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Shareholder Alignment, Company Performance and Executive Pay

Deloitte Executive Compensation Report

October 2018

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Preface

Welcome to our second executive compensation report. This report summarises seven years' worth of executive remuneration disclosure, and company performance data of the JSE Top 100 companies, and now also the Second Tier 150 ("ST 150") companies.

With the full implementation of King IV™ taking place, there is an increasing debate on the design and implementation, the documentation, communication and disclosure of executive pay. Deloitte is of the view that the debate between stakeholders in South Africa requires an authoritative and balanced overview of the recent past years in order to inform this debate, both now and into the future.

There is a need to establish guidelines and a road map in the future for all stakeholders in the executive remuneration debate, whether they be:

- the company executives and the managers, with both internal and external consultants that take instruction from them, or
- the Boards with Remuneration Committees, advised as they mostly are by external and independent consultants, who will have to increasingly take ownership of and direct remuneration policy, or
- the institutional shareholders, who will be, more so than ever, in the role of overseeing and influencing both policy and practice, from their own perspective but increasingly now from a societal perspective, or
- the media and other commentators who play the very necessary role of exposing the good, the bad and the ugly of executive pay, and will be ensuring that the spotlight never dims.

The intention of this report is to identify and comment on the major issues that all parties to the debate will face in the future years. The outcome of this review focuses in the main on the disclosure and governance linkages of executive remuneration. We provide a review of current practice in the JSE listed companies, and attempt to establish the broad linkages between the growth in shareholder value creation and company performance, both of them in relation to the growth in executive pay over a seven-year period.

As with last year, our analysis has yielded a mixed bag of results across different sectors. Suffice to say that, when considering the general trend rather than the more visible and often disturbing incidences of seeming abuse, there is some alignment of executive pay and shareholder value creation, although the alignment with company performance, particularly in the downturn of recent years, is not so discernible.

Executive pay continues to attract intense media scrutiny both locally and abroad. Much of the focus this year in the debate has been on the growing inequality between those at the top of the organisation and the general workforce.

Our analysis uncovered some key trends that, in our view, definitely provide vitriol to the debate, and are as yet not well addressed or defended in the disclosure in many Remuneration Reports.

King IV™ will engender increased levels of dialogue between companies and their shareholders. This in turn should have a positive impact overall both on the structure of remuneration policies and quality of disclosure in implementation policies. Remuneration Committees will have to continue to focus both on the target setting process to ensure targets are appropriately stretching and on the disclosure of these targets in relation to the payouts.

The derivation of simpler, more shareholder aligned and yet more societally oriented structures will be the challenge for the future with, perhaps, the establishment of minimum shareholding as one design goal for the future.

Deloitte recommends that the Single Figure metric, required to be reported on by King IV™, could have a broader role in establishing a Standard against which companies can position themselves, and be compared with each other, but still allow individual companies to have flexibility in pay mix strategy.

In short, we expect to see increased scrutiny from shareholders around the effective implementation of King IV™ and its principles during the 2018 and early 2019 AGM cycles. We also expect to see greater vigilance around malus and clawback arrangements, which although generally supported as being necessary, are difficult to design, document and practice.

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1. Introduction

The last few years have continued to present a difficult strategic and operating environment for companies, although there are the first emerging signs of economic and financial rejuvenation.

Executive pay, like many other business aspects, has challenged companies, particularly in their pursuit of:

- Balancing executive performance and reward
- Effective design and implementation of pay delivery mechanisms
- The demands placed on companies to conform to the principles and guidelines emanating from the recent full implementation of King IV™.

The disparity in levels of top executive pay in relation to those of the lower paid workers is a societal concern worldwide. This is particularly the case in South Africa, with its additional transformational needs and high levels of unemployment, which contribute to a powder keg of potential dissent and disharmony.

However, this report confines itself to a qualitative and quantitative review of the nature and disclosure of executive compensation, without commenting on its relevance or impact on societal considerations.

This report provides a detailed analysis of the relationship between top executive pay and company performance and shareholder value in JSE listed companies, and a review of the increasing company disclosure on remuneration policy and implementation.

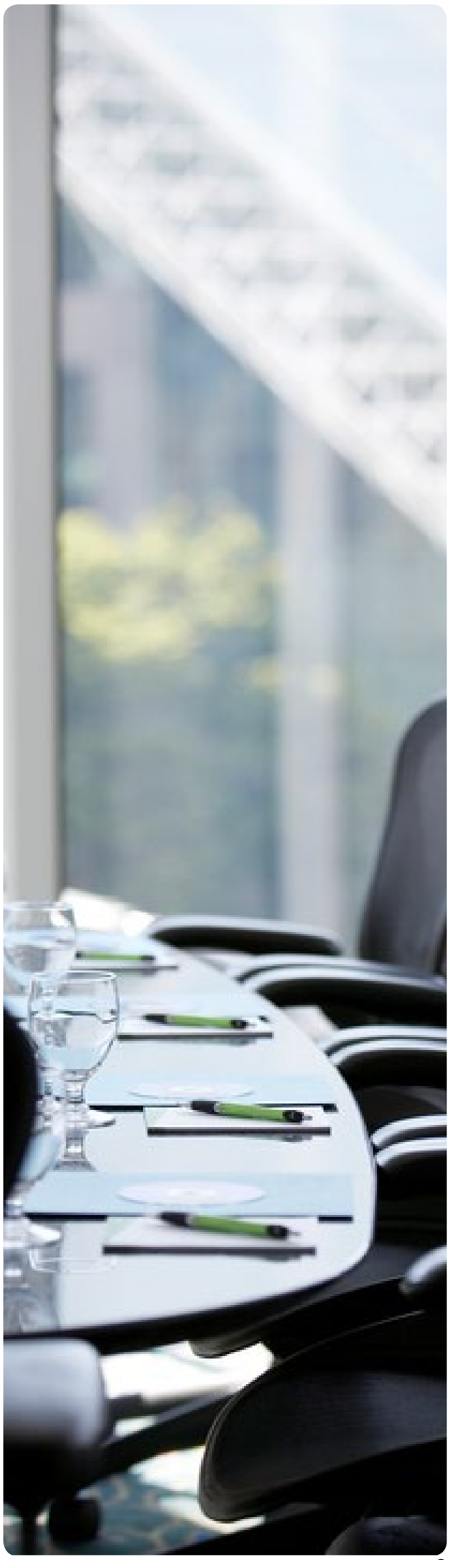
It updates the findings of the previous report for the Top 100 JSE listed companies, but now also provides an analysis of the 150 or so second tier listed companies.

The following issues and constructs have been addressed:

- An analysis of pay and particularly performance variable pay in the context of company performance and shareholder value over the last seven years
- An overview of the current situation and emerging key trends in the governance associated with executive compensation, and in particular the views and recent voting records of institutional shareholders
- An analysis of guaranteed pay, performance variable pay and total annual pay and its growth over the last seven years with a full examination of its relationship to company size and sectoral orientation
- A discussion and summary analysis around the debate, surfaced overseas and increasingly emerging here, around executive pay and shareholder alignment.

Last year's general commentaries on remuneration governance and performance variable pay architectures and metrics are not repeated in this report, as they are still considered valid. They will be addressed in the following report, by which time we will be able to analyse more than a full year's disclosure of remuneration policy and implementation in terms of King IV™.

The analysis is based entirely on the information disclosed in the past Annual/Integrated Reports and financial accounts of companies in the JSE, as at end December 2017 reporting period.



How we can help you?

The Deloitte executive compensation team covers all aspects of executive remuneration and share scheme design and advisory services. Our team includes remuneration, share plan, tax and accounting specialists, governance experts and lawyers. We are able to provide advice on all aspects of executive remuneration with expertise in all areas including implementation, investor relations, corporate governance, accounting, legal and tax issues.

Our offering is built around an integrated model that links all these areas.

Our integrated delivery model

Design

- Reward strategy and pay mix
- Annual cash incentive design
- Long-term incentive plan design
- Share plan design
- Performance metrics and target setting
- Tax, legal and accounting advice
- Drafting of executive contracts and performance agreements
- Employee share ownership schemes
- Executive "benchmarking" and sizing of executive roles using Execeval™

Remuneration Committee advisory

- Drafting of remuneration reports
- Drafting of charters
- Governance reviews and updates
- Executive pay "benchmarking"
- Updates on market trends, regulation and corporate governance

Implementation and communication

- Drafting of remuneration policies
- Drafting of annual cash, long-term incentive and share plan rules
- Key shareholder engagement around share scheme implementations
- JSE approvals
- Drafting employee communications
- Tax assistance, global tax efficient arrangements, tax guides

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2. Table of acronyms

A detailed analysis of pay and particularly performance variable pay in the context of company performance and shareholder value over the last six years.

EVA	Economic Value Add, being the surplus in earnings after allocation of funds to the WACC	**SV**	Shareholder value, being the Indexed value of Market cap and dividends granted during the year
FPI	Deloitte derived broad sectoral grouping of financial and property investment holding companies	**TAC Total annual compensation**	TGP plus ACI
Grid Sizing (Grid Size)	Deloitte methodology of grouping companies of similar size based on a grid matrix of financial and employment parameters	**TGP**	Total guaranteed pay = Base Salary plus allowance, perks and company contribution to medical and retirement funding
Headline earnings, or HE	Earnings after tax as declared in a company's AFS	**Top 100**	Deloitte derived list of 100 or so companies, based on the premier 100 plus companies currently listed on the JSE
HEPS	Headline earnings per share	**Top Companies**	JSE listed companies with a Market cap in excess of R300bn
IAM	Deloitte derived broad sectoral grouping of industrial and manufacturing companies	**TR**	Total remuneration, being TGP, ACI and any LTI accrual in a year
Index	The aggregate summation of all data in a particular category as at any point in time	**TSR**	The growth in shareholder value over a period of time, being the growth in market value on the assumption that dividends are re-invested. Can be expressed as a percentage of the share price, or in Rands terms
JSE	Johannesburg Stock Exchange	**Turnover**	Revenue achieved from operations
JSE Top 100	A selection of the 100 plus companies listed on the JSE	**WACC**	Weighted average cost of capital (equity plus debt)
King III	The King Code of Governance Principles for South Africa 2009 (as amended)		
ACI Annual Cash Incentive	Short–term Incentive cash bonus	**King IV™**	The King IV™ Report on Corporate Governance for South Africa 2016

AFS	Annual Financial Statements	**Large Companies**	JSE listed companies falling in the Market cap range of R50bn to R300bn
ALSI	A Market Cap weighted index of listed companies, as published by the JSE	**LTI**	Long–term incentive
ALSI 40	A Market Cap weighted index of the top 40 listed companies, as published by the JSE	**LTIP**	Long–term (share based) incentive plan
BS (Base Salary)	Monthly pensionable salary times 12	**Market Cap**	Market capitalisation, being the product of a company's issued shares and its share price at a point in time.
CAGR	Compounded annual growth rate	**Mid-Tier**	JSE listed companies falling in the Market cap range of R5bn to R50n
CEO	Chief Executive Officer or top executive director	**MRC**	Deloitte derived broad sectoral grouping of mining & resources and construction companies
CFO	Chief Financial Officer or financial director	**Pay mix**	The proportionality between TGP & PVP, and within PVP between ACI & LTI
Company Return	An Index which is used in this report to identify the summation of any metric addressing company performance	**PVP**	Performance variable pay (the sum of ACI and LTI)
CTT	Deloitte derived broad sectoral grouping of commercial, technical and trading companies	**Remuneration Return**	An Index which is used in this report to identify the summation of any pay metric
EBIT	Earnings before interest and tax	**ST 150**	Deloitte derived list of 150 or so currently listed companies making up the balance of the JSE after removing the Top 100.
EBITDA	Earnings before interest, tax, depreciation and amortisation	**Shareholder Return**	An Index which is used in this report to identify the summation of any metric addressing shareholder value

3. Headline Findings

The following headline findings arise from this report:

3.1 Alignment of executive reward to company performance and shareholder value creation

The previous report's findings that executive pay in Top 100 companies over a sustained period had generally tracked the index of shareholder value and of top line performance but outstripped that of bottom-line performance, are largely mimicked in the inclusion of another year's data, and the extension of the analysis to the full 250 plus listed companies.

Within this overall pattern, although one sees considerable variability in performances between larger, and second tier companies and between the four chosen sectors, it appears that executive pay has been resilient in the face of varying company or sector performances.

Although the trends in shareholder value and company performance have been largely dictated by economic and market conditions, this is not the case in executive pay which has been resilient over time and has essentially doubled over the six/seven year period.

3.2 Executive remuneration disclosure

The extension of last year's analysis to include the full 250 plus listed companies has again confirmed a general view that the very large, internationally foot-printed, companies pay considerably more than their counterparts do, and again that the larger local companies pay more than the second tier companies.

However, this extension of the analysis further emphasises that amongst the mid-tier companies and descending into the lowest companies, there is no apparent sense of top executive pay being linked to the size and of the company or the complexity of the sector within which it operates.

There is admittedly a discernible trend if one looks at the median pay by company size grouping, but the scatter of actuals either side of the median is very significant, and perhaps gives lie to the oft held contention that companies generally position themselves to the median.

The increase in executive pay over the six year period has still outstripped inflation, but with another year's data, there is now evidence of constraint being applied recently, as the index showing growth over the last three years is now more attuned to inflation.

