

Human Resource Services

Non-Executive Directors

Best Practices and Fees Report – South Africa 2008

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Executive summary

This is the second edition of our Non-Executive Directors Best Practices and Fees Report.

The world has changed abruptly after several years of strong domestic growth, easy liquidity and the booming housing market. In a very short space of time, we have seen bankruptcy, takeovers and government bailouts in the financial services industry, raising fears about other financial institutions and the stability of the financial markets in general.

Amidst all this turmoil, boards are now faced with the task of having to reassess the levels of remuneration paid to executives and other key talent, and their whole remuneration strategy. High-quality talent will be vulnerable to competitors and immediate action will have to be taken to retain such talent. Do corporations have the right people strategy in place to attract and retain the talent they need – not just to survive today's downturn, but also to win in the marketplace of tomorrow?

The need for reward reform and restructuring is very apparent, be that in the regular tweaking and tinkering of annual bonus plans and share schemes, or the more radical restructuring of plan designs, funding strategies and performance pay systems. However, changing people's pay and benefits is really tough to do, but as we have seen in the current market turmoil, organisations are now forced to implement these tough decisions in order to survive.

The onus and responsibility is now on the non-executive directors to ensure that these changes are brought about. It's better to commence now before the regulators force the issue and external advisers will be required, as was evident during our review of compensation trends in South Africa.



Gerald Seegers
Director
Human Resources Services

Foreword



War and Peace, probably the greatest novel ever written, stands alone in its vast scope and minute detail, its immense diversity and final unity. Set in the years leading up to and culminating in Napoleon's disastrous Russian invasion, the novel focuses upon an entire society torn by conflict and change.

In 2008's unfolding of modern-day events, history repeats itself, adding details of unparalleled scale - these momentous times effect all of humanity to such an extent that the voluminous text created by Tolstoy pales into insignificance. Almost by the minute new events unfold.

We cannot escape the fact that all societies are torn by monetary chaos, military conflict, shifting demographic change and looming pandemics. South Africa has an estimated 5.5 million people living with the HIV virus -- the highest total of any country in the world and more than one-sixth of the global total. About 1,000 South Africans die each day of the disease and complications like tuberculosis, changing the landscape to one marred with newly-trenched graves of those who have succumbed - through ignorance or disregard - to this

real and present danger. Even more become infected because prevention messages haven't worked. Our borders are under threat from the real and present danger of cholera, which seems to be just another obstacle to add to the huge challenges looming on the immediate and long-term horizon.

Business as usual is moved to the backburner and business leadership is facing disparate issues ranging from lack of available credit and difficult business and people decisions within corporations, to decisions beyond the periphery of their own business, which will touch areas beyond the scope of management's previous challenges.

In the sudden discontinuity brought about by the economic downturn, executive compensation will require transparent review. You do not lead by hitting people over the head - that's assault, not leadership. This is succinctly encapsulated in the following phrase - Do justly, now. Love mercy, now. Walk humbly, now. You are not obligated to complete the work, but neither are you free to abandon it. When fortunes change, stalwarts leading corporations today will be needed, more than ever before.

Sources of Information

Throughout, information for this report has been gleaned from the public domain, and drawn from our experience working with local and global organisations and using PricewaterhouseCoopers' international network. The main source of reference is the published accounts of listed entities as at 21 November 2008 and comment available in the public domain, or publications generally accepted to be available publically. The former source is not referenced as footnotes unless this is needed to clarify the comment or fact. Where possible, the latter two sources are referenced as a footnote.

Sample Composition

All corporations listed on the Johannesburg Securities Exchange are included in the sample data, and other sources considered relevant are referred to in footnotes.

Governance and Regulatory Environment Trends



Corporate governance and regulatory requirements hit centre-stage on 15 November 2008. Financial accounting and reporting were the main topic of discussion on this momentous weekend when the G-20¹ leaders met in Washington. The Summit's Declaration sets the stage for several important reforms, some of which are already in progress. In the broader sense, the significance of corporate governance has never been viewed as starkly on the global stage as it is today. The underlying principles for this august gathering is the rapidly changing international order at a time of growing geopolitical challenges, which increase the likelihood of discontinuities, shocks and surprises. No single outcome seems preordained: the Western

model of economic liberalism, democracy, and secularism, for example, which many assumed to be inevitable, may lose its lustre – at least in the medium term.

On the smaller stage, each business sees this same drama unfolding, and governance is high on all agendas.

Since this is the anniversary edition of this Non-Executive Directors Best Practices and Fees Report, it is time to review developments and trends under this caption, since the NED responsibility revolves around decisions that are closely bound to what is right action, and what is not. In the connected world today, what happens elsewhere usually ripples across to everywhere, and is eventually loosely termed best practice.

United Kingdom

In June 2008 changes were made to the provisions of the Combined Code in two sections, which will remove the restriction on an individual chairing more than one FTSE 100 company (provision A.4.3); and for listed corporations below the FTSE 350, allow the company Chairperson to be a member of, but not chair, the audit committee provided he or she was considered independent on appointment (provision C.3.1).

¹ Coalition of 20 major developed and developing countries led by India, China, Brazil and South Africa. The G20 was formed in 2003 to present the interests of developing countries at the Fifth WTO Ministerial in Cancun to combat unfair trade practices, especially in agriculture, sought to be imposed by the EU-US. Other members include Argentina, Bolivia, Chile, Costa Rica, Cuba, Ecuador, Egypt, Guatemala, Indonesia, Mexico, Pakistan, the Philippines and Thailand. President Kgalema Petrus Motlanthe represented South Africa.

The Combined Code has now given clear guidance regarding the decision process when appointing a Chairperson, and is quoted here in full:

- For the appointment of a Chairperson, the nomination committee should prepare a job specification, including an assessment of the time commitment expected, recognising the need for availability in the event of crises. A Chairperson's other significant commitments should be disclosed to the Board before appointment and included in the annual report. Changes to such commitments should be reported to the Board as they arise, and their impact explained in the next annual report.

If read against the previous rule, the Chairperson is now allowed to chair more than one FTSE 100 company.

Regarding the second rule change:

- The Board should establish an audit committee of at least three, or in the case of smaller companies two, independent Non-Executive Directors. In smaller corporations the company Chairperson may be a member of, but not chair, the committee in addition to the independent Non-Executive Directors, provided he or she was considered independent on appointment as Chairperson.

The Board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience.

United Kingdom Best practice: Governing by example

The UK office of PricewaterhouseCoopers recently published a paper on best practice in corporate governance and synthesised the perspective of best practice in the UK, which is at the forefront once again. Broadly quoted here is an extract to pulse the thinking in the UK:

With a recently-updated Combined Code, along with the wealth of other guidance – from Turnbull to Tyson – many NEDs would be forgiven for asking exactly what good practice in governance really looks like.

In our new compendium² of best practice for corporate governance reporting, we answer this question by offering helpful tips along with extracts taken from the governance statements of some of the FTSE 350's most informative annual reports.

The compendium serves as a repository of good practice disclosure examples, portraying how different corporations have developed their corporate governance reports to meet the expectations of today's shareholders.

The only safe ship in a storm is leadership.

