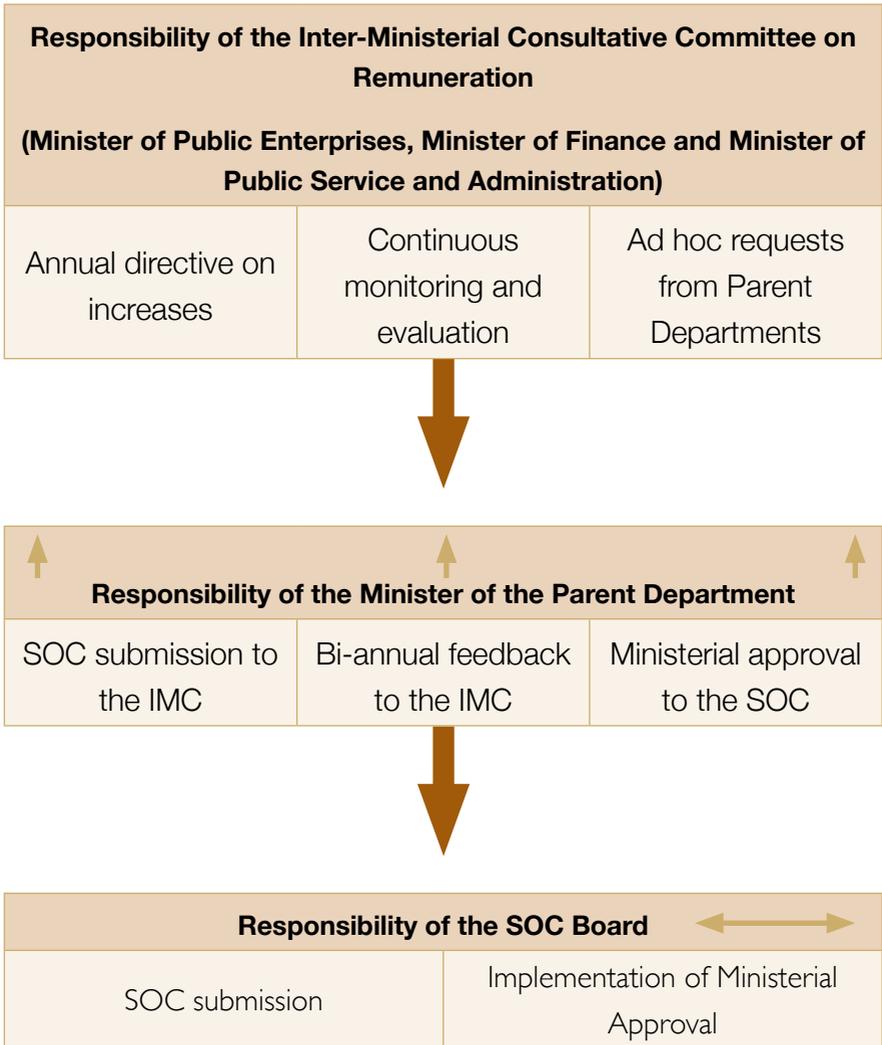
4.4.5.3.4 Remuneration and Incentive Policies; and

4.4.5.3.5 Corporate, divisional and individual scorecards.



REWARD

4.4.6 Governance structure for the remuneration oversight committee:



## 4.5 Responsibility of the Board and Remuneration Committee

- 4.5.1 Boards of SOCs are nominated by the Shareholder Minister and appointed after obtaining Cabinet approval. Boards and Remuneration Committees have a fiduciary duty to act in the best interests of the company.
- 4.5.2 Consideration should be given to the interest of Government as the Shareholder when determining ED's, POs and NEDs' remuneration.
- 4.5.3 The Boards of SOCs, particularly the NEDs serving on the Remuneration Committee, should oversee EDs and POs' remuneration.
- 4.5.4 The SOCs' Remuneration Committee is accountable to the Board for the structure and quantum of Executive Remuneration. As such the Remuneration Committee should adhere to the following principles:



- 4.5.4.1 Implement the Guide for the Remuneration and Incentives set by Government;
- 4.5.4.2 Ensure that EDs, POs and NEDs are remunerated fairly, responsibly and transparently to ensure sustainability of the SOC;
- 4.5.4.3 Ensure that remuneration and incentive policies and strategies are aligned to Shareholder's Compacts as well as organisational and individual performance; and
- 4.5.4.4 Disclose prescribed details of remuneration and incentives, policies and payments in the SOCs' Annual Report.