The differential of the CEO pay above that of the CFO remains significant, and confirms that commentators should be wary of condemning all executive pay policy merely on the trigger of the very visible CEO pay, which is often unfairly either criticised or envied by others.

3.3 Performance variable pay

In most cases, performance variable pay is made up of an annual cash bonus supposedly to reward short term operational performance and a longer term (typically share based) incentive, supposedly to reward sustained company performance and shareholder alignment.

The inclusion of the second tier listed companies into the analysis indicates that they have followed the lead of the larger listed companies, with still only a few instances over a seven-year period where a CEO or CFO has not earned a bonus: and although the occurrence of share-based payments is more sporadic, they are still a significant contributor to the total executive pay quantum.

Although disclosure in remuneration reports on pay mix is incomplete (albeit improving now with the requirement for Single Figure reporting), it would appear that there is an emerging consensus that the relationship between guaranteed pay and performance variable pay should be targeted at fifty/fifty, and for maximal performance should be no more aggressive than one third/two thirds.

So many an executive can expect to earn at least one times and as much as three times their base salary in performance variable pay, often when there is no discernible link to company performance or shareholder value.

In practice, performance variable pay appears to be performance contingent pay, accruing under most circumstances other than the worst case of under-performance. This is in contrast to performance driven pay resulting from outperformance against targets set or in comparison to peer groups. It is almost as if executives are entitled to expect a reasonable performance bonus even when not warranted by performance.

3.4 Shareholder dialogue

The implementation of King IV™, and the enhanced platform it provides for a more proactive shareholder dialogue rather than the required vigilance and activism of the past, is now challenging executive pay stakeholders.

Institutional shareholders are showing intent to engage with executives on the pay/performance/value relationships pertaining to executives. But King IV™ requires that they engage with the companies they are invested in on issues surrounding corporate citizenship, a role for which they are perhaps less equipped to address, whatever their stance may be.

However there are now an increasingly large number of well-constructed and informative remuneration reports. And in general, the pronouncements on policy are increasingly consistent with King IV™ guidelines. However, the essential elements of executive pay practice are still difficult to discern sometimes, as there is now almost too much detail in the reports to consider.

As the dictates of corporate governance have placed an increasing emphasis on the nature and content of top executive pay, more so than just its disclosure, there would appear to be a need to move away from the previously noted "checklist" orientation towards a more principles based, holistic discourse and review of executive pay.

However, while the checklists remain, in order to inform the debate, Deloitte provides a comprehensive list of shareholder concerns which, if not addressed or disclosed appropriately, may invoke criticism and/or trigger a negative vote.

3.5 Fair & reasonable - a Single Figure Standard?

The executive compensation industry still has much to do in providing informed advice and commentary to all stakeholders, such that the executive pay debate is translated into a concerted move towards a balanced and supported solution, but not necessarily one that has all companies conforming to "best practice" norms.

Companies should be allowed some flexibility to differentiate their executive reward strategies, as they are encouraged to do in their other business strategies. At the same time however, their pay strategies should be "governed" by and be accountable to acceptable parameters of executive pay.

The comment is made later in the report that remuneration levels appear to be driven more to address the needs of the executives for peer parity, rather than what is "fair and reasonable" in the interests of shareholders, or indeed society at large.

Deloitte considers that the Single Figure required to be disclosed by King IV™ should not merely be a metric by which annual pay comparisons are to be made. It should be utilised in a proactive as well as a reactive sense and become a Standard to inform executive pay design, allow internal and external comparisons on pay, and most importantly inform the shareholder and societal debates around what is "fair and reasonable" in executive pay.

It would allow companies to apply some level of flexibility in pay design, while staying within an acceptable parameter, rather than being dictated to or feeling compelled to conform to the "benchmarks", which are currently much maligned, misaligned and often misused.

The Single Figure Standard might become a way by which all stakeholders could assess the full quantum of executive pay over time, and from whatever perspective they view it, whether internally, sectorally and/or societally.

For purposes of illustration, Deloitte has undertaken a Single Figure Standard exercise based on its own company sizing methodology, and the pay.

4. Alignment of executive reward to company performance and shareholder value creation

Remuneration Return: The indexed growth in aggregate executive remuneration over a period of years.

Shareholder Return: The indexed increase in aggregate shareholder value over a period of years.

Company Return: The indexed aggregate company financial growth in value over a period of years and shareholder alignment.

TGP: Total guaranteed pay = Base salary plus allowances & company medical and/or retirement funding.

TAC: Total annual compensation = TGP plus cash bonus.

TR: Total remuneration = TAC plus accrual value in year from any long-term (share based) incentive.

SV (Shareholder value): calculated as Market Cap., plus the value of dividends accruing in preceding year.

HE: Headline earnings.

Turnover: Gross revenue from operations.

This chapter addresses top executive pay in JSE listed companies over the last seven years, in the context of shareholder value and company performance.

The intent is to contrast the investment return and performance of top executive pay (Remuneration Return) with the investment return and performance of both shareholder value (Shareholder Return) and company value (Company Return).

Executives are charged to address both Shareholder Return and Company Return over time and their reward is the Remuneration Return that they receive for their efforts. One would expect to see some correlation, at least in aggregate and certainly over time.

These concepts are explored and tracked over time, overall and both by company size and sector groupings.

Although the detailed analysis has spanned seven years, well over 250 listed companies, and the two top executive positions in each company, the aim is not to expose or comment on the outliers but rather provide an overall impression as to the relationships that have prevailed over recent years, and to update the findings of the previous report and to extend the review to cover the full 250 plus companies listed on the JSE.

4.1 Methodology adopted

A full analysis has been undertaken, using an array of metrics, and the following approach has been selected for discussion in this report.

- Rather than providing a plethora of statistics based on the full analysis undertaken, the previously utilised indexed approach has been adopted again, to ensure that the key overall trends, rather than the minutiae of disclosure, are easily identifiable
- For any chosen population of companies, the 2010 aggregate/overall position in terms of top executive remuneration, shareholder value and company value was identified, and this aggregate position has been plotted year by year to reach a final position as at the 2017 year end
- As a further view of more recent performance, the 2013 aggregate/overall position has been plotted year by year to reach a final position as at 2017
- Adopting this methodology, Remuneration Return can be contrasted with and compared to Shareholder Return and Company Return over the short and longer term
- This indexed approach, without delving into the detail by company, identifies both visually and arithmetically whether Remuneration Return has over-performed or under-performed Shareholder Return and/or Company Return

- The detail of any one company's outperformance or under-performance in any one year is identifiable in the full analysis upon which the indices are based, but is not shown here
- However, comparing the relative performances of the indices allows for a balanced and informed view of the overall performance of top executives in adding value to shareholders and the companies they manage
- The implication of this indexed approach is that the index excludes a company which has not operated for the full seven or three year periods, or whose disclosure has been materially incomplete during either of these periods
- Those companies excluded from any one analysis represent less than 5% of the potential population.

4.2 Choice of metrics to identify Return

From a large number of metrics used in the detailed analysis, the following have been selected for this report as being most representative and illustrative of the findings of the analysis.

Note all acronyms are defined in Chapter 2, but are also defined alongside for ease of reference.

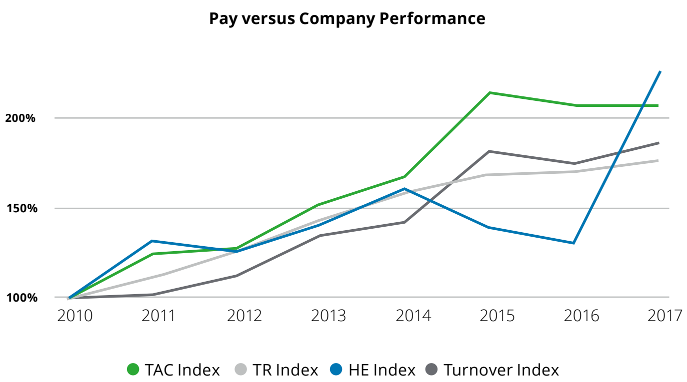
- In establishing Remuneration Return:
  - TAC, rather than TGP, has been selected as the primary metric for assessing annual executive pay, as in the vast majority of instances over six/seven years, cash bonuses have been paid, and therefore the investment that executives make, and for which they expect a return is not only their guaranteed pay and its growth, but also their expected cash bonus
  - TR is also depicted, but is given less prominence in the commentary as actual share-based accruals are intermittent and "lumpy" and therefore their timing can distort the sense of the index
- In order to represent Shareholder Return in the analysis, Market Cap, TSR and HEPS have been analysed, Market Cap and TSR combining in a metric termed Shareholder Value (SV)
- In order to represent Company Return in the analysis, headline earning (HE), Turnover. EVA was a consideration but was not included specifically in this analysis as it cannot be sensibly indexed.

4.3 Remuneration Return relative to Shareholder Return & Company Return

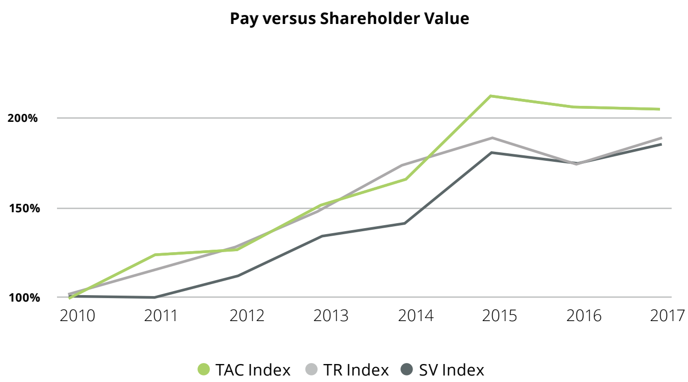
During the period 2010 to 2017, the overall index of executive pay has grown to 206% (TAC), while that of TR has grown to 185%. During the same period, the indices of shareholder value, turnover and headline earnings have grown respectively to 187%, 176% and 224%.

Schematic 01: Indexed Pay of Top Two executives in relation to company performance and shareholder value.

Indexed Pay versus Performance



Graph1: Pay versus Company Performance



Graph2: Pay versus Shareholder Value

Schematic 01 above indicates the tracking of the overall indices over time.

Table 1 below provides a breakdown of the indices as they stand now broken down into broad company size and sector groupings.

Table 1: Summary of Major Indices by overall size and by Sector

	TAC	TR	SV	Turnover	HE
Overall	206%	185%	187%	176%	224%
Top 100	202%	174%	217%	176%	234%
ST 150	213%	215%	52%	173%	77%
MRC	192%	219%	75%	152%	95%
FPI	252%	281%	245%	175%	261%
IAM	202%	204%	34%	180%	172%
CTT	188%	130%	377%	204%	439%

MRC: Mining, Construction and Resources.

IAM: Industrial and Manufacturing.

CTT: Commercial, trading and Technology.

FPI: Financial, Property and Investment Services.

As one might expect given their dominance in the market and the economy, it is the larger companies (Top 100) that have dominated the overall shareholder value and company performance (turnover, headline earnings) indices. This is particularly apparent when one contrasts the pay indices of the second tier companies (ST 150) with their indexed shareholder value and headline earnings.

The previous report found that for Top 100 companies over a five/six year time span.

- The index of top executive pay had generally tracked an index of shareholder value that had been sustained in Rand terms over the years as much by the exchange rate as by company performance and market sentiment towards South African shares
- The same index of top executive pay had generally tracked the index of company top line performance, but outstripped that of bottom line performance, both of which performances had been shored up by a deterioration in the utilisation of invested capital.

The inclusion in the analysis of another year and its extension to the full 250 plus companies generally confirms the previous findings for the larger companies and by extension overall the second tier companies, while indicating considerably more variability in the broad sectors chosen for more granular analysis.

- Top executive pay (Remuneration Return) has more or less doubled over the six/seven year period, and this is true of the larger listed (Top 100) companies, and also the second tier listed (ST150) companies, and also if one looks at the aggregate position, across the four sector groupings
- If one deems a doubling of the index to be a par performance, then in contrast, Shareholder Value overall is slightly below par, with
  - An above par return from the larger companies being countered by the significantly below par performance of the second tier companies
  - From a sectoral point of view, the overall Shareholder Value return has been influenced by well below index returns in MRC, and particularly in IAM, materially bolstered however by above par returns ln FPI and (particularly) CTT
- Similarly, if one deems a doubling of the index to be a par performance, then in contrast,
  - Company Performance represented by Turnover is below par overall with no material difference between larger and second tier companies, and from a sectoral point of view, the overall below par Turnover performance has been influenced by a slightly lesser performance from MRC and a par performance from CTT.
  - Company Performance represented by Headline Earnings is well above par, with a below index performance in the second tier companies being more than handsomely countered by a well above par performance in the larger listed companies. From a sectoral point of view a below index return in MRC, below par return in IAM is countered by a well above par performance FPI, and an exceptional performance in CTT.

As one might expect given their dominance in the market and the economy, if one delves into the detail of the indices, it is the very large companies and their international footprints, influences and fortunes, that have dominated the overall shareholder value and company performance (turnover, headline earnings) indices. This is particularly apparent when one contrasts the pay indices of the second tier companies (ST 150) with their indexed shareholder value and headline earnings.