Faye Wattleton

² PricewaterhouseCoopers UK office

Our top tips for good governance include:

- Establish corporate governance guidelines and make them available on the company's website;
- Clearly identify and explain departures from the Combined Code. Show how last year's departures were addressed in the current reporting period;
- Identify key board members and cross refer to other sections of the report for further information. Highlight board changes during the year;
- Present concise tabular presentations of board and committee attendance during the year and provide appointment and resignation dates;
- Provide reasons for non-attendance, and explain how directors unable to attend a meeting can communicate their views to the board as a whole;
- Provide a clear going concern confirmation and explain directors' duties;
- Provide information on the nature and level of insurance cover provided to the directors and officers;
- Use diagrams to portray the balance of executive and independent non-executive directors; highlight board changes during the year and link these changes to the results of the board performance evaluation;

- Give details on the tenure of independent non-executive directors;
- Explain policy for dealing with weaknesses in internal controls;
- Outline the key responsibilities of the committees and the issues considered during the year; provide information on the audit committee meetings and on their attendance by non audit committee members; and
- Outline the main resolutions put forward at the AGM.

These practices will lead to open transparency for the shareholders, and provide a clear synopsis that may be referred to when considering their investment.

United States of America

The New York Stock Exchange and the NASDAQ Stock Market have modified several of their bright line tests for determining director independence pursuant to their respective corporate governance listing standards. These amendments are currently effective.

- The first change made by both the NYSE and NASDAQ is to increase the director compensation bright line test³ for director independence set forth in Section 303A.02(b)(ii) of the NYSE Listed Company Manual and Rule 4200(a)(15)(B) of the NASDAQ Marketplace Rules, respectively. Prior to the amendments, these rules barred

Changes to NYSE Listing Rules effective immediately.....

³ A judicial rule that helps resolve ambiguous issues by setting a basic standard that clarifies the ambiguity and establishes a simple response.

a determination that a director was independent if the director or any immediate family member received more than \$100,000 in director compensation from the listed company, other than director and committee fees and pension or other forms of deferred compensation for prior service that is not contingent on continued service. This amount has been increased to \$120,000 so that the threshold is consistent with the dollar threshold for transactions that need to be disclosed under Item 404 of Regulation S-K with respect to related person transactions.

- The second change made only by the NYSE relates to the auditor test set forth in Section 303A.02(b)(iii) of the NYSE Listed Company Manual as it applies to immediate family members of directors. Prior to the amendment, the bright line test barred a determination that a director was independent if he or she had an immediate family member who was a current employee of the internal or external auditor. This had the effect of precluding a director from being independent based on an immediate family member's employment with the listed company's audit firm, even where that family member had no involvement on the listed company's audit, such as where a child graduating from college accepted an entry-level job in the audit practice of the listed company's audit firm without personally working on the listed company's audit.

This bright line test has been further modified so that a director is barred from being considered independent as a result of an immediate family member's employment only if the immediate family member:

- Is a current partner of the company's internal or external auditor;
- Is a current employee of such a firm and personally works on the listed company's audit; or
- Was within the last three years a partner or employee of such a firm and personally worked on the listed company's audit within that time.

This change to the NYSE auditor independence test will bring this NYSE independence requirement in closer alignment with the NASDAQ and American Stock Exchange auditor-based tests for director independence.

Canada

The Canadian Securities Administrators has released the final rule on executive compensation disclosure for reporting issuers. This rule results from a lengthy process of consideration of what disclosure of executive compensation should be required, in light of the US disclosure rules implemented a couple of years ago, as well as media and shareholder interest in the topic. The rule is intended to result in clearer and more complete disclosure of precisely

what was paid to directors – and, more importantly, why they were paid what they were paid and how compensation decisions were made.

The Rule places executive compensation clearly within the larger context of governance of the corporation. Disclosure of all of the compensation that a board intended to pay is seen as a means to provide investors with “insight into executive compensation as a key aspect of the overall stewardship and governance of the company.” The securities regulators will be carefully reviewing disclosures made in 2009 and are expected to be vigilant to ensure their broad objectives are satisfied.

The Canadian rule contains several significant changes from the current requirements, which will lead to considerable effort on the part of public company management and compensation committee members. An interesting reporting requirement is that in future years, retrospective disclosures for three years are required. The new disclosures aim for transparency in compensation, and the salient features are:

- Compensation discussion and analysis – this new narrative discussion is to describe all significant elements of compensation and the rationale for compensation awarded.
- A summary compensation table is to include all compensation intended to be paid (including equity awards, based on their grant date fair values) and

includes a new column “Total compensation.” This column will likely be the most widely read part of the disclosures.

- Pension plan benefits – new tables are required, to give significantly enhanced disclosure of both defined benefit plans and defined contribution plans.
- Change of control and severance agreements – much more disclosure about these arrangements and their potential costs is required.

Perhaps the biggest change from the current requirements by the Canadians will be the new narrative description of all significant parts of the executive compensation programme. This section is to discuss and analyse the following elements:

- The objectives of the compensation programme or strategy;
- What the compensation programme is designed to reward;
- Each element of compensation;
- Why the company chooses to pay each element;
- How the amount paid under each element is determined; and
- How each element of compensation, and the decisions made about that element, fit into overall compensation objectives and affect decisions about other elements.

The *compensation* discussion and analysis replaces the compensation committee report, and is intended to be more extensive, yet easy to understand. The Canadians have criticised the US methods as reported on their SEC filings as being too long and complex.

What is striking is that additional requirements include:

- A description of any new decisions or policies made after the end of the last fiscal year that could affect a reasonable person's understanding of compensation paid during that year.
- Matters such as option repricing taken early in the next year would need to be disclosed⁴.
- Objective or quantitative or qualitative performance goals or metrics for compensation are to be disclosed, unless doing so would seriously prejudice the company's interests⁵. If particular performance metrics are not disclosed for this reason, disclosure will be required of what percentage of the named director's total compensation relates to the undisclosed information and how difficult it would be for him, or how likely it would be for the company to achieve the undisclosed goal.

This disclosure requirement will need to be closely watched, since often performance metrics will key off important strategic drivers for a company, and could provide valuable information for analysts and competitors.

The objective of the entire rule is to capture all compensation paid or payable to directors, and the Summary Compensation Table is to be the clearest outline of that compensation. The table is to include the following elements of compensation:

- Salary;
- Monetary value of equity awards (shares and options), calculated on their grant date fair values;
- Monetary value of non-equity awards, including short-term and long-term incentive plans;
- Pension value, including the compensatory amounts for both defined benefit and defined contribution plans; and
- All other compensation, which will include perquisites (those valued at more than \$50,000 or 10% of total salary), post-retirement benefits, tax gross-ups, insurance premiums, and payments resulting from termination or change of control agreements.

... The Canadians are re-inventing their Rules...

⁴ In the current market conditions, this requirement may result in disclosures that might not have been made under the previous rule

⁵ This appears to be directed at future non-financial metrics, which will become more prevalent as corporations are required to control and account for impact situations such as global warming and GHG emissions related to operations – metrics against which executives will be rewarded or penalised.

A narrative description of any significant factors necessary to understand the information in the table is a requirement.

Rules of Corporate Governance are important elements of the regulatory framework for successful market economies. Definitions of 'corporate governance' vary, but the Commission generally uses it to mean the mechanisms by which an enterprise is directed and controlled, including how managers are held accountable for corporate conduct and performance.

EU Financial Services Action Plan

It is noted that the rule is consistent with the US executive compensation disclosure requirements in many ways⁶.

The new rule will require a wholesale review of executive compensation disclosures by Canadian public corporations.

European Union

The US-born financial sector crisis has reignited a long-simmering debate in Europe about executive pay amid growing outrage over the huge bonuses given to bankers as markets tumble.