- 4.5.5 Adopt principles of the King IV Code on the Remuneration of Directors and Senior Executives.



# 5. State Owned Companies: Sizing Considerations

## 5.1 Sizing criteria

5.1.1 Board and Remuneration Committees shall apply the following quantitative criteria to size SOC's in formulating remuneration and incentive policies and schemes:



- 5.1.1.1 Total employee headcount;
- 5.1.1.2 Total employment costs;
- 5.1.1.3 Total assets; and
- 5.1.1.4 Total turnover.

5.1.2 Criteria listed in 5.1.1.1 to 5.1.1.4 will receive an equal weighting. In terms of these items a maximum weighting score of 120 can be achieved.

5.1.3 SOC's will be categorised in 12 (twelve) potential size categories. The sizing categories are allocated from A to L as follows:



- 5.1.3.1 **A** being the smallest category of SOC; and
- 5.1.3.2 **L** being the largest category of SOC.

5.1.4 The DPE will allocate each SOC to their respective size category and communicate the results to the Board of the SOC in question.

5.1.5 The sizing category allocated to a respective SOC will be used by the board and remuneration committees as standards to determine guaranteed remuneration, for EDs, POs and fees for NEDs.

5.1.6 In addition to the 12 (twelve) size categories from A - L, SOC's will further be categorised into four sub – categories, namely: small, medium, large and very large.

5.1.7 The sub – categories will be used by the Board and Remuneration Committees as standards to determine STI and LTI levels for EDs, POs and NEDs.

5.1.8 The DPE will undertake the development of a correlation to ensure that the 12 (twelve) categories and 4 (four) sub - categories correlate to major executive remuneration surveys conducted in South Africa.

The sizing table of SOCs can be summarised as represented in the table below:

<b>No</b>	<b>Size Category</b>	<b>Category</b>	<b>Score Range</b>
1	A	Small (A)	1 – 10
2	B		11 – 20
3	C		21 – 30
4	D	Medium (B)	31 – 40
5	E		41 – 50
6	F		51 – 60
7	G	Large (C)	61 – 70
8	H		71 – 80
9	I		81 – 90
10	J	Very Large (D)	91 – 100
11	K		101 – 119
12	L		120

# 6. Non – Executive Director Remuneration

## 6.1 Principles

- 6.1.1 The Chairperson of a SOC's main Board of Directors may not act as a chairperson of any of the respective SOC's subsidiary Board of Directors.
- 6.1.2 No fees or remuneration will be payable to EDs and POs of a SOC who are appointed as NEDs to the same SOC's subsidiary Boards. However, SOC Board members who sit on their appointed SOC's subsidiary Boards as NEDs as well will be entitled to the applicable meeting fee. NEDs will not be entitled to any retainer fee.



**Meeting fee – hourly rate to a maximum of the daily rate**

## 6.2 Meeting Fee

- 6.2.1 An hourly rate is payable to a maximum of the daily rate in any 24-hour day for time spent on meetings only of the entity/institution and its committees/sub-committees. The aggregate limitation is applicable in respect of all meetings (Board and committees) attended on the same day.
- 6.2.2 The level of remuneration within the relevant category should have due regard for the variety of functions performed by members of Boards. By default, all members will be remunerated on the lower quartile within each category. Where exceptional factors, based on skill level or scarcity of skill, exist, the Department may recommend to the Executive Authority to apply his/her discretion in determining a higher remuneration level, subject to justification and supported advisory concurrence of the Inter-Ministerial Oversight Committee (IMC). The upper quartile will form the maximum remuneration payable to any Board member.
- 6.2.3 Where a Member of the Board or a Board Committee is designated as Chairperson of a Board/Board Committee, that Member will be entitled to be remunerated at the meeting fee applicable to the Chairperson of that Board/Board Committee. However, such Chairperson of a Committee will not be entitled to the Board fee applicable to the Chairperson of the said Board/Board Committee. This arrangement precludes cases where specific fees are prescribed/published elsewhere<sup>3</sup>.