One could infer from this that executive remuneration in the larger companies has largely been aligned with shareholder value and company performance over the seven year period, but that remuneration return overall in the second tier companies has outstripped shareholder value and company performance.

A more detailed analysis and depiction of the path to the current position is shown below, first by company size, and then by sector. This provides more insight as to how the above factors have contributed to the current situation.

4.3.1 Contrast by Size

The Table 2 below depicts the indices by broad company size grouping.

Table 2: Indexed Pay vs Shareholder Value and Financial Performance by broad company size grouping

Indexed Pay versus Performance

Indexed performance in terms of Remuneration, Shareholder and Company Returns

FinYear	Size	TAC Index	TR Index	SV Index	Mkt Cap Index	Turnover Index	HE Index
2017	TOP	230%	286%	252%	259%	163%	253%
2017	LARGE	143%	77%	133%	137%	195%	142%
2017	MID	232%	251%	237%	255%	204%	312%
2017	SMALL	213%	215%	52%	58%	173%	77%
Total		**206%**	**185%**	**187%**	**195%**	**176%**	**224%**

TAC: Total annual compensation = TGP plus cash bonus.

TR: Total remuneration = TAC plus accrual value in year from any long-term (share based) incentive.

SV (Shareholder value): calculated as Market Cap., plus the value of dividends accruing in preceding year.

Turnover: Gross revenue from operations.

HE: Headline earnings.

The pay indices for the Top 100 companies ("TOP", "LARGE", "MED") and the ST 150 ("SECOND TIER") companies are on a par with each other although it is very noticeable that the performance indices in the second tier companies are very much lower.

One could infer from this that executive remuneration in the larger companies has largely been aligned with shareholder value and company performance over the seven year period, but that remuneration return overall in the second tier companies has outstripped shareholder value and company performance.

4.3.2 Contrast by Sector

Table 3 below delves into the detail by sector to establish whether the overall picture described above reflects a general trend or whether, still at the relatively general approach, there are indications that certain sectors, to a greater or lesser extent, contribute to the phenomenon.

Table 3: Indexed Pay vs Shareholder Value and Financial Performance – Sectoral differentiation

Indexed Pay versus Performance

Indexed performance in terms of Remuneration, Shareholder and Company Returns

FinYear	Sector	TAC Index	TR Index	SV Index	Mkt Cap Index	Turnover Index	HE Index
2017	CTT	188%	130%	377%	390%	204%	439%
2017	FPI	252%	281%	245%	233%	175%	261%
2017	IAM	202%	204%	34%	41%	180%	172%
2017	MRC	192%	219%	75%	83%	152%	95%
Total		**206%**	**185%**	**187%**	**195%**	**176%**	**224%**

MRC: Mining, Construction and Resources.

IAM: Industrial and Manufacturing.

CTT: Commercial, trading and Technology.

FPI: Financial, Property and Investment Services.

It is immediately apparent that, whereas the other sectors have doubled to trebled shareholder value, the MRC sector has destroyed value, to the extent of approximately a third.

In a similar vein, whereas the other sectors have grown company value approximately twofold, the MRC sector has more than halved company value.

The reasons for this are not part of the scope of this report, but are well known, and are as much the result of the influence of exogenous factors as of executive performance. However, the impact on MRC executive pay has not been dramatic, and shareholder and company misfortune has not correlated with executive pay.

In the other sectors, there appears to be more evidence that top executive pay has kept in line with or caught up with shareholder value and company performance.

- Although pay in the FPI sector has been above the norm, the overall performances have maybe warranted it
- In the IAM sector, pay has been on par, despite performance (and particularly shareholder value) being below par.
- In contrast, the CTT sector shows constrained pay growth while delivering well above the norms of shareholder value and company performance.

Overall, it is generally apparent that, while shareholder value and company performance have been influenced (in both the negative and the positive sense) by factors such as sectoral positioning, economic conditions, exchange rates and market sentiment, executive pay has been resilient and grown comfortably over a seven year period.

5. Executive remuneration disclosure

5.1. Introduction

The management and disclosure of executive remuneration can be and has been extensively researched and analysed, as there is a company law, JSE listing, as well as a corporate governance requirement for full disclosure in annual reports/financial statements.

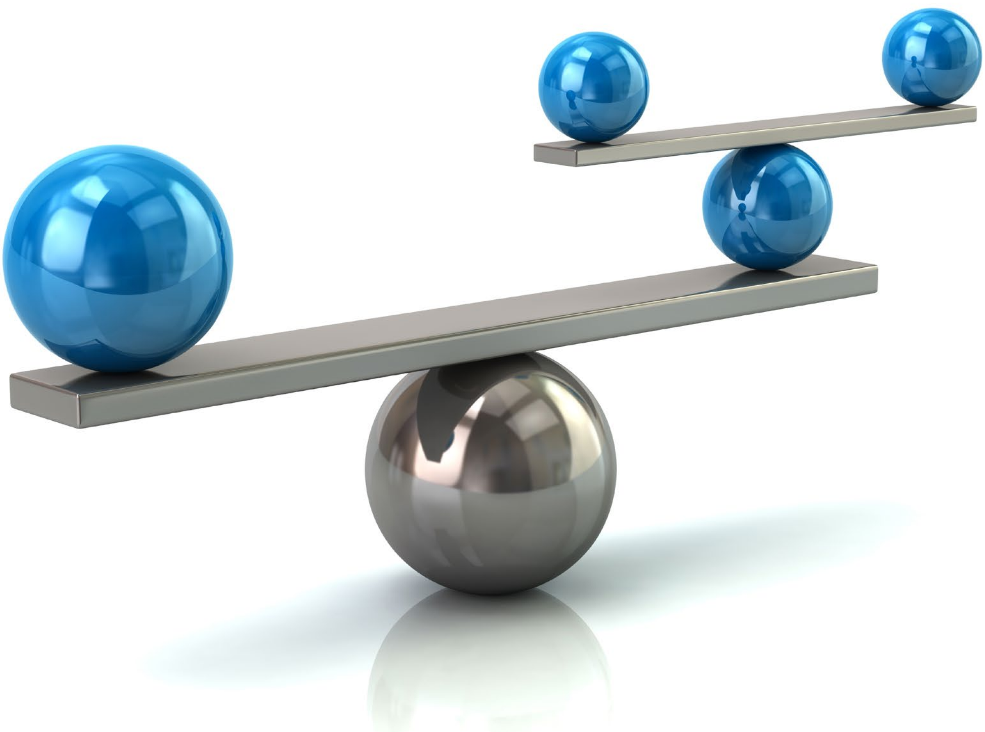
The analysis that follows, based on a complete survey of pay among the Top 100 and ST 150 JSE listed companies, has identified a number of trends and both confirmed and challenged a number of previously well-held notions, particularly as this analysis and its predecessor have addressed a six/seven year view rather than an immediate past year view.

The previous chapter on Remuneration Return, Shareholder Return and Company Return has identified that, whether one looks at the guaranteed pay (TGP) or the annual compensation (TAC) of top executives over a seven-year period, it is apparent that in aggregate:

- The "performance" of top executive pay has not outstripped the growth in shareholder value, except in the second tier companies (ST 150)
- The "performance" of top executive pay has not far outstripped company financial performance in the larger companies (Top 100), but has significantly outstripped company financial performance in the second tier companies (ST 150).

Some of the contributory factors to the resilience of executive pay despite the bearish market and economic factors were commented on in more detail in the previous report, but are summarised here as:

- The impact of remuneration consultancies and their market surveys
- The creep inevitable when Policy dictates "median" and "upper quartile" positioning
- The visibility now of top executive pay due to its disclosure, and the demands of executives to be well positioned vis a vis their peers
- The influence of the headhunter fraternity in advancing the levels of pay by the need to negotiate an attraction premium to the market in order to secure their placements.



5.2. The Scatter of Total Remuneration levels

A past notion supported by most commentators is that top executive pay should reflect the size and complexity of the executive role. As this report comments only on the CEO and FD/CFO positions it is fair to assume that the size of the company and (perhaps) the operational/financial complexity of the sector in which it operates should be major determinants of pay levels for these two top roles.

Below are a series of Scatter Diagrams that show CEO remuneration pay (TGP, TAC and TR) by company size (3-year average of Market Cap R billions.

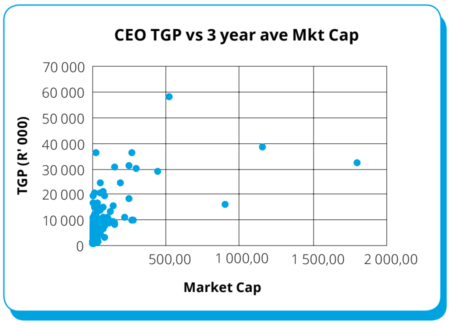
TGP: Total guaranteed pay = Base salary plus allowances & company medical and/or retirement funding.

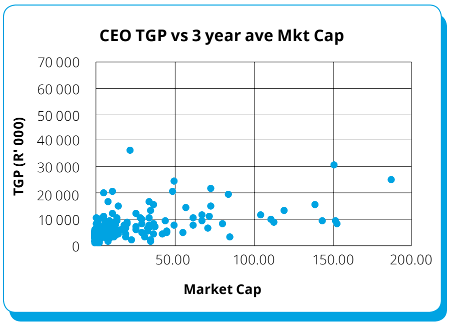
TAC: Total annual compensation = TGP plus cash bonus.

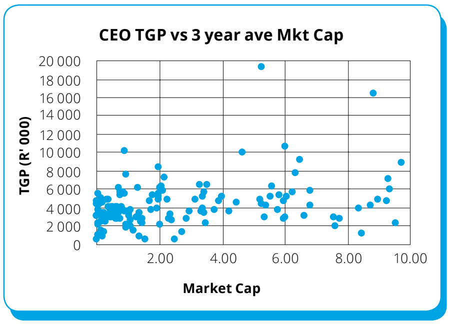
TR: Total remuneration = TAC plus accrual value in year from any long-term (share based) incentive.

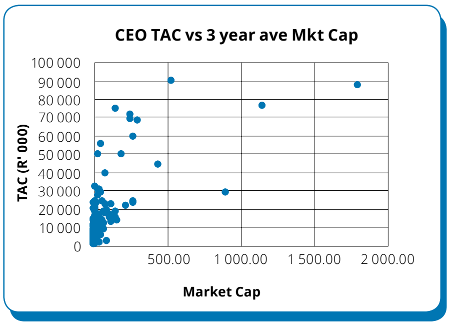
CEO remuneration by Company size

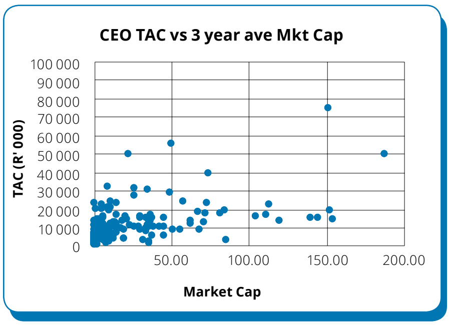
All Firms by Company Size | Firms with a Market Cap up to R200bn | Firms with a Market Cap up to R10bn

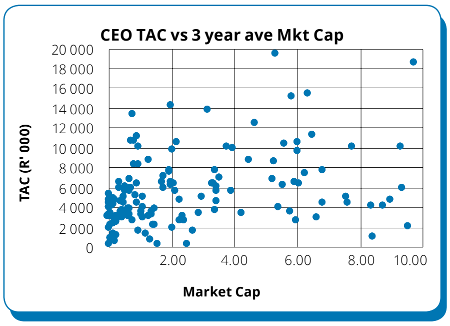


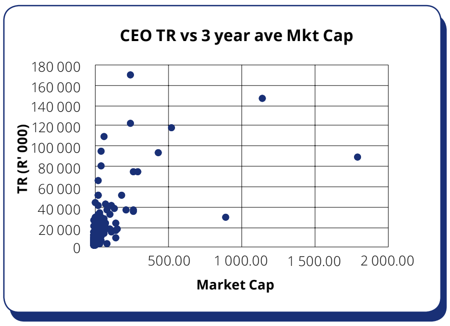


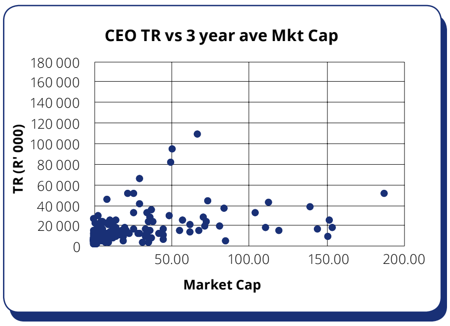


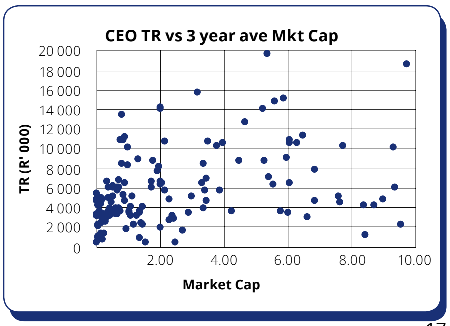












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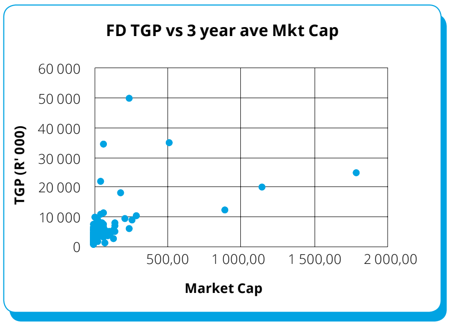
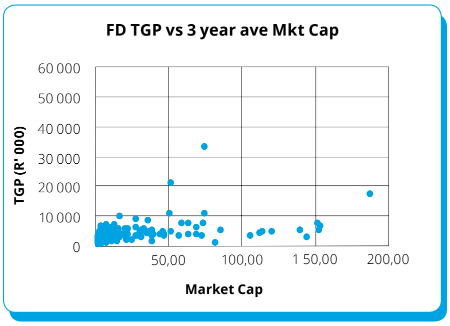
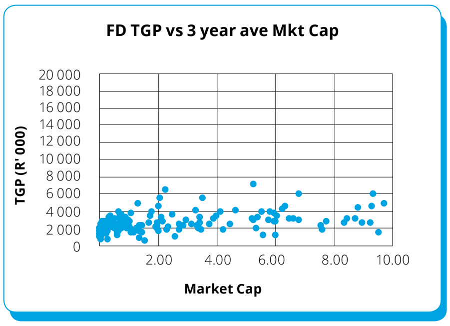
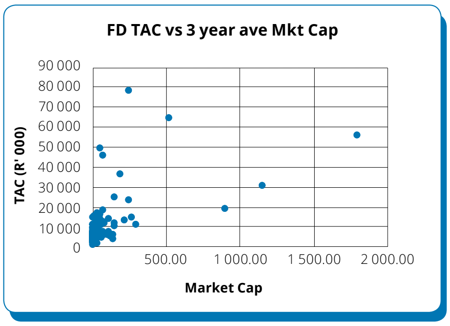
A similar depiction is shown below for the FD/CFO role