Disclosure practices vary widely across the European Union despite a four-year-old non-binding European commission recommendation to increase corporate remuneration transparency on individual executive pay and remuneration policies as a whole, including non-executives.

A European commission report last year found greater transparency had ensued, but responses had been patchy, with only a third of member states enabling even an advisory shareholder vote on executive remuneration. In Germany, where only 40% of the top 30 corporations in the DAX have remuneration committees and most annual reports detail only the package of the highest earner, even that stipulation causes anger among directors.

⁶ Certain South African corporations are required to file similar SEC documents, and the Canadian methods are of interest. The information included here is a brief summary of a detailed document published by the Canadian Securities Administration.

While other countries have dragged their feet, the Netherlands has been in the vanguard with tax proposals targeting excessive remuneration of senior executives, which are due to take effect on 1 January next year, and the structure of EU boards is bound to include independent directors. European finance ministers are due to discuss the issue in the context of the financial sector crisis at their next regular meeting in Luxembourg on October 6. July saw France's Nicolas Sarkozy take on the Presidency of the European Union. This will put them in the Chair of meetings of EU Ministers until the end of the year. By default, the October meeting where the issue of executive pay is on the agenda and President Sarkozy will no doubt add his view, being an outspoken proponent on this matter.

South Africa

King III Update

The King III update will hit the press too late for comment in this edition, and reasonable comment at this stage is conjecture.

Whatever King III holds in confidence today is keenly awaited by all tomorrow, with great expectation from those who own, and those who operate companies.

Changes to Schedule 14 of the JSE Listing Requirements (share incentive plans)

Schedule 14 of the JSE Listing Requirements, governing the operation of share incentive plans has been amended with effect from 15 October 2008. These changes will have an impact on the plans of all listed corporations.

The changes are effective for all listed corporations that implement new share incentive plans after 15 October 2008. Corporations that have plans adopted before this date will have until 1 January 2011 to amend their plans in accordance with the new provisions. Grants that have already been made under existing plans adopted before 15 October 2008 will remain unaffected by the changes. The new provisions are, however, silent on the transitional requirements where for example a company with an existing plan uses the existing plan to make new grants after the effective date.

The provisions are not applicable to phantom plans and it therefore seems that corporations that operate these can still implement plans that are not subject to shareholder approval and the subsequent greater public scrutiny.

The main changes that could have an impact on the plan/s revolve around the following:

- The required shareholder approval of a new plan has been increased to 75%;
- The maximum percentage (20%) of issued shares that can be used has been removed and corporations must not ask for a specific number of shares. Rolling-over (e.g. a 10% limit to be utilised over a ten-year period) is no longer allowed;
- Specific approval must be sought for a purchase of shares in the market. This issue is of particular importance if a corporate tax deduction is being sought and it would be imperative to verify this requirement against the plan rules; and
- Recycling of allocated shares that vest and are delivered is no longer allowed. Only allocated shares that lapse as a result of forfeiture for instance can be recycled.

I am a man of fixed and unbending principles, the first of which is to be flexible at all times.

Everett Dirksen

Committees



General

In reviewing annual reports of South African corporations, it appears that trends in reporting on performance evaluation have evolved considerably. Transparency is clearly the aim, and greater maturity is demonstrated in both their operations and disclosures. The use of external advisers appears to be more prevalent, especially in seeking guidance in audit, remuneration and sustainability issues. How to tackle challenges to minimise the corporate carbon footprint are often referred to outside professionals. In light of the severity of the economic downturn, it would not be unreasonable to expect that outside professional help may be called for in this area of endeavour, although current indications are that in-house financial evaluation reviews are still the preferred option.

The board of directors is still solely responsible for the actions and decisions of these committees. It determines a policy for the frequency, purpose, conduct and duration of its meetings and those of the formally established committees. As reported in 2007,

the overwhelming trend in South Africa remains focused on the following committees:

- Audit Committee;
- Risk Committee;
- Sustainability Committee;
- Nomination Committee; and
- Remuneration Committee.

The practice of combining determined functions in audit, risk and sustainability committees remains evident, except that sustainability appears to receive greater emphasis. This is probably due to the growing importance of peripheral matters such as global warming and climate change, which are driving a more precise agenda.

The new ruling by the Johannesburg Securities Exchange regarding Audit Committees and the appointment of a financial director may underline the specialist requirement of this committee, and the board of directors may sever any dual roles previously combined. Conversely, King III may give direction regarding committees and their specialist functions.

Audit Committee

The Audit Committee should recommend and appoint auditors and approve the use of the external auditor for non-audit work.

In 2008, the JSE introduced a Register of Auditors, and their advisers. The changes are contained mainly in new paragraphs 3.75(c), and 3.86 to 3.89; new Section 22 and the accompanying Schedule 15. Certain paragraphs and definitions in Sections 1, 4 and 8 have also been amended to accommodate these changes. In addition, every JSE-listed company is required to have a financial director.

These changes have important implications for many listed entities and their auditors, and NEDs need to remain abreast of developments to ensure that their corporations are positioned correctly, since the penalties for non-compliance are onerous.

The use of external advisers appeared to be gaining ground. The trend observed is that corporations appeared to alternate between internal and external resources, acknowledging the benefits of both approaches and the value in alternating between them.

The EU is currently in the process of drafting guidelines regarding governance, which includes the aspect of external and external audits and the decision process to be followed.

Risk Committee

Risk issues are more relevant today that was previously the case. The economic recession will put greater pressure on Risk Committees to ensure that decisions are in the best interest of the company, and examine a wider range of issues than previously. The assistance of professional guidance in important matters is already a reality, and may escalate in the near term.

There are risks to manage and challenges to surmount, but a crisis can also be an opportunity for management to address structural issues within the business that had previously been too difficult to confront. A crisis can unite stakeholders to confront the difficult challenges necessary to enhance competitiveness including undertaking large restructurings. As credit continues to tighten across many industries we expect to see opportunities for well-capitalised players to take advantage of rare opportunities to address strategic objectives through transformational transactions⁷.

Sustainability

If good risk management is the armour that cloaks the company, then sustainability is the body protection. Sustainability is a first requirement globally, and stakeholders need to know exactly what company directors are doing to manage the avalanche of challenges on the road to effective management.

South African Sustainability Committees are meeting 42% more often, on average, than last year

....

⁷ Extract from *Meeting the current financial crisis – Managing risks and capitalising on opportunities* – PricewaterhouseCoopers November 2008.

Last year when global sustainability issues were front-page news and high on the agenda, corporations rose to the challenge and their response is clearly evident in annual reports where substantial coverage is given to plans and actions to ensure shareholders and the public at large that they mean business in this arena.

Good examples are notable names listed on the JSE and to single out any one company here would be out of order, since without fail the top corporations are reporting their actions and intended solutions. These sustainability reports, the culmination of sustained effort by sustainability committees, are included in their annual reports as well as being published as specialised reports on hard copy as well as on the web.

This is also the case in other countries, where this was the major topic of boardroom discussion. The credit crunch does not detract from the urgency of sustainability as a subject, but in fact gives it greater impetus as a heading on the agenda where it will no doubt reign in future. This view underlines the fact that financial and non-financial performance excellence goes hand-in-glove like yin and yang – you can't have one and not the other.

With climate change – one of the major challenges in sustainability discussion – governments are also rising to this challenge by regulating sustainable advantage as a priority.