3 For example fees prescribed in Treasury Regulations 3 and 20..

## 6.3 Board Fee

- 6.3.1 A *board fee* is payable over and above the meeting fee and any other out-of-pocket expenses, subject to the criteria detailed below.
- 6.3.2 The *board fee* will compensate the Board Members for time spent on preparation for meetings, research and other official activities of the SOC/institution as requested by the Chairperson, travelling to and from the meeting venue and/or unavoidable staying over.
- 6.3.3 Where a Member serves only on the Board or a single Committee of the Board, a maximum *board fee* of 5 (*five*) per cent of the relevant annual remuneration becomes payable to that Member. Should he/she serve on more than one committee of the Board, a maximum *board fee* of 8 (*eight*) per cent of the relevant annual remuneration becomes payable to compensate the Member as indicated in paragraph 6.3.2.
- 6.3.4 An annual *board<sup>4</sup> fee* is based on the outcome of the Scorecard process<sup>5</sup> and:
- 6.3.4.1 Becomes payable once a Member has attended 50 (fifty) percent of the meetings of the Board. No board fee is payable if less meetings are attended.
- 6.3.4.2 Is payable to a maximum of 75 (seventy five) percent once a Member has attended 50 (*fifty*) percent of the predetermined<sup>6</sup> meetings. The balance of the board fee is payable after all meetings have been held provided such Member attended the remaining meetings.
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**Board fee to compensate for preparation, research and travelling time**
- 6.3.5 *Pro rata board fee*
- 6.3.5.1 A *pro rata board fee* can be paid if the Board's term overlaps with the SOC's financial year.
- 6.3.5.2 A *pro rata board fee* can be paid where a Member dies while serving in office. Should a new Member be appointed to complete the term of the deceased Member, a *pro rata board fee* can be paid.

4 Board fee rates are contained in Annexure C.

5 Forming part of the recommendation of the Committee's evaluation.

6 The Board must, at the beginning of each financial year and where it is not prescribed otherwise, determine the number of meetings to be held during such year to conclude its functions, duties and responsibilities.

- 6.3.5.1. Should a Member resign prior to the *board fee* becoming payable, no *board fee* is payable.
- 6.3.6 For purposes of determining the sizing of a subsidiary of a SOC, the following principles will apply:
  - 6.3.6.1 Subsidiaries of a SOC will be sized using the same methodology and sizing criteria applied to SOCs.
- 6.3.7 Board fees paid to NEDs may not escalate at an annual rate greater than the percentage increase negotiated with the SOCs bargaining unit.
- 6.3.8 The Board and Remuneration Committees of SOCs should recalibrate board fees for NEDs every second year to ensure their relevance.
- 6.3.9 The annual meeting calendar will be formally submitted to the Shareholder Minister by the end of November each year. This will allow for accurate budget setting for the forthcoming year.
- 6.3.10 The Chairperson of the Board must notify the Minister, in writing, when any Non-Executive Director absents himself/herself from two or more consecutive meetings, with or without leave of directors.



## 6.4 Setting Non-Executive Directors' fees

6.4.1 The meeting fees paid to NEDs appointed to SOC Boards will be deemed sufficient to cover incidental expenses incurred in the course of fulfilling their duties for and on behalf of SOCs. The following incidental expenses are contemplated, but do not constitute a complete list of potential incidental expenses that may be incurred:

6.4.1.1 Telephone calls;

6.4.1.2 Internet bandwidth; and

6.4.1.3 Printing.

6.4.2 Out-of-pocket flight expenses incurred by NEDs in the course of fulfilling their duties for or on behalf of a SOC, will be incurred on the rates and levels as described hereunder. Out of pocket expenses incurred in terms of the rates stipulated in the Guide and policies of the SOC will be reimbursed by the SOC. The following expenses are contemplated, but do not constitute a complete list of potential out of pocket expenses that may be incurred<sup>7</sup>:

6.4.2.1 Flights

6.4.2.1.1 Out of pocket flight expenses will be reimbursed at business class rates.

6.4.2.2 Car hire

6.4.2.2.1 Will be limited to Group F vehicle hire.

6.4.2.3 Accommodation

6.4.2.3.1 Will be limited to 4 (four) star accommodation.

6.4.2.4 Travel by private vehicle

6.4.2.4.1 Will be reimbursed at a rate of R 3.50 per kilometre travelled for SOC purposes. This rate will be reviewed annually to ensure its relevance.