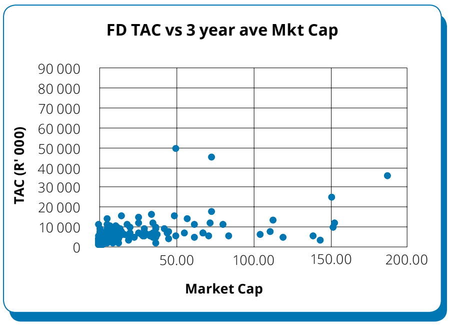
FD/CFO remuneration by Company size

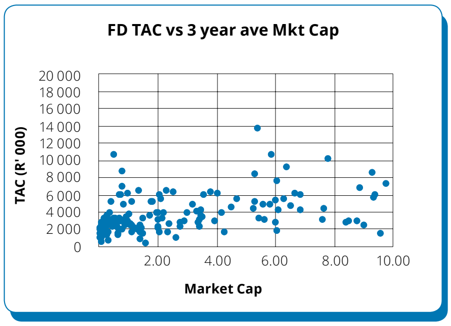


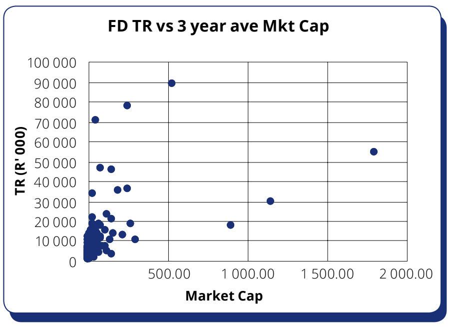


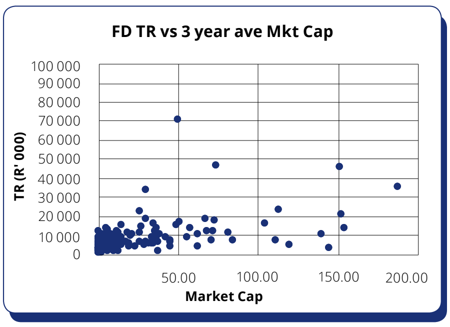


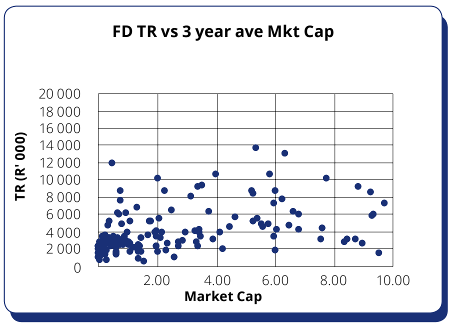












Both the above depictions show the scatter of remuneration for all companies, larger companies and second tier companies, and provide a visual confirmation of the findings inferred from the median, quartile and average statistics, that there is little evidence that company size influences top executive pay.

The following summary tables illustrate the 2017 disclosed TGP, TAC and TR statistics for the full complement of JSE listed companies, broken down into company size groupings.

CEO Remuneration by Company Size R'000

FinYear	Size	TGP 75th	TAC 75th	TR 75th	TGP 50th	TAC 50th	TR 50th	TGP 25th	TAC 25th	TR 25th
2017	1. TOP	24 275.74	53 723.28	85 362.79	15 452.51	24 985.95	40 876.59	9 647.75	18 248.00	29 914.63
2017	2. LARGE	10 759.00	16 207.00	23 048.06	7 390.00	10 782.00	14 515.00	5 562.00	9 339.50	10 448.50
2017	3. MID	8 595.50	15 330.50	22 644.80	6 081.00	12 196.00	13 788.28	4 320.00	7 902.50	10 551.00
2017	4. SMALL	5 334.50	8 485.89	8 938.30	3 785.00	5 081.00	5 132.00	2 857.92	3 383.00	3 387.25
All Companies		**7 513.00**	**13 453.16**	**15 666.75**	**4 778.50**	**7 114.77**	**8 661.50**	**3 197.75**	**3 927.75**	**3 988.75**

FD/CFO Remuneration by Company Size R'000

FinYear	Size	TGP 75th	TAC 75th	TR 75th	TGP 50th	TAC 50th	TR 50th	TGP 25th	TAC 25th	TR 25th
2017	1. TOP	21 592.08	44 850.13	46 669.67	8 611.00	13 562.00	20 576.00	4 965.00	9 465.00	13 583.00
2017	2. LARGE	6 748.74	11 058.00	11 804.00	4 633.00	6 327.00	8 828.00	3 583.00	5 284.00	6 612.50
2017	3. MID	5 131.00	8 644.75	10 750.50	3 844.00	6 021.80	7 775.50	2 762.50	4 342.25	5 642.90
2017	4. SMALL	3 191.00	4 986.98	5 292.00	2 432.00	3 008.00	1 899.50	2 142.65§	2 143.65	2 211.00
All Companies		**4 458.00**	**6 720.00**	**8 638.00**	**2 956.00**	**4 261.25**	**4 792.00**	**2 038.00**	**2 644.00**	**2 684.00**

TGP: Total guaranteed pay = Base salary plus allowances and company medical and/or retirement funding.

TAC: Total annual compensation = TGP plus cash bonus.

TR: Total remuneration = TAC plus accrual value in year from any long-term (share based) incentive.

TOP: Market Cap above R300 bn.

LARGE: Market Cap between R50 and R300 bn.

MID: Market Cap between R5 and R50 bn.

SMALL: Market Cap below R5 bn.

The All Companies statistics do not really inform any debate or provide useful "benchmarks" as they represent top executive pay levels of companies with Market Caps ranging from <R1 billion to R1 400 billion. In a similar vein, the Market Caps of the 22 Top Companies range from R100 billion to R1 400 billion, and for the 22 Large Companies range from R20 billion to R100 billion. The Market Caps of the mid-tier companies range from R10 billion to R20 billion, whilst those of the second tier companies start from < R1 billion.

From a size of company perspective, all that can be identified from the above tables is that, as one would expect, very large companies pay their top executives significantly more than do the second tier companies.

However, the scatter diagrams indicate that although one can compute a positive gradient in terms of remuneration by company size, this gradient is by no means as emphatic as one would expect, and there are many mid-tier and even second tier companies that pay as much as, and even more than their larger and much larger counterparts.

There is thus little evidence that company size influences top executive pay, or that statistics such as median and quartiles are either used or useful in setting "benchmarks" for executive pay in JSE listed companies.

This then brings into question the assertion by most companies in the disclosure of their remuneration reports that pay levels are set in relation to "benchmarks" provided by market survey consultancies. If any such "benchmarks" truly exist and, if they have indeed been provided, there is no evidence that they have been in any way adhered to.

One wonders whether the setting and/or provision of "benchmarks" is driven more to address the needs of the executives themselves, for peer parity, rather than the interests of shareholders, or indeed society at large.

The following summary tables illustrate the 2017 disclosed TGP, TAC and TR statistics for the full complement of JSE listed companies, for all companies and then broken down into sectoral groupings.

CEO Remuneration by Sector R'000

FinYear	Sector	TGP 75th	TAC 75th	TR 75th	TGP 50th	TAC 50th	TR 50th	TGP 25th	TAC 25th	TR 25th
2017	CTT	9 600.00	14 500.50	21 605.00	6 081.00	7 435.00	10 519.00	3 600.00	4 563.00	4 568.00
2017	FPI	7 358.25	15 510.50	22 025.69	4 332.00	8 733.38	9 527.00	2 805.75	4 942.75	4 942.75
2017	IAM	5 319.00	8 319.00	8 790.50	3 873.00	4 444.86	4 890.00	3 028.67	3 387.75	3 387.75
2017	MRC	9 814.00	18 721.89	18 721.89	5 791.17	10 818.00	11 632.00	3 674.50	5 438.50	5 438.50
All Companies		**7 513.00**	**13 453.16**	**15 666.75**	**4 778.50**	**7 114.77**	**8 661.50**	**3 197.75**	**3 927.75**	**3 988.75**

FD/CFO Remuneration by Sector R'000

FinYear	Sector	TGP 75th	TAC 75th	TR 75th	TGP 50th	TAC 50th	TR 50th	TGP 25th	TAC 25th	TR 25th
2017	CTT	4 780.00	6 328.25	9 102.75	3 348.00	4 449.00	5 308.15	2 028.25	2 578.75	2 578.75
2017	FPI	3 677.34	7 466.00	9 145.00	2 703.00	4 751.00	5 067.68	1 872.00	3 008.00	3 087.00
2017	IAM	3 297.50	5 111.50	5 462.50	2 521.00	2 939.00	2 939.00	2 037.00	2 074.00	2 124.65
2017	MRC	5 665.00	9 663.24	9 913.24	3 663.00	5 951.00	6 194.00	2 492.60	3 360.00	3 785.50
All Companies		**4 458.00**	**6 720.00**	**8 638.00**	**2 956.00**	**4 261.25**	**4 792.00**	**2 038.00**	**2 644.00**	**2 684.00**

MRC: Mining, Construction and Resources.

IAM: Industrial and Manufacturing.

CTT: Commercial, Trading and Technology.

FPI: Financial, Property and Investment Services.

If one looks at the sectoral analysis as opposed to company size as a determinant of executive pay, one can discern that

- At the lower quartile and median TGP levels, the FPI and IAM sectors are some 20% below that of the CTT and MRC sectors. However at the upper quartile level the IAM sector lowers even further, to be closer to 30 to 40% behind
- If one looks at TAC rather than TGP (the inclusion of bonuses into annual remuneration) the IAM sector remains well below the other sectors, the FPI sector has recovered to exceed the CTT sector, but both are still below that of the MRC sector
- If one looks at TR (adding in now accruals in the year from long-term incentives) the IAM sector still remains well below the other sectors, the FPI sector has lost ground to the CTT sector, and both are still below that of the MRC sector.

As with last year's analysis, it appears that the MRC sector is paying significantly more than the other three sectors, in all elements of pay. Similarly, the IAM sector appears to be paying considerably less than the other two/three sectors.

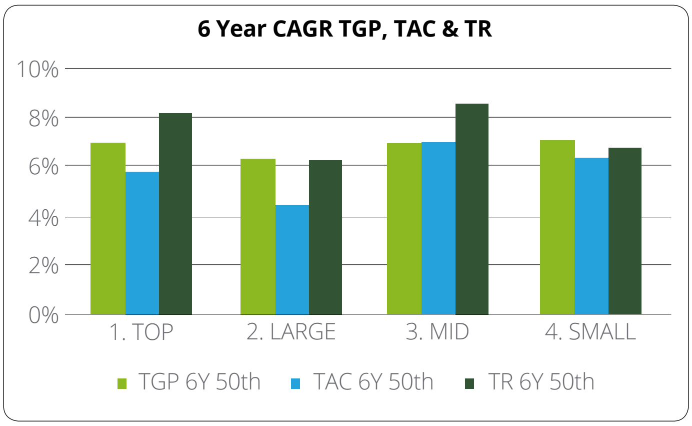
However, it is important not to read too much into these comparisons although they are statistically sound, they are materially influenced by the number of very large companies and of second tier companies in the makeup of the sector composition.