Canada, known for its pristine approach to things environmental, has published guidelines issued by The Canadian Institute of Chartered Accountants (CICA), whose publication *Building a Better Management Discussion and Analysis* includes a guide to Climate Change Disclosures, amongst other pertinent matters. Building on previous CICA guidance regarding reporting issuers' ongoing disclosure obligations, the Guide is designed to assist issuers in deciding how to assess the business and financial impact of climate change issues.

The Guide identifies various types of information that investors and analysts are increasingly seeking, including information relating to:

- Whether the company has factored climate change issues into its business strategy;
- Whether climate change poses physical, regulatory, and reputational or litigation risks to the company;
- The company's direct and indirect greenhouse gas emissions;
- Whether climate change issues have or are expected to have an impact on a company's financial operations, cash flow, or financial condition; and
- What governance processes and resources a company has dedicated to these issues.

I start with the premise that the function of leadership is to produce more leaders, not more followers.

Ralph Nader

As part of considering whether any particular information is material and thus to be disclosed, the Guide suggests that management should consider whether the impact of a climate change issue might reasonably be expected to grow over time, potentially making early disclosure of the issue important to long-term investors.

The Guide indicates that corporations, in addition to reviewing their securities law requirements and financial statements, might also consider a list of other sources when deciding what information to assess for disclosure.

Although securities laws do not prescribe a format for presenting this disclosure, the Guide suggests three options when disclosure relates to material climate change issues:

- As a separate section;
- As a subheading within the risk factors section; or
- Linked to relevant discussions in other parts of the management disclosure, such as corporate strategy, capital resources or outlook.

Nomination Committee

Additional responsibility (in conjunction with the Audit Committee) will now rest on the shoulders of the Nomination Committee in the appointment of a financial director, following the new JSE rule.

The main function of the Nominations Committee remains the revision and assessment of the board, individual directors as well as committee member assessment. These valuations are for the body as a whole, as well as individual members. The valuation usually occurs annually.

In the UK, PricewaterhouseCoopers conducted a survey on the evaluation process and a summary of their findings is included here.

Disclosures on the Chairperson's evaluation process were the most commonly provided. Fifty of the 71 FTSE 350 corporations (70 per cent) that conducted a performance evaluation confirmed that the company chairperson was evaluated by the non-executive directors, led by the senior independent director, taking into consideration the views of executive directors.

Disclosures on the evaluation of executive and non-executive directors were less frequent, with approximately 55 per cent of the 71 FTSE 350 corporations that conducted a performance evaluation, providing information on their directors' evaluation process.

FTSE 100 corporations were found to provide more frequent disclosures on their directors' evaluation process, compared to FTSE 250 corporations. However, FTSE 250 corporations took the lead in reporting on the chairperson's evaluation process.

Remuneration Committee

Greater emphasis is placed on the role of the Remuneration Committee in view of IFRS disclosure requirements, where their input to the Audit Committee is invaluable in finalising the reporting function. This committee holds intimate knowledge of remuneration packages, incentive schemes and in particular share options and allocations under various schemes that may be in operation. All of these are reported on annually in the annual report. Some of the larger corporations have many share option schemes with complex rules, each with its own historic detail – each of which needs to be listed accurately for stakeholder information, and play an important role in ensuring an objective approach to the management of executive pay. The delegation of responsibility to a committee of the board, constituted entirely of independent non-executive directors, provides a significant degree of security for shareholders. It also increases the efficiency of the board, by removing certain processes from its remit and ensures that the work of the committee is free from conflict. The services of competent outside professionals in the field of employee reward is now prevalent, and is considered essential by most of the top corporations listed on the JSE.

In the wake of the credit crisis, searching questions are being asked about whether compensation systems in financial services, for example, had a part to play in creating or fuelling the current situation. To some observers, rewards and the culture that created them are one of the most important factors, while to others; they play no substantive role at all. What is beyond doubt is that recent events have, rightly or wrongly, generated significant scrutiny of compensation in the sector, from market participants, regulators and government officials.

And while there is general agreement – even among industry participants themselves – that some degree of reform to reward systems would be beneficial, there is less consensus about the scale of the change required and about what, if anything, can be done to improve the current system in a way that benefits the industry as a whole⁸.

⁸ Reward: A new paradigm?
PricewaterhouseCoopers September 2008

Meetings

An examination of annual reports, the following table was extracted reflecting the median of meetings held⁹ in the different sectors. Research reveals that Sustainability Committees met on average 42% more often in 2008 than in 2007.

Meeting	Board	Audit	Corp. Governance	Nominations	Other	Remuneration	Risk	Sustainability	Aggregate All Meetings
Mining	4	3	3	3	3	3	6	6	31
Banking	6	3	2	4	3	2	3	6	29
Food	3	4	4	3	5	3	3	6	31
Telecommunication	2	3	3	2	1	4	4	3	22
Oil & Gas	3	3	1	4	3	4	6	5	29
Insurance	2	2	4	4	5	4	6	7	34
Financial Services	4	2	4	4	5	4	3	4	30
Industrial Goods & Services	8	2	1	2	4	4	6	7	34
Retail	5	3	4	2	4	4	3	7	32
Personal & Household Goods	3	4	1	2	4	4	6	6	30
Media	4	3	3	3	4	4	5	3	29
Construction & Materials	3	4	3	2	3	4	5	7	31
Base Metal Processing	2	4	4	3	2	2	6	5	28
Health Care	4	4	2	4	2	4	6	6	32
Travel & Leisure	5	3	1	4	1	2	4	6	26
Chemicals	8	3	4	2	2	4	5	5	33
Technology	6	4	1	2	3	2	6	3	27
Investment Instruments	7	3	2	3	4	4	3	4	30
AltX	5	2	2	2	5	3	3	6	28
Automobiles & Parts	5	2	4	2	4	2	3	6	28
Metal Trading	5	2	1	3	3	3	5	3	25
Venture Capital	6	4	3	3	1	2	6	7	32
Development Capital	7	3	1	3	2	4	5	5	30

⁹ In the event that the nomenclature for a meeting was combined (e.g. Risk and Sustainability), then the former description would be used in the meeting count.