6.4.3 Only international non-South African resident NEDs who are required to travel to meetings for the SOC they serve, will be remunerated on an hourly basis. The hourly rates paid to such NEDs will be based on a reasonable rate appropriate to the size of the respective SOC.

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Refer to National Treasury Instruction Note issued from time to time.

6.4.4 The following principles will apply in setting NED Fees:

6.4.4.1 The quanta paid to NED

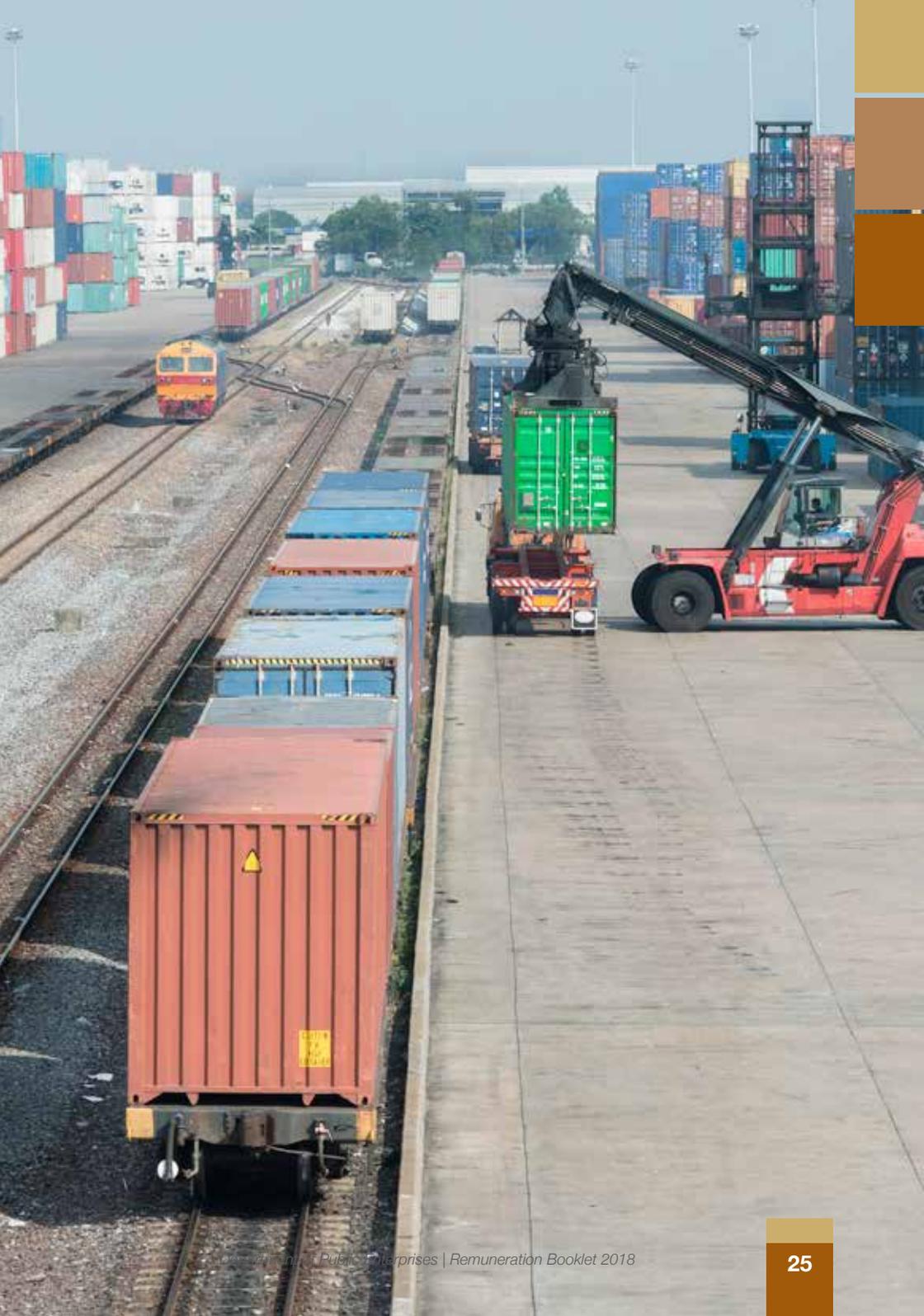
6.4.4.2 Fees will be derived from the benchmark median guaranteed package for a CFO at the size equivalent to the SOC size the respective NED serves.