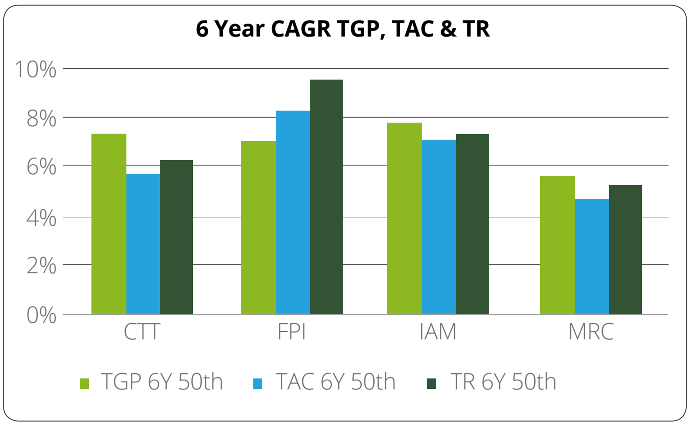
Also the TR figures and to a certain extent TAC figure will be influenced by exogenous factors, market and economic, differentially influencing the various sectors at any time.

5.3. Annual pay increases

Chapter 4 identified annual pay growth as a form of Remuneration Return for executives and contrasted it with Shareholder Return and Company Return. The tables below depict the growth in both TGP and TAC over the last six years and over the last three years.

6 Year Compound Annual Growth Rate (CAGR)





FinYear	Size	TGP 6Y 75th	TAC 6Y 75th	TR 6Y 75th	TGP 6Y 50th	TAC 6Y 50th	TR 6Y 50th	TGP 6Y 25th	TAC 6Y 25th	TR 6Y 25th
2017	1. TOP	12%	13%	17%	7%	6%	8%	4%	2%	1%
2017	2. LARGE	9%	10%	13%	6%	4%	6%	2%	-0%	-0%
2017	3. MID	12%	13%	15%	7%	7%	9%	5%	1%	2%
2017	4. SMALL	9%	10%	11%	7%	6%	7%	4%	1%	1%
All Companies		**10%**	**11%**	**12%**	**7%**	**6%**	**7%**	**4%**	**1%**	**1%**

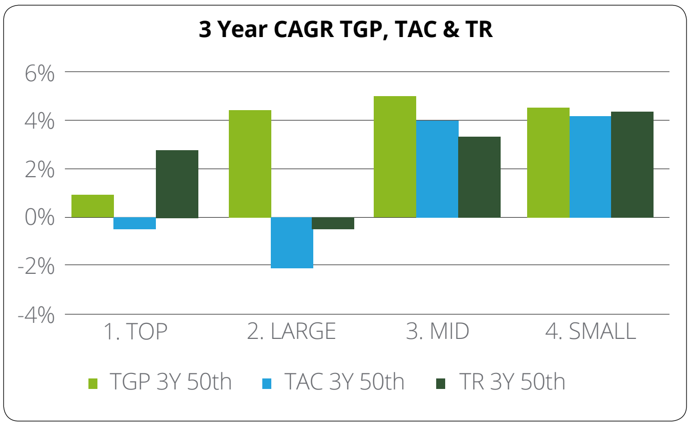
FinYear	Sector	TGP 6Y 75th	TAC 6Y 75th	TR 6Y 75th	TGP 6Y 50th	TAC 6Y 50th	TR 6Y 50th	TGP 6Y 25th	TAC 6Y 25th	TR 6Y 25th
2017	CTT	10%	9%	12%	7%	6%	6%	5%	-1%	2%
2017	FPI	10%	13%	16%	7%	8%	9%	4%	4%	5%
2017	IAM	10%	11%	11%	8%	7%	7%	5%	2%	1%
2017	MRC	9%	11%	11%	5%	5%	5%	0%	-0%	-1%
All Companies		**10%**	**11%**	**12%**	**7%**	**6%**	**7%**	**4%**	**1%**	**1%**

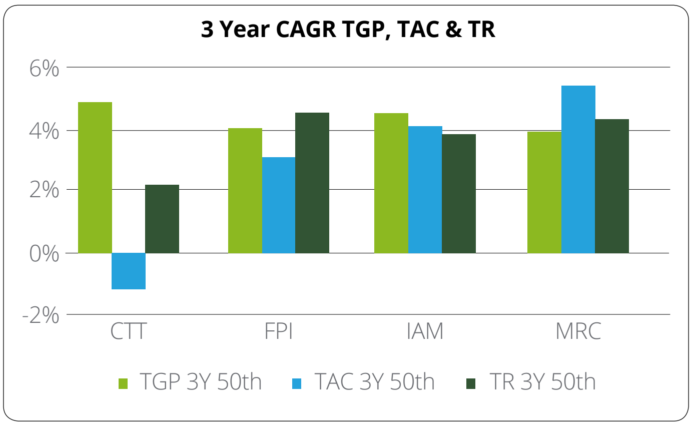
TGP: Total guaranteed pay = Base salary plus allowances & company medical and/or retirement funding.

TAC: Total annual compensation = TGP plus cash bonus.

TR: Total remuneration = TAC plus accrual value in year from any long term (share based) incentive.

3 Year Compound Annual Growth Rate (CAGR)





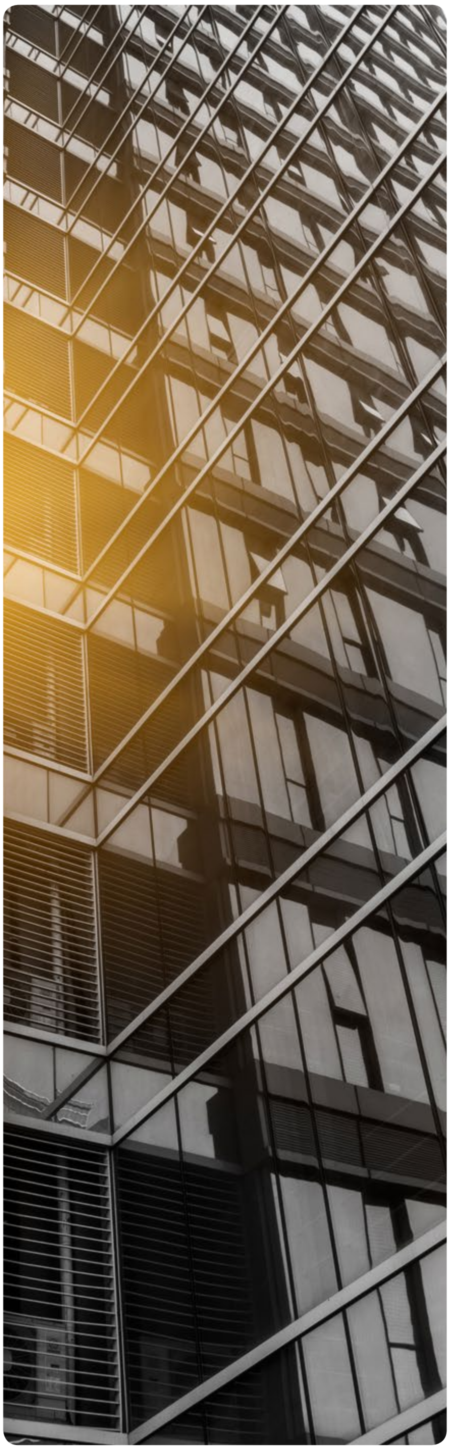
FinYear	Size	TGP 6Y 75th	TAC 6Y 75th	TR 6Y 75th	TGP 6Y 50th	TAC 6Y 50th	TR 6Y 50th	TGP 6Y 25th	TAC 6Y 25th	TR 6Y 25th
2017	1. TOP	5%	8%	18%	1%	-1%	3%	-10%	-4%	-7%
2017	2. LARGE	9%	6%	11%	4%	-2%	-1%	-11%	-13%	-5%
2017	3. MID	8%	9%	17%	5%	4%	3%	-3%	-5%	2%
2017	4. SMALL	8%	10%	11%	4%	4%	4%	-6%	-6%	0%
All Companies		**8%**	**10%**	**12%**	**4%**	**4%**	**4%**	**-6%**	**-6%**	**-0%**

FinYear	Sector	TGP 6Y 75th	TAC 6Y 75th	TR 6Y 75th	TGP 6Y 50th	TAC 6Y 50th	TR 6Y 50th	TGP 6Y 25th	TAC 6Y 25th	TR 6Y 25th
2017	CTT	5%	8%	18%	1%	-1%	3%	-10%	-4%	-7%
2017	FPI	9%	6%	11%	4%	-2%	-1%	-11%	-13%	-5%
2017	IAM	8%	9%	17%	5%	4%	3%	-3%	-5%	2%
2017	MRC	8%	10%	11%	4%	4%	4%	-6%	-6%	0%
All Companies		**8%**	**10%**	**12%**	**4%**	**4%**	**4%**	**-6%**	**-6%**	**-0%**

In the previous report, we commented on the preponderance of above inflation growth over the five-year period, and even the three-year period.

However, the growth over (now) a six/seven-year period, and particularly the most recent three years are more in line with inflation. This indicates that in the last two years, as one might expect, growth in top executive pay has more attuned itself to the market, economic and governance pressures.

6. Performance variable pay



6.1. Introduction

Performance variable pay is the combination of annual cash incentives, deferred bonuses, and long–term (share based) payments. The architecture and delivery mechanisms of performance variable pay were dealt with in considerable detail in the previous report but are only summarised in this one.

Principally, performance variable pay could be distilled into two elements:

- Performance contingent pay, a portion that is expected and semi guaranteed, to accrue under most circumstances other than the worst case of under-performance
- Performance driven pay, a portion that results only under circumstances of out-performance, out performance against targets set, or in comparison to peer groups.

In theory, outperformance should be handsomely rewarded but under-performance should not be rewarded. However, this appears not to be the case in practice, and it is almost as if executives are entitled to expect a reasonable performance bonus even when one is not warranted by performance.

Through the last seven years, collectively as a group, executive performance has perhaps satisfied, but not surpassed shareholder requirements based on shareholder value and company performance.

Whether or not the consistently large bonuses generally paid out have been warranted is however a matter of concern for many stakeholders. With the Single Figure concept gaining more exposure, it is performance variable pay, and its justifiability, rather than guaranteed pay upon which the spotlight will fall.

6.2. Pay mix

Pay mix can be defined as the targeted relationship between performance variable pay and guaranteed pay and within performance variable pay, the relationship between targeted short term (annual) bonuses and the targeted/expected long-term (three years plus) accruals from long-term (share based) incentives.

In a philosophical context, as guaranteed pay increases with the increasing size and complexity of the role:

- The more senior the role, the more total expected pay should be oriented towards performance variable pay (the targeted/expected value from short- and long-term incentive pay)
- The more senior the role, the more performance variable pay should be oriented towards pay for long-term sustainable performance rather than pay for short-term operational performance.

Of interest in any debate on the balance between guaranteed and performance variable pay is the evidence from a number of motivational surveys that, whatever may be targeted or expected from performance variable pay in relation to guaranteed pay, from a motivational point of view it is heavily discounted by executives, particularly if the time horizons are long into the future.

Deloitte South Africa has for a number of years offered a "House View" on pay mix, which is depicted in table 7 below.

Reward component		Typical range	Suggested norm
Base salary (BS), Total guaranteed package (TGP)		25th to 75th percentile of market "benchmarks" (similar size role, similar size company)	Median positioning (50th percentile for competent, 25th percentile for novice, 75th percentile for mastery)
Annual cash incentive on-target bonus for good stretch performance. 2 times on–target for exceptional performance	CEO	On target - 60% to 120% (of BS), 40% to 100% (of TGP)	50% of TGP as on target (stretch), 100% of TGP as maximum
	Executive team	On target - 35% to 100% (of BS), 35% to 80% (of TGP)	40% of TGP as on target (stretch), 80% of TGP as maximum
	Senior management	On target - 30% to 50% (of PS), 25% to 60% (of TGP)	30% of TGP as on target (stretch), 60% of TGP as maximum
Long-term (share based) incentive - "Expected value" (= PV of targeted future reward accrual")	CEO	Expected value - 70% to 170% (of PS), 50% to 140% (of TGP)	70% of TGP as annual expected value @ 15% 140% of TGP maximum
	Executive team	Expected value - 50% to 130% (of BS), 35% to 100% (of TGP)	50% of TGP as annual expected value @ 15% 100% of TGP maximum
	Senior management	Expected value - 30% to 75% (of BS), 25% to 60% (of TGP)	30% of TGP as annual expected value @ 15% 60% of TGP maximum

Table 7: Deloitte "house view" on TGP and variable pay

If the above Deloitte House View were to be translated into the proportionality between guaranteed pay, targeted annual cash bonus, and targeted long term accrual (and in parenthesis between guaranteed pay and performance variable pay).

For a target performance:

- 45% / 23% / 32% for a CEO (45% guaranteed pay / 55% performance variable pay).
- 53% / 21% / 26% for an executive (53% / 47%).
- 63% / 19% / 19% for a senior manager (63% / 37%).

In the unlikely, hypothetical situation of a maximal performance, both annually and in the long–term, the figures would translate to:

- 29% / 29% / 41% for a CEO (29% / 71%).
- 36% / 29% / 36% for an executive (36% / 64%).
- 45% / 27% / 27% for a senior manager (45% / 55%).

The disclosure of pay mix detailed in and commented on in the previous report stands the test of another year's analysis and increasing disclosure, and confirms that the house view is still indicative of prevailing practice.