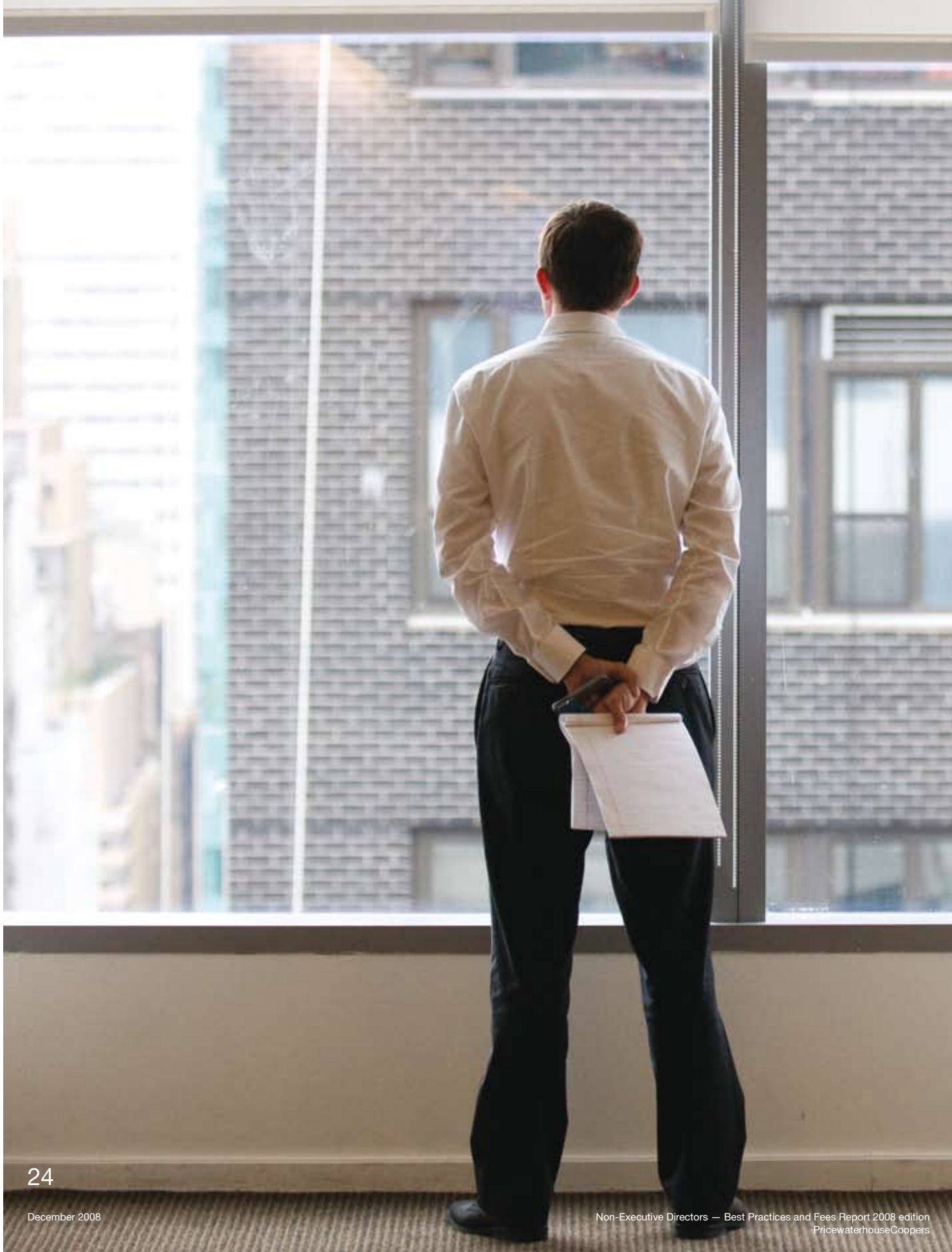
Committee Fees

A detailed analysis was made of fees paid to Chairpersons and Non-Executive Directors serving on committees:

Chairperson – Committee Fees	Audit	Corp. Governance	Nominations	Other	Remuneration	Risk	Sustainability
Lower Quartile	76,000	67,000	30,000	35,000	62,000	60,000	150,000
Median	125,000	70,000	62,000	58,500	90,000	87,400	210,000
Upper Quartile	200,000	76,000	106,000	87,000	126,000	150,000	250,000

Non-Executive Directors' – Committee Fees	Audit	Corp. Governance	Nominations	Other	Remuneration	Risk	Sustainability
Lower Quartile	33,000	25,000	15,000	7,000	30,000	21,000	41,000
Median	62,000	28,000	27,750	16,000	49,000	33,000	50,500
Upper Quartile	82,500	36,000	60,000	44,000	62,000	75,000	95,000

Market Meltdown

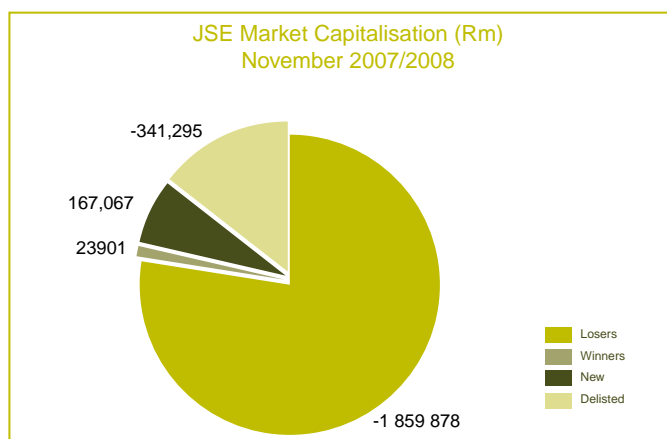


Market Capitalisation

As market swings get deeper and more violent and as the massive credit bubble continues to unwind and trillions of dollars of market value vanish overnight on world bourses, the stock market will go into a long-term swoon. The result is that market capitalisation is severely humbled and volatility shows its teeth. Comparative market capitalisation as reported in Non-Executive Directors – Best Practices and Fees Report 2007 and the level on 21 November 2008¹⁰ reflects the following:

Market Capitalisation (Rm)	All listed companies 2007	All listed companies 2008
First quartile	307	131
Median	1 443	589
Upper quartile	6 563	3 753
Maximum	563 387	280 006

The following is an analysis of the movement in the reporting period.



¹⁰ To ensure similar comparison, Alt-x and Venture Capital sectors are excluded, and so too is British American Tobacco Plc (BTI).

Compensation Packages – Meltdown Pressures

All components of compensation packages will be scrutinised when the affects of the downturn hit the bottom line, a component of which is share-based payments.

One of the parameters that impacts the fair value of share options most is the assumption regarding future share price volatility. Current market conditions mean that observed volatility is much greater than it has been for some years.

The difficult part is estimating what share price volatility might be over future periods. The guidance in IFRS2 suggests that it may be acceptable to ignore temporary periods of exceptional volatility caused by some specific event that will not be repeated when using past volatility to estimate the future. This is acceptable only for an event specific to the entity, not volatility in the market as a whole. Corporations cannot ignore the current high volatility, as this would underestimate the volatility input.

An entity that has used implied volatility to determine its assumption may find that current market conditions may mean that the anticipated volatility over the next 12 months is greater than over the next five years. This approach may therefore no longer be valid and should be reconsidered.

In May 2008, the Economist Intelligence Unit (EIU) conducted a global survey on behalf of PricewaterhouseCoopers to gain insight into these vital questions. The survey attracted 264 senior participants from across the financial services industry.

So how can financial services corporations navigate this uncertain environment, and what actions should they be considering? Each company clearly needs to consider its own circumstances, and target reform where the risks and misalignments are greatest. In some cases, little change will be required, while in others, major reconstruction of compensation arrangements will be the order of the day. At the very least, corporations should be prepared to respond to challenges about their pay policies from compensation committees, shareholders and regulators. A one-size-fits-all approach to compensation design is clearly not appropriate. However, corporations should consider how they would 'comply or explain' that which is in place.

Incentive payments should be based on performance measures that adequately account for the risk taken in producing profits.

Too many incentive plans ignore risk when assessing bonus payments. Apparently strong results can look more anaemic

Employers have two main issues to consider when making bonus decisions. They must decide whether individual employees are entitled to a bonus at all and then determine the level of the bonus that is to be paid. Failing to address these issues correctly can result in costly breach of contract and discrimination claims. Company and shareholders' expectations that due regard of all risk factors has received due consideration is paramount...

U.S. District Court Judge – Michigan; – T. Kern 2006

when the risk taken to produce them is properly factored in. There seems little doubt that better practices in this area would have lessened incentives for excessive risk-taking, providing an early warning system about the risks being taken. Change in this area need not lead to the much feared first-mover disadvantage. Using risk-adjusted measures does not necessarily mean that bonuses need to fall, just that they need to be justified by real performance.