6.4.4.3 Should the total number of Board and Committee meetings be exceeded by a factor of 20% specified in the approved annual corporate calendar, permission must be sought from the Minister for the payment of the meeting fees. In other words, if 8 meetings are planned for the year, approval must be sought for payment of meeting fees above an additional 2 meetings.

## 6.5 Setting Non Executive fees: example

The table below provides an example of calculations for NED fees:

<b>Board Fees</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>
Chair Board Fee	255 300	306 800	461 000	681 500
Deputy Chair Board Fee	183 800	220 900	332 000	490 700
Board Member Fee	102 100	122 700	184 400	272 600
Board Meeting Fee	11 000	13 300	19 900	29 400
Committee Meeting Fee	19 800	23 900	35 700	52 800
Chair of Committee Meeting Fee	13 200	15 900	23 800	35 200



# 7. Prescribed Officer and Executive Director: Guaranteed Remuneration

## 7.1 Principles

- 7.1.1 The Remuneration paid to EDs and POs may not exceed the market median of the prescribed benchmark, unless prior permission is sought and obtained from the Shareholder Minister.
- 7.1.2 Guaranteed Remuneration will be paid to EDs and POs on the basis of a Total Cost to Company approach. In determining the total cost guaranteed package, in line with the PFMA, the following principles should be applied:



- 7.1.2.1 No open ended benefits such as medical aid subsidies based on the number of dependants, should be included in the total cost guaranteed package.
- 7.1.2.2 Additional benefits the EDs and POs are entitled to, where a personal benefit is derived, such as home security, drivers, fuel cards etc. should be valued and included in the total cost guaranteed package.
- 7.1.2.3 Benefits such as flights and low interest loans should be valued separately and added in addition to the total cost guaranteed package for benchmarking purposes.

- 7.1.3 The overall annual increase percentages applied to ED or PO guaranteed remuneration packages may not exceed the annual increase percentage negotiated with Bargaining Unit employees.
- 7.1.4 Annual increases applied to EDs and POs should be entirely based on individual and respective SOC performance.
- 7.1.5 Individual and SOC performance below any agreed threshold should negate any annual increase to an ED of PO of a SOC.

## 7.2 Setting remuneration levels for executive directors and prescribed officers

7.2.1 The following principles will apply when setting total cost guaranteed package levels for EDs and POs:



- 7.2.1.1 Each SOC will be categorised and allocated to its applicable size category, from A – L;
- 7.2.1.2 During the implementation phase, the SOC will be required to motivate for the appropriate executive survey(s) that best suits its individual requirements for benchmarking purposes;
- 7.2.1.3 Each SOC will have an executive grading system in place to establish internal relativities amongst EDs and POs in terms of job sizing and complexity;
- 7.2.1.4 The total cost guaranteed package for the CEO and CFO may not exceed the market median applicable to their respective category of employment. The total cost guaranteed package must be determined with reference to the principles provided in paragraph 7.1.2;
- 7.2.1.5 Total cost guaranteed remuneration for the balance of EDs and POs will be determined based on the relative size of the position in comparison to the CEO's and CFO's positions in the respective SOCs. The total cost guaranteed package for these employees may not exceed the state linked market median applicable to their respective category of employment; and
- 7.2.1.6 In the case of subsidiaries of SOCs the survey information applicable to subsidiaries will apply in setting remuneration levels for EDs and POs.