However, current disclosures on pay mix percentages must be viewed with caution, as it not easy to establish whether the percentages cited, both the short–term and the long–term, are in terms of on target or maximum targeted performances. "Benchmarks" are often quoted on pay mix but they need careful interpretation if they are to be relied on.

The advent of Single Figure disclosure may assist in this, and Deloitte is making a recommendation as to utilising the concept not only to report on year-on-year rewards but on setting "benchmarks" or a Standard for designing as well as reporting on executive reward strategy.

Of interest is not so much the policy on pay mix but how it fits into the overall quantum of pay, as well as how it turns out in practice.

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6.3.Bonus percentages paid in the year

The table below indicates for the full seven-year period, all Top 100 and ST 150 companies, both CEO and CFO positions, the incidence of annual incentive payments by size range.

The median bonus paid over the seven year period in 250 plus companies was 55% of TGP, with an upper quartile of 91%; and (tellingly) with an average of 75%, well above the median.

Amongst the Top 100 companies, in only 13% of occurrences was no incentive paid at all in a year, and in a further 10% of occurrences was the bonus paid less than 25% of TGP. Of note also though is that bonuses in excess of 100% of TGP have occurred in 25% of occurrences.

Amongst the ST 150 companies, a much larger percentage of occurrences, 31% was no bonus paid at all in a year, and in a further 23% of occurrences was the bonus paid less than 25% of TGP. Bonuses in excess of 100% of TGP have occurred in 10% of occurrences.

All companies	
Average	75%
Upper Quartile	91%
Median	55%
Lower Quartile	25%

ST 150 companies		Top 100 companies		Bonus accrual categories	All companies	
	31%		13%	None	25%	
	23%		10%	Below 25%	18%	
	16%		16%	25% - 50%	16%	
20%	12%	36%	19%	50% - 75%	15%	26%
	9%		17%	75% - 100%	11%	
10%	4%	25%	14%	100% - 150%	8%	15%
	2%		6%	150% - 200%	3%	
	3%		5%	Above 200%	4%	

If the Deloitte House View is to be believed, then there is evidence that in 250 companies over a seven year period, well over 40% of bonus pay-out incidences have been above target.

No attempt has been made to review the situation with respect to long-term payments, and also it is perhaps dangerous to view the levels of bonuses paid in isolation from parallel long-term payments.

This has prompted Deloitte to recommend in the final chapter that there is a more comprehensive move towards Single Figure pay planning, strategy and design rather than year on year comparison of actuals.

7. Shareholder dialogue

7.1. General commentary

The King IV™ Report on Corporate Governance for South Africa 2016 (King IV™), with the IODSA guidelines that inform its implementation, is now fully in place, and companies are now required to conform.

The previous approach of "apply or explain" in King III is now replaced with "apply and explain", and shareholders are tasked to address, comment on, and vote on the both the level, and the nature, of disclosure in listed companies' annual/ integrated reports.

In general, terms King IV™ requires that the application of its principles can be assumed and that companies will explain the practices that have been implemented to give effect to each principle.

A full account of and commentary on King IV™ was provided in the previous report and is not repeated. However, the role of shareholders required by King IV™ is addressed below.

7.2. Role of the shareholders in executive compensation

King IV™ recommends that the Board oversees ongoing dialogue with the shareholder based on a mutual understanding of what performance and value creation in the company should be.

In order to properly draft the policy the Board is required to have properly articulated the link between strategy, sustainable value creation, performance and remuneration.

Both the Policy and the Implementation report will have to be separately approved annually by non-binding advisory vote by shareholders.

Should there be a 25% or higher advisory vote against the adoption of the policy or implementation plan, the next remuneration policy should set out the specific measures that the board commits to take or has taken to attend to the underlying reasons for the vote.

Such measures should include an engagement process to ascertain the reasons for the dissenting votes, as well as measures to address the legitimate and reasonable objections and concerns raised by shareholders.

The background statement of the following remuneration report of the following year should indicate with whom the company engaged, and the manner and form of engagement to ascertain the reasons for dissenting votes, and the nature of steps taken to address legitimate and reasonable objections and concerns.

As yet, a company or its Directors will not receive any immediate sanction for a negative vote. However, in accordance with the Companies Act, the fees of the non-executive director must be approved by special resolution by the shareholders within the previous two years. This may be used as an opportunity for sanction.

In the previous report Deloitte summarised a number of high-level principles that should be applied to encourage shareholders and companies to look at remuneration in a more holistic way and to avoid a potential 'box ticking' approach against a set of guidelines, and to encourage remuneration committees to focus on the key issues of concern to shareholders without being 'bogged down' in detail.

The five principles were identified as:

1. The role of shareholders: responsible to ensure that the remuneration practices and policies of the companies they invest in are aligned with shareholder interests and promote sustainable value creation but not to micro manage the remuneration policies of companies.

2. The role of the board and directors: appointed by shareholders to run companies and act in their interests including determining remuneration; also for non-executive directors to challenge and contribute to the process of determining and implementing strategy, ensuring robust risk management processes are in place, reviewing the performance of executive directors and overseeing executive remuneration.

3. The remuneration committee: responsible for ensuring that shareholder interests are protected in relation to the structure and quantum of remuneration. Remuneration should be set within the context of overall company performance, aligned with strategy and agreed risk profile, fairly reward success and avoid paying more than necessary. Executive remuneration should be considered in terms of the pay policy of the company as a whole, the pay and conditions across the group and the overall cost to shareholders.

4. Remuneration policies: should be clearly aligned with strategy and promote value creation. Excessive or undeserved remuneration may undermine the efficiency of the company, affect its reputation and is not aligned with shareholder interests. The Board must consider the impact of employee remuneration on the finances of the company, the investment and capital needs of the company and dividends to shareholders.

5. Remuneration structures: this principle clearly listed the key issues that were then of the most concern to shareholders.

Remuneration structures should:

- Not be unduly complex
- Focus on the long term
- Be efficient and cost effective in delivering strategy
- Be determined in the context of the market environment, performance of the company and individuals and the size and complexity of the business
- Seek to address the fact that executives and shareholders can have divergent interests, particularly in relation to time horizons and the consequences of failure or corporate underperformance
- Carefully balance the elements of fixed and variable to avoid payment for failure and promote a long-term focus.

The above principles emanate from the dialogue conducted between institutional shareholder and business representatives in the UK, but they are entirely consistent with the principles espoused by King IV™.

7.3. Institutional guidelines and concerns

Shareholder guidelines exist in the United Kingdom as to the role of all stakeholders in formulating, disclosing and regulating executive pay. With King IV™ now providing the opportunity and platform for increased shareholder influence on pay, there are as yet no shareholder guidelines to enhance, the legal and governance dictates and to provide an agenda against which executive pay can be discussed and its disclosure examined and voted upon.

Deloitte recommends that the example of the UK be taken and that a forum for dialogue and debate be set up between business, institutional shareholders and societal representatives.

The Institute of Directors of South Africa, "IODSA" has published a detailed set of guidelines that provide a framework, through a series of "practice notes", for companies and other stakeholders to address the provisions of King IV™. This valuable document however is geared more to the companies reviewing, designing and documenting their remuneration policies, and is perhaps in too much detail to assist voters in reviewing and voting on them.

The majority of shares on the JSE are held and voted by institutional shareholders. With the current developments in the field of remuneration governance, and the need to address the views of their share/unit holders, institutional shareholders increasingly use guidelines ("templates"/"checklists") in reviewing remuneration reports and approving share plans.

In the United Kingdom, the Association of Business Insurers (ABI) voting information service analyses annual reports and produces colour-coded research reports for each company. One element of this is a detailed review of remuneration arrangements. Reports are coded blue if there are no particular areas of concern, amber if there are some areas of concern and red where there are serious areas for concern.

Institutional Shareholder Services (ISS), through its proxy voting service RREV, bases its voting recommendations on guidance that is consistent with the policy guidelines of the National Association of Pension Funds (NAPF), and already provides advice to a number of South African institutions.

Some institutional shareholders in South Africa have their own checklists to a greater or lesser extent, but it is still apparent that their more informed application may be necessary, as it is inappropriate to regard remuneration policy and governance as a series of scorecard elements (ticks and crosses), rather than seeing each element as part of a holistic and integrated whole.

7.4 Addressing shareholder views

In addressing shareholder views and concerns, one has to recognise that shareholders are not all the same, a homogenous grouping, and that their investment philosophies, and the "expectations" they have of executives, can differ considerably, as will their views on the performances that should be rewarded and the levels of such rewards.

For example is an individual shareholder

- a 'blue chip investor" who is looking for dividend flow and long-term sustainable growth in share price, and particularly in the South African context a commitment to "corporate responsibility"
- a shareholder with a "private equity" orientation who is looking for share price growth alone, this to be achieved over a relatively short period of time, and not overly concerned with any major long-term value concerns.

Although there are a number of individuals or second tier institutions that share the limelight of shareholder activism, it is the large institutional shareholders that are, and will increasingly become, the powerhouse behind the trends in shareholder scrutiny and influence.

- They collectively are the predominant investor and shareholder in the JSE
- They have, and now increasingly use, their voting power
- Many have taken upon themselves the role of and responsibility for providing guidance, scrutiny and sanction.

The guidelines or checklists that exist in support of shareholder scrutiny are now varied. Individually they provide a guide to shareholders in their scrutiny of executive pay, but collectively they can also be used by companies wishing to establish or review or disclose their own remuneration policy.

A negative view on any one remuneration policy element will not necessarily trigger a negative vote, particularly if the absence or deviation is motivated correctly, but when applied to any one company they provide an overall assessment of the company's positioning in terms of best practice.

Deloitte has been monitoring the disclosure by some institutional shareholders and the companies themselves of the voting on remuneration. It is perhaps too soon to come to any conclusions but it does appear that in the main, companies and shareholders are not taking their responsibilities lightly and that the dialogue is becoming increasingly informed.

7.5. Shareholder concerns

The following summary attempts to identify the areas where shareholder concerns may lie, and companies should take care to address.

General shareholder concerns:

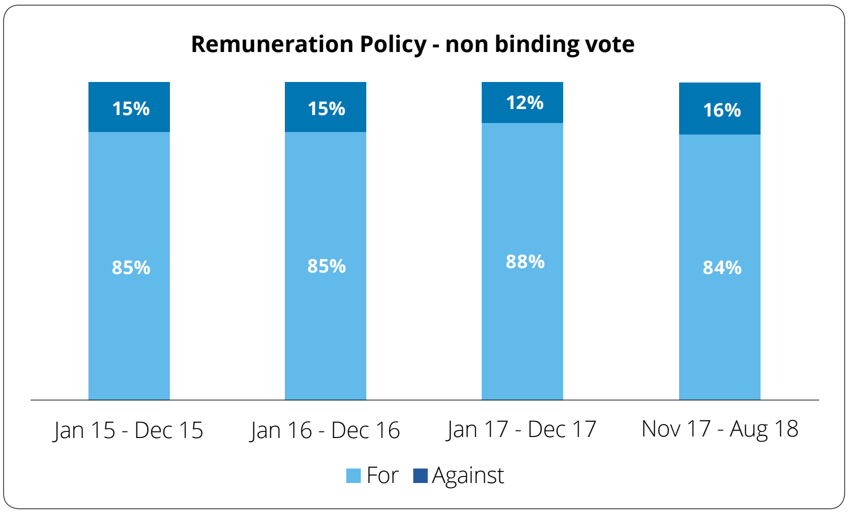
- General lack of disclosure
- Overall increases in total remuneration without acceptable justification
- Over complexity of arrangements
- Increases to base salary in excess of inflation
- Base salary increases above the general increases in the company
- Any increases at all where previous performance has been weak
- Shareholder concerns with respect to performance variable pay
- Performance targeting that does not support the achievement of long-term growth
- Incentive arrangements not including an overall cap, or the absence of individual limits for long term and annual bonuses
- The use of the same performance metrics in more than one plan
- Any discretion applied to bonus payments or the vesting of share awards to allow a higher pay out than would have otherwise been made
- The absence of deferral and claw back provisions
- Increases in potential reward due to the introduction of deferral and claw back
- Increasing the potential bonus pay out and uncapped awards
- Lowering of performance targets in either short–term or long-term incentives without a commensurate reduction in the bonus potential or size of the share award:
  - No disclosure on the extent to which performance targets have been met and the resultant level of vesting
  - Any provision for retesting
  - Shareholder concerns with respect to annual cash incentives.
- Lack of a demonstrable link between performance and bonus pay-outs (and particularly when based on personal achievements when overall profit targets are not met):
  - Bonus targets that are not transparent
  - Pay-outs not aligned with profit
  - Lack of stretch in targets or insufficiently demanding performance targets.
- Non-disclosure of the extent to which performance targets were met in relation to bonuses paid and share awards that vest
- Shareholder Concerns with respect to long term (share based incentives)
- Insufficient disclosure on performance criteria / conditions attached to long-term share plans
- Long-term share plans with performance periods of less than three years
- High level of vesting at median performance
- Significant weighting and/or lack of transparency of non-financial measures
- Recruitment arrangements, particularly when awards have no performance conditions
- One-off retention or transaction awards which have not been adequately justified
- Provisions for early vesting of share awards where prorating for time and performance is not applied
- Change in control provisions triggering earlier and/or larger payments and rewards
- Termination arrangements, either exit payments made or policy on termination payments
- Dividends paid on shares which subsequently lapse due to performance targets not having been met
- Option grants to NEDs
- Note the following are encouraged
  - Further retention of vested shares
  - Malus and clawback arrangements
  - Shareholding requirements of a minimum of 100% of TGP.