Bonus pools should not be struck below the level at which cost and risk can be allocated. Competitive pressures for talent have led to an 'eat what you kill' culture in many investment banks. In order to retain key staff, many corporations have been driven to align bonus payments with increasingly localised results. Often, the bonus assessment is based on such a granular level of business unit that the firm's systems can no longer accurately allocate risk, or even cost. This has led, for example, to payments based purely on revenues in some cases.

Significant investment in improved cost and risk allocation systems to enable a more granular understanding of risk-adjusted performance is a fundamental business management issue as well as a compensation issue.

Recasting bonus pools at a higher organisational level, where risks and costs are already well understood, needs to be balanced against the risk of losing key people, as it is less attractive for some key revenue generators.

Retention concerns and the time taken to improve risk reporting and measurement systems means that corporations may need to live for a period of time with measures that do not adequately account for risk. Where this is the case, corporations need to recognise that this gives rise to additional business risk, and counteract this by: consideration of other risk management mechanisms such as deferrals; and instigation of additional controls and review procedures in the affected business areas.

Rewards should be aligned with the risk profile borne by the firm. More use should be made of long-term incentives and deferrals in business areas that take longer term risks. Exactly matching the term of different product lines is unlikely to be practical. Deferrals beyond three to five years are likely to be so heavily discounted by executives as to have no impact on behaviour. Better alignment can be achieved by structuring separate, explicit, long-term incentive vehicles, which may be more effective than deferral of bonus, given the tendency (increasingly supported by case law) for bonuses to be paid out when an individual leaves the business.

Deferrals should be linked to the realised profitability of the business on which the bonus was based. Those wishing to argue against deferral as a solution, should take note that Bear Stearns had higher levels of stock-ownership than many banks. Deferral into stock, while it might encourage individuals not to leave, does not do much to militate against short-term behaviour. For all but the most senior individuals, the stock

price of the entire enterprise is a very remote concept, even with deferral, the prime incentive is still to do what you need to do to get the stock in the first place – that is, deliver on the annual bonus targets. Instead, corporations should look at linking the value of deferrals more closely to the area of business in which the profits were generated. Achieving an exact match is likely to face severe practical constraints, but linking deferrals to future local business area profits, even if not to the exact book of business that generated the profits, would help. This would also support a culture of peer review, because managers in the same business area would be encouraged to look at each others' activities to make sure that the value of their own deferral was not being put in peril.

Managers should have a significant proportion of remuneration based on divisional or group-based bonuses. Bonuses based on much localised measures of performance are often praised as providing improved 'line of sight'. In other words, because executives can see and control what they need to do to generate a bonus, it provides a stronger incentive. Conversely, this also increases risk unless the metrics are robust (and risk-adjusted) and the control environment strong. Line of sight also creates the moral hazard that bonus targets may be manipulated or achieved in ways that have unanticipated consequences. Greater use of divisional or group-based bonus pools reduces these risks and also encourages individuals to think more widely about the health of the entire enterprise.

Corporations also need to look at the longer-term patterns of remuneration for individuals over time – is remuneration excessively volatile, encouraging a short-term mentality? Or do individuals feel themselves to be long-term partners in an enterprise in which they are building long-term value?

Compensation design should be considered a key business competence and resourced as such. The bonus culture is a reality in financial services, and as a result pay does affect behaviour. Yet too often, compensation design is entirely left to HR departments that can never be expected to have the entire range of skills required to design and monitor compensation in a financial services environment. Yet in our experience, HR faces significant difficulties in engaging other parts of the firm in compensation design. Organisations need to ensure that appropriate input from risk, finance and treasury is brought to bear, together with HR, in compensation design. These functions must have it impressed upon them that compensation design is a priority business activity.

Compensation design should be viewed in conjunction with wider people management practices in order to support a consistent approach to achieving the desired culture.

Compensation is important but it is far from the only issue. Looking at compensation in isolation is unlikely to achieve the desired result by itself. Organisations need to review: how they develop and

manage talent; how they manage performance (what is it that is really recognised and rewarded?); how individuals' careers are developed; and how the desired culture and expected standards of behaviour are communicated and reinforced.

Regulators are taking a close interest, and seem likely, at the very least, to ask probing questions about remuneration. There is also a political vacuum to be filled. The combination of economic downturn and electoral politics in the US and Europe means that 'something must be done'. Views differ as to whether remuneration was a symptom or cause of the credit crisis. It is almost certainly too simplistic to say that it was a prime cause. But the conclusion is clear. There is a widespread consensus that genuine reform is needed, and should not be viewed as a fig leaf in response to mounting external pressures. Of course, there is a possibility that a quicker than expected economic recovery will lead to the current problems being forgotten. But that would be a mistake. There is currently a window of opportunity for meaningful reform to take place, which would benefit the operation and stability of the financial system as a whole. Corporations should respond positively to this opportunity to ensure that any reform that takes place is effective, and supportive of a vigorous, yet robust, financial services sector. Strong and visionary leadership will be required to overcome the fear of change. The case also needs to be made to employees that initiatives that seem unattractive in the short term will have a payoff in the future. In this way, the sector can regain its rightful place as one in which

innovation flourishes and that supports economic growth. For this reason, well-considered voluntary initiatives from industry bodies, such as the IIF and the Counter-Party Risk Management Policy Group, are welcome. There is a fair degree of consistency between the recommendations emerging from these bodies, and our own, which suggests a consensus may be starting to emerge. Individual corporations should review their remuneration policies against these fundamental principles and consider how any deviations can be justified. How would the firm respond to probing questions in these areas from the regulators?

By indicating that they are considering these issues voluntarily, financial institutions should encourage regulators to take on approaches that go with, rather than against, the grain of the market. An appropriate, light-touch, regulatory response to the issue may be the catalyst required for reform to take place. While no one denies the right of individuals in a talent-driven industry to earn rewards, it is clear that the financial services sector as a whole recognises that its current remuneration practices are in need of reform. As Michael Rendell, a partner at PricewaterhouseCoopers, (UK) puts it: 'All of us involved in financial services need to ensure that rewards reflect truly sustainable performance and are not a short term mirage, first, because it's the right thing to do and second, because it is always better to embrace change than to have it forced upon you.'¹¹