## 8. Prescribed Officer and Executive Director: Short-Term Incentives

### 8.1 Principles

8.1.1 The remuneration payment of STIs to EDs and POs of SOC's will be subject to performance being met against corporate and individual scorecards. It is important that the corporate scorecard include all quantifiable metrics appropriately weighted and aligned to the Shareholder's Compact.

8.1.2 The following performance weightings are suggested for EDs and POs:



8.1.2.1 CEO: 60% Corporate 40% Individual;

8.1.2.2 CFO: 50% Corporate 50% Individual; and

8.1.2.3 Other - EDs and POs: 40% Corporate 60% Individual.

8.1.3 A set of gatekeepers must be incorporated into the Shareholder's Compact as agreed between the Shareholder Minister and each SOC Board. Should these gatekeepers not be achieved by the SOC, it will negate the payment of any incentives to EDs and POs of the SOC.

8.1.3.1 Failure to meet any loan or guarantee conditions will negate the payment of any STIs in a particular year;

8.1.3.2 Failure to meet a primary KPI or set of KPIs of the Compact;

8.1.3.3 A qualified or adverse audit opinion, such as a disclaimer;

8.1.3.4 Failure to achieve 80% of the total sum of all KPIs; and/or

8.1.3.5 Failure to achieve 80% of the total sum of socio-economic targets.

8.1.4 Corporate and individual scorecards used to determine EDs and POs' corporate performance and against which STIs are calculated shall be published in the SOC's Annual Reports. The Board and Remuneration Committee shall apply the following principles to such reporting:

8.1.4.1 Scorecards used, should outline targets and actual performance against the targets set. Final ratings should be expressed as ratings out of 5 (five).

8.1.5 If it is determined that STIs have been awarded to EDs and POs on false or misrepresented pretenses, the Shareholder Minister has the right to direct the respective SOC's Board to claw back any STI payments made under such circumstances, from the individual EDs or POs.

## 8.2 Setting Short - Term incentive levels

8.2.1 The Board and Remuneration Committee should apply the following principles when setting STI levels for the CEO, EDs and POs of a respective SOC:



- 8.2.1.1 Each SOC will determine an appropriate methodology to calculate the incentive pool based on financial performance;
- 8.2.1.2 Incentives must be expressed as a percentage of the employee's total cost guaranteed package;
- 8.2.1.3 A weighted rating of 3 (three) against corporate and individual scorecards will result in the payment of the on – target Incentive; and
- 8.2.1.4 A weighted rating of 5 (five) against corporate and individual scorecards will result on the payment of the maximum incentive.

The table below provides a summary of the principles to determine short – term incentives for the CEO:

<b>SOC Size</b>	<b>On - target Incentive</b>	<b>Maximum Incentive</b>
Very Large	40%	50%
Large	35%	40%
Medium	30%	30%
Small	25%	25%

The table below provides a summary of the principles to determine short – term incentives for EDs and POs:

<b>SOC Size</b>	<b>On - target Incentive</b>	<b>Maximum Incentive</b>
Very Large	35%	45%
Large	30%	35%
Medium	25%	30%
Small	20%	20%

## 9. Executive Officers and Executive Directors: Long - Term Incentives

### 9.1 Principles

- 9.1.1 The Board and remuneration committees of SOCs must ensure that the principle of “performance” orientation should take precedence and dominate in both the architecture of the LTI scheme and its implementation.
- 9.1.2 Board and remuneration committees should design full value LTI schemes rather than leveraged appreciation schemes.
- 9.1.3 The LTI cash settled scheme and no equity offers will be made to participants.
- 9.1.4 LTI scheme design should make provision for:



- 9.1.4.1 A set of gatekeepers and/or modifiers must be stated explicitly in the remuneration policy of the SOC;
- 9.1.4.2 Failure to meet any loan or guarantee conditions will negate new LTI allocations in a particular year, but will not affect the vesting of any units in that particular year; and
- 9.1.4.3 The Board should monitor the implementation of strategic long term targets annually and make statements on its determination.