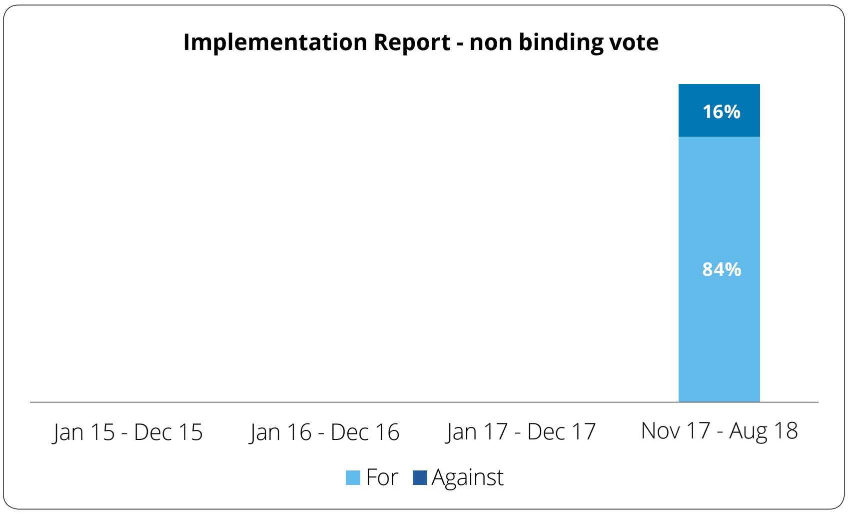
7.6. Shareholder voting trends

Following the adoption of King IV™, the JSE required all listed companies with a reporting date post October 2017 to submit both a Remuneration Policy and an Implementation Report, which would be subjected to a non-binding vote by shareholders. Prior to October 2017 companies were only required to submit their Remuneration Report to be subjected to a non-binding vote. An analysis was undertaken of Remuneration Policy approvals (a non–binding vote of 75% or greater) for the following periods:

- Financial year 2015 for the period from 1 January 2015 to 31 December 2015
- Financial year 2016 for the period from 1 January 2016 to 31 December 2016
- Financial year 2017 for the period from 1 January 2017 to 31 October 2017. This is the period prior to the requirement to submit a King IV™ compliant Remuneration Report and Implementation Report
- Financial year 2017/2018 for the period from 1 November 2017 to 31 August 2018. This is the period post to the requirement to submit a King IV™ compliant Remuneration Policy and Implementation Report.

Based on the analysis it is clear that the adoption of King IV™ has not had a dramatic effect on the voting behaviour of shareholders around the approval of Remuneration Policy. It is also interesting to note that shareholder approval of the Remuneration Report aligns with Implementation Report approval.





Source: Proxy Insight

A second analysis was undertaken to understand the voting behaviour of South Africa's largest institutional shareholders following the implementation of King IV™. Based on the analysis the Public Investment Corporation has registered the largest opposition to the Remuneration Policy and Implementation Report while Stanlib registered the greatest support for both the Remuneration Policy and Implementation Report. At this point it is unclear what the major reasons were for the Public Investment Corporation's opposition. It is also interesting to note that the Old Mutual's voting aligned most closely to proxy advisor ISS, while Investec's voting aligned most closely to proxy advisor Glass Lewis.

Remuneration Policy	For %	Against %	Abstain %	DNV %	ISS Match %	GL Match %
Allan Gray	75.5%	18.9%	5.6%	0.0%	51.4%	58.1%
Coronation Fund Managers	81.3%	18.7%	0.0%	0.0%	62.2%	66.1%
Investec Asset Management	81.8%	7.3%	3.6%	7.3%	69.8%	81.3%
Old Mutual South Africa	68.2%	31.0%	0.0%	0.8%	88.9%	72.1%
Public Investment Corporation	62.3%	37.7%	0.0%	0.0%	72.2%	72.0%
Stanlib Asset Management	87.5%	9.4%	3.1%	0.0%	65.0%	76.0%

Implementation Report	For %	Against %	Abstain %	DNV %	ISS Match %	GL Match %
Allan Gray	84.6%	7.7%	7.7%	0.0%	56.3%	57.9%
Coronation Fund Managers	82.1%	17.9%	0.0%	0.0%	73.9%	82.1%
Investec Asset Management	82.0%	6.0%	3.6%	8.4%	67.3%	82.7%
Old Mutual South Africa	69.7%	29.3%	0.0%	1.0%	91.7%	74.2%
Public Investment Corporation	59.5%	40.5%	0.0%	0.0%	76.9%	67.6%
Stanlib Asset Management	87.0%	8.7%	4.3%	0.0%	53.8%	64.3%

Source: Proxy Insight

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8. Fair & reasonable - a Single Figure Standard?

8.1. Introduction

With the recent spotlight placed on executive pay and its relation to the pay of lower level employees, particularly of concern in South Africa, is the question increasingly being asked as to what is "fair and reasonable".

Quite obviously in South Africa the answer to this question will depend on whether the question is posed to:

- Well paid executives, who already earn more than enough to provide for their family now and into the future and quite possibly the following generations
- Those working hard to provide for their families, and frustrated in being unable to advance their position or their pay
- The union representative striving to address the needs of their constituencies for a fair wage
- The large number of semi-employed individuals living on or about the bread line
- The unemployed (both young and old) who barely get by from day-to-day supporting themselves and their extended families
- The politicians, some of them deeply caring of the plight of the poor, but also, some of them, recognising that it is the growth in commerce and industry that will enhance the economy, and lead the majority away from current penury and into future posterity
- The columnists, from all sides of the political spectrum, many of them having a strong desire, not just to sell column inches, but to expose perversity and corruption.

8.2. What is fair and reasonable?

Most stakeholders to the debate, albeit some more reluctantly than others, will concede that executives should be paid well for their services to shareholders, to business and the economy, and to society as a whole.

However, what is "fair and reasonable" in the context of executive pay and, as importantly, how should it be determined?

There is increasing recognition, supported by the principles of King IV™ that, total pay rather than any one component of pay should be used in assessing and comparing executive pay.

Going forward from now, year-on-year Single Figure comparisons are to be made within and between companies, as the Implementation Reports of companies are reviewed and scrutinised by stakeholders.

It is the Single (aggregate) Figure of actual pay in a year (and possibly the previous year) that tends to be the immediate spur for any controversy over a seemingly excessive pay quantum, and only once the controversy is sparked is there any attempt to explain or defend the full quantum in terms of its constituent elements.

Over the last 20 years, executive pay in South Africa may be considered to have evolved to a point where it is reasonably in balance with that of executive pay internationally. South African executive pay has adjusted to the "rest of the world". However, the visibility of the pay gap (executive pay to worker pay) in South Africa resulting from this adjustment has long been a major societal concern.

The pay gap is also becoming an issue overseas, but there it would appear that it is specific occurrences of excesses in executive pay, rather than excessive executive pay in general, that sparks controversy. It may also be that the issue overseas is more a political one, rather than the more deep-rooted societal issue that prevails in South Africa.

Whatever the pressure on executive pay, it is unlikely that it will result in any material decrease in general. However, it may be feasible to curb, or to at least expose, the excesses in relation to a set of "fair and reasonable" Standards for (overall) Single Figure executive pay.

The establishment of, and general support from stakeholders to, a Single Figure Standard approach could provide a framework against which stakeholders can recognise the acceptable parameters of overall executive pay and look to companies to adhere to them.

With the increasing spotlight on executive pay and good governance, the comment is often made, both locally and overseas, that with companies currently being expected to comply to a set of "best practice" norms ('benchmarks"), the result is an increasing requirement for conformity to the norms imposed on them by stakeholders, and as a result little ability for them to differentiate.

If companies were to work rather within the overall parameter of a Single Figure Standard, this would give some comfort to stakeholders and inform their reviews of executive pay, but still at the same time allow companies flexibility to position their executive pay mix within a defined Single Figure Standard.

Thus, companies can still differentiate their reward strategies, as much as they are expected by shareholders (and possibly society) to differentiate their business, operating and market strategies.

Deloitte proffers the view that the Single Figure Standard should be built up assembling the following components into an integrated whole.

- Total guaranteed pay ("TGP") that reflects the median of the market, for different groupings by company sizes, as a base for the standard
- Performance variable pay, with its two components of STI and LTI, that reflect its house view on the responsible on target mix in relation to TGP.

Deloitte advocates this more strategic approach to stakeholders evaluating executive pay, rather than any micro managing for conformity should be adopted, and that the Single Figure should be the primary consideration in targeting or evaluating pay, so that informed debate can be couched in terms of the holistic sum of all the components of pay.

8.3. Single Figure Standard – Executive Pay Comparison

It will be apparent to the reader that this report has placed the word benchmark in inverted commas (i.e. "benchmark"). There is considerable opinion that "benchmarking", and its selective, often self-serving use by companies, by market surveys providing "benchmarks", by executive pay consultants and remuneration committees, has served to ratchet up executive pay.

Companies and consultants can possibly rightly be accused of selective choice and interpretation of the peer group and/or the component of pay in order to "benchmark" to achieve a desired result.

Peer groups can be considered to be

- too big, or too small
- not representative enough of the business competition, or not representative of the talent competition
- too variable in size dispersion.

The remuneration component selected can be considered:

- If either BS or TGP is used in isolation, often the case as the "benchmarks" are most easily assembled, companies can be accused of selectively ignoring the full picture including performance variable pay and/or pay mix
- If TAC, inclusive of ACI, is used then there is often dissonance as to whether ACI should be reflected as an on target policy amount or the actual accruing in the past year (or an average of past years)
- If TR, TAC plus LTI, is used the issue around targeted versus actual is further exacerbated by the irregularity of long-term payments, and the material influence on their quantum resulting from the combination of exogenous factors, rather than any executive performance.

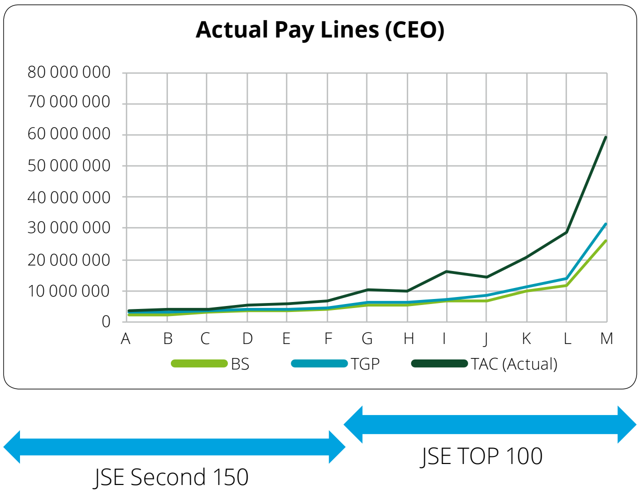
If a Single Figure Standard were to be adopted as a parameter within, which companies can differentiate their policy on pay mix, then:

- Total pay will be well understood by all stakeholders and can be appraised and managed in terms of a widely accepted Single Figure Standard
- Companies can have flexibility to position the pay positioning within the Single Figure Standard
- Stakeholders can evaluate the Policy as well its Implementation of executive pay within the framework of a Single Figure Standard.

8.4. Single Figure Standard – External Relativity

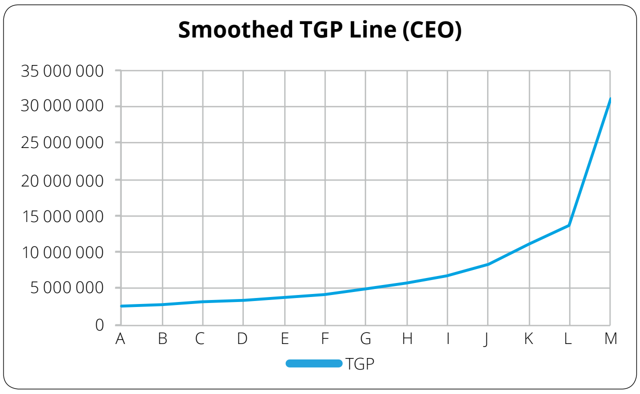
Deloitte has undertaken a number of exercises to establish its own Single Figure Standard both in the light of the current market for executive pay, and in terms of "fair & reasonable".

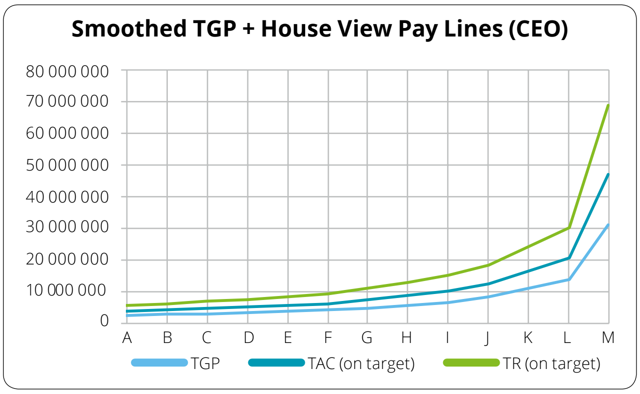
Its view is that "fair & reasonable", can be best established, not by any philosophical approach, but rather by taking a practical and informed view of the current situation and re-engineering a set of standards based on a responsible positioning within the existing norms.