¹¹ Extracted from *Reward a new paradigm?* PricewaterhouseCoopers September 2008

Non-Executive Directors

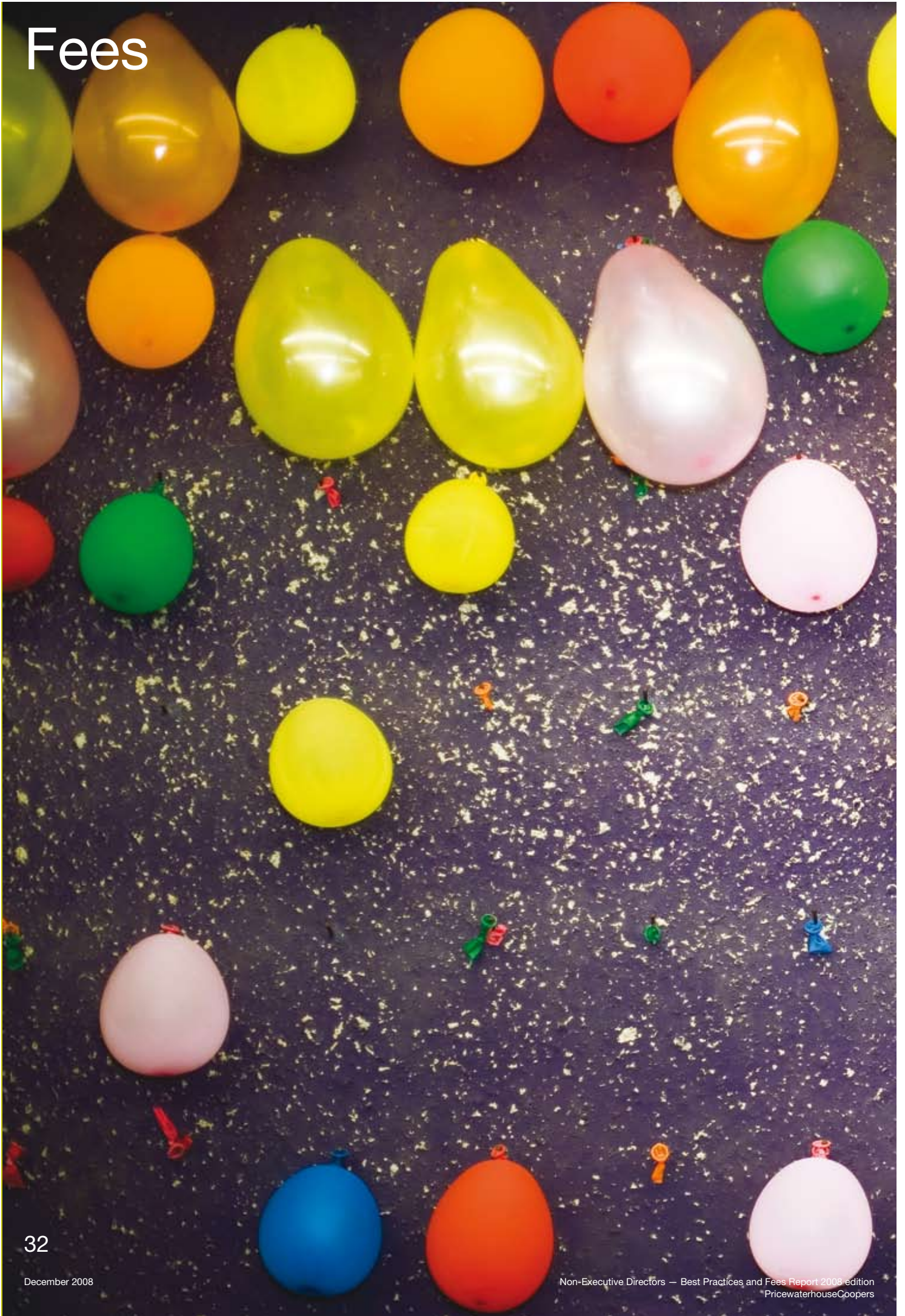
A close-up photograph of a man with short, dark hair, wearing a white dress shirt and a dark, striped tie. He is looking off to the left with a serious, contemplative expression. The background is a blurred office interior with a light-colored wall and a rectangular light fixture.

In 2007 we reported on a select sample of across the full spectrum of corporations listed on the JSE. This year, this report is extended to include all JSE listed corporations. Once again, the aggregate of fees paid to Non-Executive Directors are reflected under two headings; Non-Executive Chairpersons and Non-Executive Directors. There are instances where the Chairperson may be an Executive Director; these have once again been excluded. The rationale is that Executive Chairperson's remuneration cannot be compared with fees, since Executive remuneration includes base pay, benefits and incentives.

Fifty-eight listed companies still have the two offices of Chairman of the Board and Chief Executive combined. The Large Cap companies are nearly in line, as the following summary shows.

Chairperson is an Executive Director	
Large Cap	2
Mid Cap	8
Small Cap	48

Fees



Policy

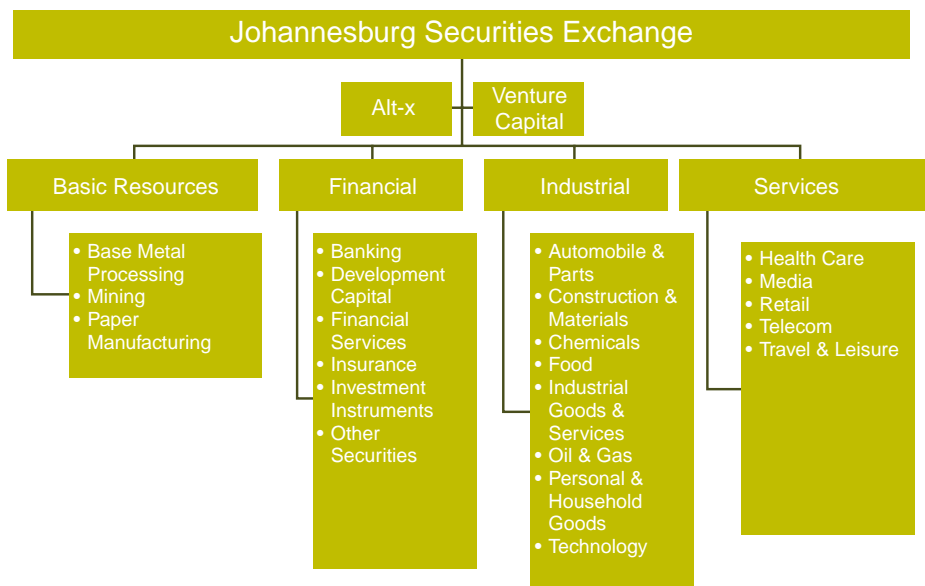
Non-executive directors' fees are usually reviewed annually. It is common practice for corporations to compare their annual fees and practices with other corporations in the same business sector. We have found that this is so for a wider range of corporations, whereas it was more prevalent with financial services corporations. Benchmarking a wider range of non-executive fees across a wider spectrum is becoming more common. To pay non-executive directors' fees by way of company shares in full or in part is not widely practiced in South Africa, and only a few isolated cases were encountered.

Research indicates that some South African corporations pay normal company benefits to non-executive directors. These payments are not included into any benchmarked data in this report, which is limited to total fees paid.

Statistical Sample

The disparate reporting conventions in different industries or sectors when required for analysis are divided into sectors so that similar businesses may be compared. This report follows this convention and has been extended to include sub-groups to effectively raise the level of granularity. To this end, the net has been cast further out to include all non-executives driving JSE-listed corporations. To clarify the way the data is viewed, the following table encapsulates how the sectors are positioned:

Research reveals that leading corporations use the services of specialist professionals to benchmark Non-Executive Director Fees on a regular basis against comparator corporations



Statistical extracts are in line with the above disciplines.