- 9.1.5 Annual incentive offers, which will start to vest from year three (3). Payment will be made in the following year (i.e. offers that vest in year 3 will be paid in year 4). Annual incentive offers should escalate at CPI or the applicable investment return, should the SOC decide to invest the funds;
- 9.1.5.1 Individual performance against scorecards, rather than the ED’s or PO’s mere status or level of employment, should determine the level of the LTI offer;
- 9.1.5.2 There should be no automatic “entitlement” to an LTI offer, resulting simply from being appointed to an ED’s or PO’s position of the SOC;
- 9.1.5.3 Organisational performance based on long term planning in terms of the SOC strategic intent or mandate and the annual Shareholder’s Compact should determine the level and extent of vesting. Continued employment should not be considered as a performance metric.

9.1.6 Other than with prior Shareholder approval:



9.1.6.1 The completion of a 5 year fixed term contract, subject to annual performance review, should not accelerate vesting of any LTI; and

9.1.6.2 The Board and Remuneration Committee should not be entitled to re-testing of performance criteria.

9.1.7 Although the scorecard for LTIs will be similarly derived from the Shareholder's Compact, it should not replicate the scorecard designed for STIs. The LTI scorecard should focus on the long term strategic success rather than short term (annual) operational success of the respective SOC. Accordingly, although financial performance may have a significant weighting in the scorecard, prominence should also be given to those elements that address long-term sustainability of the SOC.

## 9.2 Setting long - term target reward levels

9.2.1 The guiding principles in setting LTI reward levels should be:



9.2.1.1 Pay for performance (STI plus LTI) at least equivalent to guaranteed (fixed) pay, of the respective PO or ED; and

9.2.1.2 Within variable pay for performance, there should be a stronger orientation towards the long-term incentives, for the most senior levels of executive employment.

9.2.2 Implementation policy should employ the concept of target reward - defined as the constant money value (expressed as percentage of total cost guaranteed package at the time of offer) of the targeted future accrual that will result from the incentive offer.

9.2.3 The following table depicts the recommended LTI Target Reward in the context of the previously recommended STI percentages than with prior Shareholder approval:

<b>SOC Size</b>	<b>LTI Target Reward for CEO</b>	<b>LTI Target Reward for EDs and POs</b>
Very Large	50%	30%
Large	40%	20%
Medium	30%	20%
Small	20%	20%

## 10. Transitional arrangements

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



# ANNEXURE A: KING IV PRINCIPLES: REMUNERATION OF DIRECTORS AND SENIOR EXECUTIVES

**Principle 14:** The Governing Body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.

## Recommended Practices

### *Remuneration Policy*

26. The Governing Body should assume responsibility for the governance of remuneration by setting the direction for how remuneration should be approached and addressed on an organisation-wide basis.
27. The governing body should approve policy that articulates and gives effect to its direction on fair, responsible and transparent remuneration.
28. The remuneration policy should be designed to achieve the following objectives:



- a. To attract, motivate, reward and retain human capital.
- b. To promote the achievement of strategic objectives within the organisation's risk appetite.
- c. To promote positive outcomes.
- d. To promote an ethical culture and responsible corporate citizenship.

29. The remuneration policy should address organisation-wide remuneration and include provision for the following, specifically:



- a. Arrangement towards ensuring that the remuneration of executive management is fair and responsible in the context of overall employee remuneration in the organisation.
- b. The use of the performance measures that support positive outcomes across the economic, social and environmental context in which the organisation operates; and/or all the capitals that the organisation uses or affects.
- c. If the organisation is a company, the voting by the shareholders on the remuneration policy and implementation report, and for the implementation of related responding measures as outlined under Voting on the Remuneration below.

30. All elements of remuneration that are offered in the organisation and the mix of these should be set out in the remuneration policy, including:



- a. base salary, including financial and non-financial benefits;
- b. variable remuneration, including short and long term incentives and deferrals;
- c. payments on termination of employment or office;
- d. sign-on, retention and restraint payments;
- e. the provisions, if any, for pre-vesting forfeiture (malus) and post-vesting for forfeiture (claw-back) of remuneration;
- f. any commissions and allowances; and
- g. the fees of non-executive members of the governing body.

31. The governing body should oversee that the implementation and execution of the remuneration policy achieves the objectives of the policy.