In this context, it proffers a four-part submission

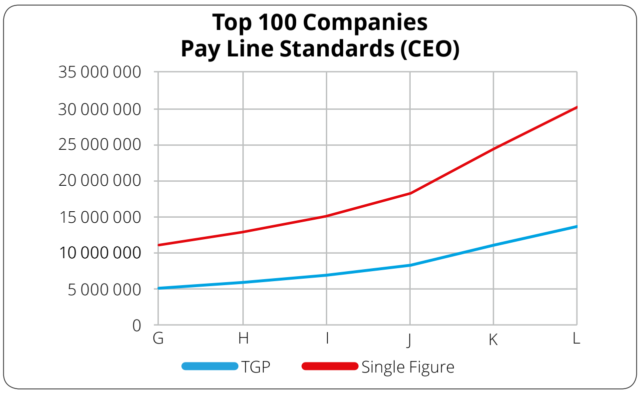
1. A Grid approach to establish the relative size of a company using a number of financial and employment metrics.
2. Its current analysis of pay disclosure in the remuneration reports of listed companies, supplemented by its own market survey results for the second tier companies.
3. With this information the establishment of the median TGP for the companies falling into each of the Grid sizes, and the concomitant establishment of a TGP pay-line for both the CEO/MD and the CFO/FD position, from Grid size A through to Grid size M (& N).
4. The application of the Deloitte House View on Performance Variable Pay mix to the TGP pay-line to establish a Single Figure pay line.





JSE Second 150 | JSE TOP 100

JSE Second 150 | JSE TOP 100



'<R 21 billion	'<R 36 billion	' <R 67 billion	' <R 150 billion	' <R 500 billion

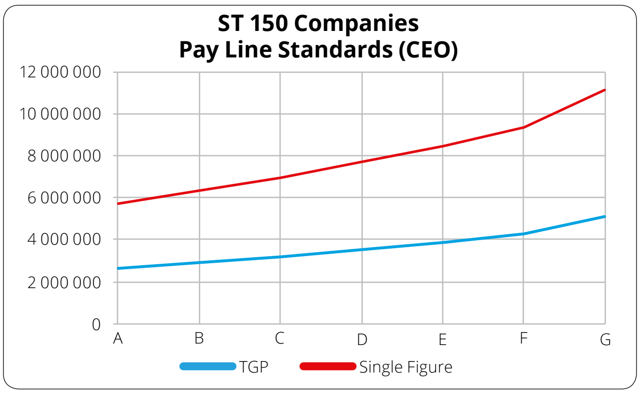
Single Figure by company size

Fair & Reasonable Standard

It can be seen in the schematic that company size is displayed on the "x axis" in various forms.

- Company Grid size
- Broad categories of JSE Top 100 and JSE Second 150
- Listed company Market Caps (last 3 years average)

The derived Single Figure Standard by company size is shown as a red line.



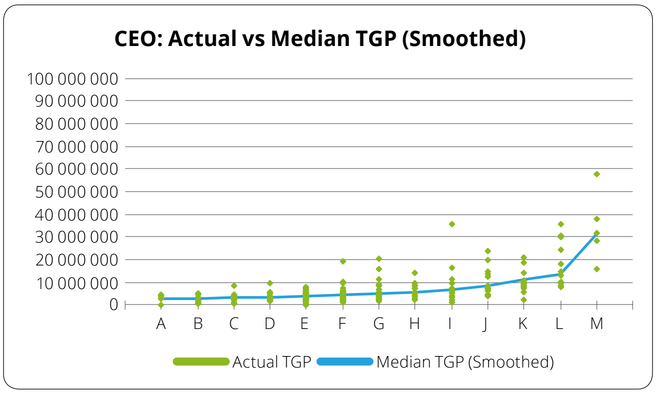
'< R 0.5 billion	'< R 1.5 billion	'< R 3 billion	'< R 7 billion	'<R 12 billion

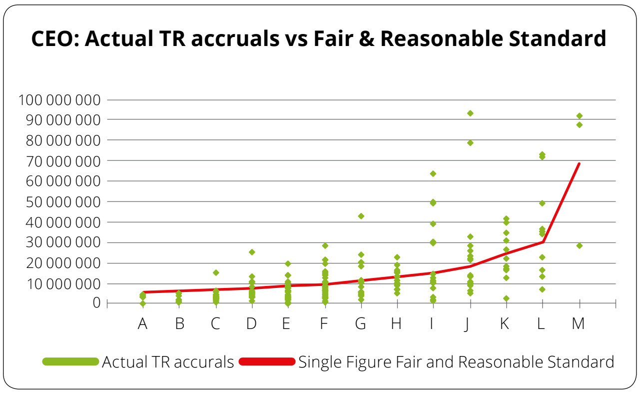
The current Grid for grouping the companies by Grid Size is shown below.

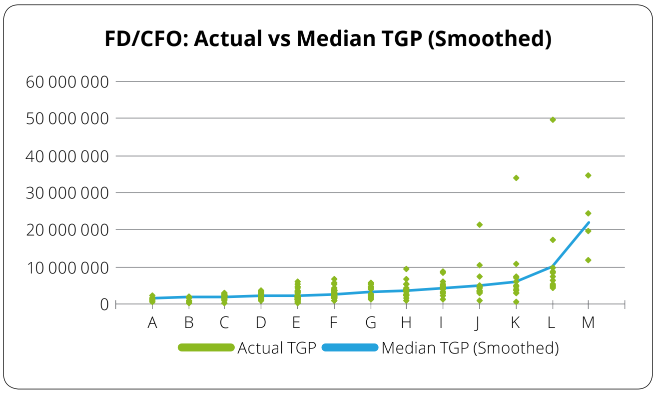
Company Sizing Grid Deloitte Execeval Methodology for External and Internal Relativity				The 2017/2018 Grid Determining Executive Grid Size Annual Cost of Employment (R million)													
			Basic Salary & Wage Bill R million	Up to R17	R17 to R34	R34 to R68	R68 to R136	R136 to R272	R272 to R544	R544 to R1 088	R1 088 to R2 176	R2 176 to R4 352	R4 352 to R8 704	R8 704 to R17 408	R17 408 to R34 816	R34 816 to R69 632	Over R69 632
			No of Staff (Actual Numbers)	Up to 100	100 to 200	200 to 400	400 to 800	800 to 1 600	1 600 to 3 200	3 200 to 6 400	6 400 to 12 800	12 800 to 25 600	25 600 to 51 200	51 200 to 102 400	102 400 to 204 800	204 800 to 409 600	Over 409 600
			Total cost Employment (TCOE) R million	Up to R28	R28 to R56	R56 to R112	R112 to R224	R224 to R448	R448 to R900	R900 to R1 800	R1 800 to R3 600	R3 600 to R7 200	R7 200 to R14 000	R14 000 to R28 000	R28 000 to R56 000	R56 000 to R112 000	Over R112 000
TYPICAL MARKET CAPITALISATION R MILLIONS (LISTED COMPANIES)	TYPICAL TURNOVER (R MILLIONS)	TYPICAL TOTAL ASSETS (R MILLIONS)	TYPICAL ANNUAL PRE-TAX PROFITS (R MILLIONS)														
Up to 70	Up to 90	Up to 140	Up to 5	A	B	C	D	E	F	G	H	I	J	K	L	M	N
70 to 140	90 to 180	140 to 280	5 to 10	B	B	C	D	E	F	G	H	I	J	K	L	M	N
140 to 440	180 to 550	280 to 830	10 to 50	C	C	C	D	E	F	G	H	I	J	K	L	M	N
440 to 1 200	550 to 1 200	830 to 2 000	50 to 150	D	D	D	D	E	F	G	H	I	J	K	L	M	N
1 200 to 3 200	1 200 to 1 800	2 000 to 4 400	150 to 360	E	E	E	E	E	F	G	H	I	J	K	L	M	N
3 200 to 7 000	1 800 to 3 400	4 400 to 8 800	360 to 620	F	F	F	F	F	F	G	H	I	J	K	L	M	N
7 000 to 12 000	3 400 to 5 900	8 800 to 14 600	620 to 1 000	G	G	G	G	G	G	G	H	I	J	K	L	M	N
12 000 to 21 000	5 900 to 10 300	14 600 to 25 700	1 000 to 2 000	H	H	H	H	H	H	H	H	I	J	K	L	M	N
21 000 to 36 000	10 300 to 20 000	25 700 to 43 100	2 000 to 3 300	I	I	I	I	I	I	I	I	I	J	K	L	M	N
36 000 to 67 000	20 000 to 44 000	43 100 to 65 000	3 300 to 5 200	J	J	J	J	J	J	J	J	J	J	K	L	M	N
67 000 to 149 000	44 000 to 91 000	65 000 to 175 000	5 200 to 13 300	K	K	K	K	K	K	K	K	K	K	K	L	M	N
149 000 to 560 000	R91 000 to R207 000	175 000 to 370 000	13 300 to 27 000	L	L	L	L	L	L	L	L	L	L	L	L	M	N
560 000 to 1 250 000	207 000 to 382 000	370 000 to 565 000	27 000 to 41 000	M	M	M	M	M	M	M	M	M	M	M	M	M	N
Over 1 250 000	Over 382 000	Over 565 000	Over 41 000	N	N	N	N	N	N	N	N	N	N	N	N	N	N

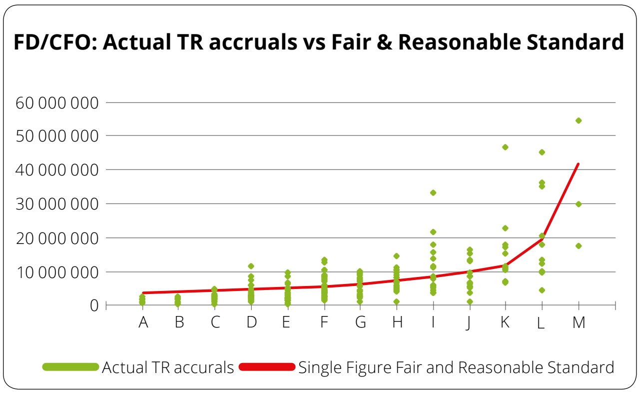
The derivations of the Single Figure Fair and Reasonable Standard for the CEO and FD/ CFO positions are shown schematically below.

Single Figure Fair and Reasonable Standard by Company Size









The application of the above-indicated methodology to the 2017 disclosure of executive remuneration in JSE listed companies results in the following Single Figure statistics by company Grid size.

Company Grid Size	CEO/MD Execeval Points	Single Figure R'
A	2588	5 714 537
B	3027	6 307 857
C	3248	6 962 779
D	3735	7 685 699
E	4185	8 483 677
F	4688	9 364 506
G	5390	11 128 433
H	6043	12 892 359
I	6767	15 127 117
J	7805	18 350 992
K	8739	24 357 410
L	9788	30 244 170

Company Grid Size	CFO/FD Execeval Points	Single Figure R'
A	1764	3 322 030
B	1976	3 635 078
C	2212	3 977 626
D	2544	4 352 454
E	2848	4 762 603
F	3192	5 211 402
G	3673	6 098 001
H	4115	7 135 434
I	4610	8 349 362
J	5303	9 769 811
K	5945	11 431 917
L	6658	19 228 874

The above Single Figure Standards by company size result from the same data used in the other chapters of this report. They are there for 2017/8 standards and should be recognised as such by anyone utilising them for any purpose.

As a result of the methodology used to derive them, they represent a responsible and if anything a conservative view of the top executive pay market in South Africa.

It is not expected that companies will wish to religiously adhere to any Standard, or that in any one year there will be any evidence between the Standard and the actual pay. Much will depend, as always, on timing, on the performance of the individual, the business, the economy and the market.

However, one would expect that over a (say) five year period there should be some form of correlation between:

- the Single Figure actuals versus the Standard
- the company's return on capital in relation to its weighted average cost of capital
- the company's total shareholder return and the cost of equity.

This report does not explicitly address this form of analysis, but there is evidence in Chapter 4 on the "Alignment of executive reward to company performance and shareholder value creation" that we are some way away from any such correlation between the Single Figure Standard, company performance and shareholder alignment.

The Execeval points are normative scores for (respectively) the CEO/MD and the CFO/FD of a company falling into any one of the Grid sizes, A to L. The Single Figure Standard exercise has not been extended to M/N size companies, as the number of companies and their (very) international footprints do not lend them to any meaningful Standard setting in the South African context.

In establishing the Single Figure Standards, and in this full report in general, Deloitte has confined itself to analysing the two positions of CFO/MD and CFO/FD. This has been done as, it is these two positions that predominate and are always found in the disclosure of pay in annual reports.

Other positions also feature, but there incidence is not so prevalent as to allow for meaningful analysis.

With the disclosure requirement now of not only Directors' pay but also Prescribed Officers' there will be an opportunity in the future to provide a more granular analysis based on public domain information including the other positions. Additionally methodologies such as Execeval could allow Single Figure paylines to be cascaded internally into an organisation, and across organisational units within an organisation.

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