### ***Remuneration Report***

32. The governing body should ensure that remuneration is disclosed by means of a remuneration report in three parts:



- a. A background statement.
- b. An overview of the main provisions of the remuneration policy.
- c. An implementation report which contains details of all remuneration awarded to individual members of the governing body and executive management during the reporting period.

### ***Background Statement***

33. The background statement should briefly provide context for remuneration considerations and decisions, with reference to:



- a. internal and external factors that influenced remuneration;
- b. the most recent results of voting on the remuneration policy and the implementation report and the measures taken in response thereto;
- c. key areas of focus and key decisions taken by the remuneration committee during the reporting period, including any substantial changes to the remuneration policy;
- d. whether remuneration consultants have been used, and whether the remuneration committee is satisfied that they were independent and objective;
- e. the views of the remuneration committee on whether the remuneration policy achieved its stated objectives; and
- f. future areas of focus.

## Overview of Remuneration Policy

34. The overview of the main provisions of the remuneration policy should address the objectives of the policy and the manner in which the policy seeks to accomplish these. The overview should include the following:



- a. The remuneration elements and design principles informing the remuneration arrangements for executive management and, at a high level, for other employees.
- b. Details of any obligations in executive employment contracts which could give rise to payments on termination of employment or office.
- c. A description of the framework and performance measures used to assess the achievement of strategic objectives and positive outcomes, including the relative weighting of each performance measure and the period of time over which it is measured.
- d. An illustration of the potential consequences on the total remuneration for executive management, on a single, total figure basis, of applying the remuneration policy under the minimum, on-target and maximum performance outcomes.
- e. An explanation of how the policy addresses fair and responsible remuneration for executive management in the context of overall employee remuneration.
- f. The use and justification of remuneration benchmarks.
- g. The basis for the setting of fees for non-executive directors.
- h. A reference to an electronic link to the full remuneration policy for public access.

## Implementation Report

35. The implementation report, which includes the remuneration disclosure in terms of the Companies Act, should reflect the following:



- a. The remuneration of each member of executive management, which should include in separate tables:
  - i. a single, total figure of remuneration, received and receivable for the reporting period, and all the remuneration elements that it comprises, each disclosed at fair value;
  - ii. the cash value of all awards made under variable remuneration incentive schemes in the current and prior years that have not yet vested, including the number of awards; the value at the end of the reporting period; and
  - iii. the cash value of all awards made under variable remuneration incentive schemes that were settled during the reporting period.
- b. An account of the performance measures used and the relative of ( weighting of each), as a result of which awards under variable remuneration incentive schemes have been made, including: the targets set for the performance measures and the corresponding value of the award opportunity; and for each performance measure, how the organisation and executive managers, individually, performed against the set targets.
- c. Separate disclosure of, and reasons for, any payment made on termination of employment or office.
- d. A statement regarding compliance with, and any deviations from the SOC remuneration policy (bearing in mind that there will be no deviation without approval from the principles contained in this Guide).

## *Voting on Remuneration (only applicable to companies)*

36. In terms of the Companies Act, fees for non-executive directors for their services as directors must be submitted for approval by special resolution by the Shareholder within the two years preceding payment.
37. The remuneration policy and the implementation report should be tabled every year for non-binding advisory votes by shareholders at the AGM.
38. The remuneration policy should record the measures that the board commits to take in the event that either the remuneration policy or the implementation report, or both have been voted against by 25% or more of the voting rights exercised. Such measures should provide for taking steps in good faith and with the best reasonable effort towards the following at a minimum:



- a. An engagement process to ascertain the reasons for the dissenting votes.
- b. Appropriately addressing legitimate and reasonable objections and concerns raised, which may include amending the remuneration policy, or clarifying or adjusting remuneration governance and/or processes.

39. In the event that either the remuneration policy or the implementation report, or both were voted against by 25% or more of the voting rights exercised, the following should be disclosed in the background statement of the remuneration report succeeding the voting:



- a. with whom the company engaged, and the manner and form of engagement to ascertain the reasons for dissenting votes; and
- b. the nature of steps taken to address legitimate and reasonable objections and concerns.





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