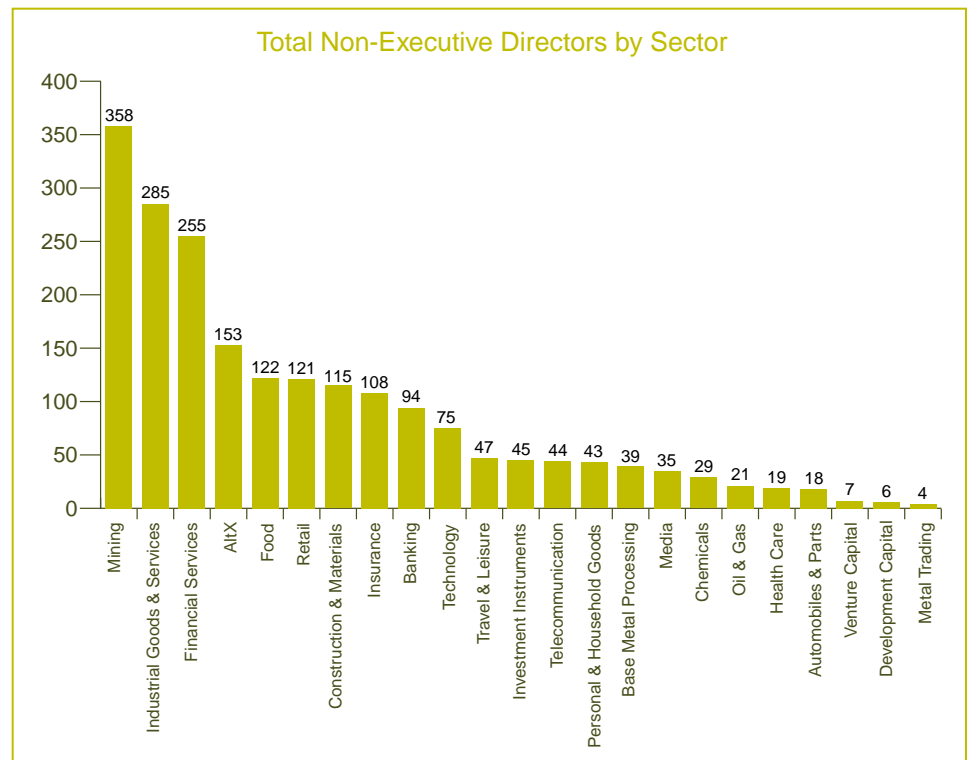
Non-Executive Directors

All companies listed on the JSE are now included in the benchmark and reflects the following distribution:

Positions	Sample	Independent	Not Independent	Median Age	Number of BBBEE Directors	%	Number BBBEE Male Directors	Number BBBEE Female Directors
Chairpersons	231	42%	58%	59	51	22%	91%	9%
Non-Executives	1812	52%	48%	52	531	29%	86%	14%
Total	2043	100%	100%		582	28%		

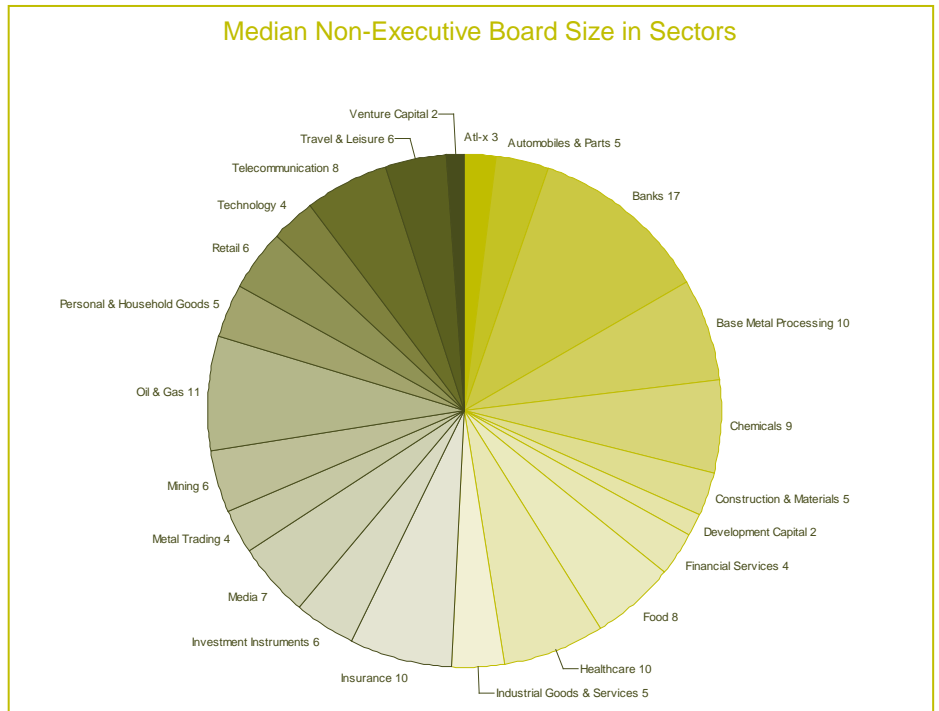
Non-Executive Directors by market sector

An examination of Non-Executive Directors currently holding office extracted by sector reveals the following:



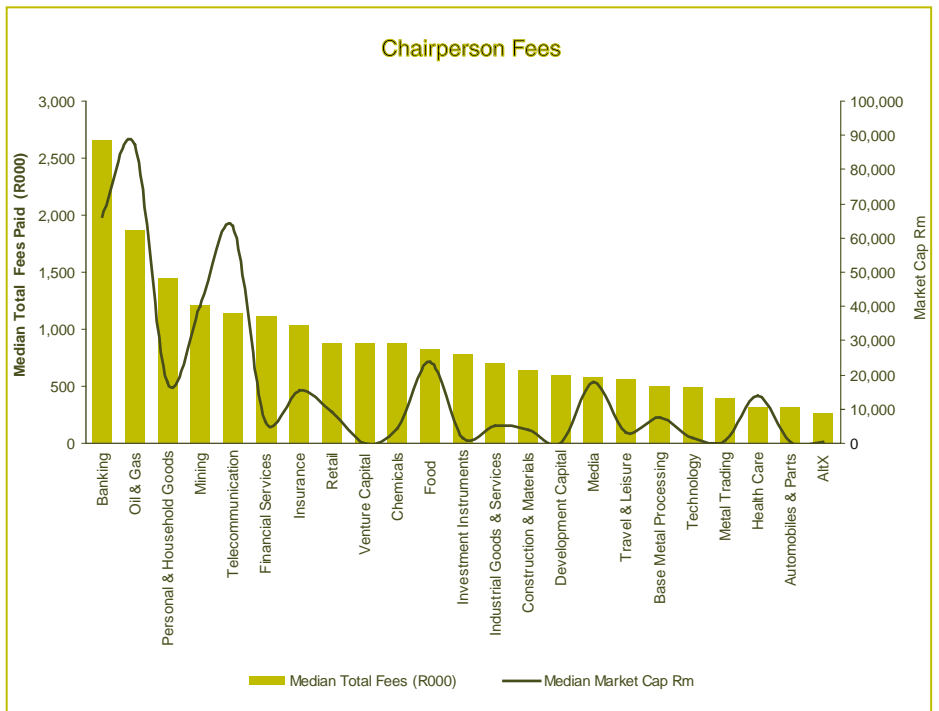
Board Size by Sector

The aggregate of Non-Executive Directors serving as board members was analysed, and the median across the different sectors is presented as follows:



Chairperson fees

The increased sample of Non-Executive Directors now includes all companies listed on the JSE. Median fees paid to Chairpersons are reflected in the following chart, which is viewed against the median market capitalisation for each sector:



The results are summarised as follows:

Chairpersons	Market cap	Fees
Lower quartile	366	189 000
Median	1 407	390 000
Upper quartile	6 335	826 000
Maximum	280 066	8 383 284

Since the revised view is more comprehensive than the sample used last year, we have drawn comparison reflecting the same dataset of companies used in 2007 (39 of the 40 Large Caps and a random selection of 60 companies from both the Medium and Small Cap companies). The underlying weakness of the Rand against the US Dollar was a contributing factor to the escalation in fees paid to Chairpersons of some large cap companies when reported in Rand and the fees are Dollar based:

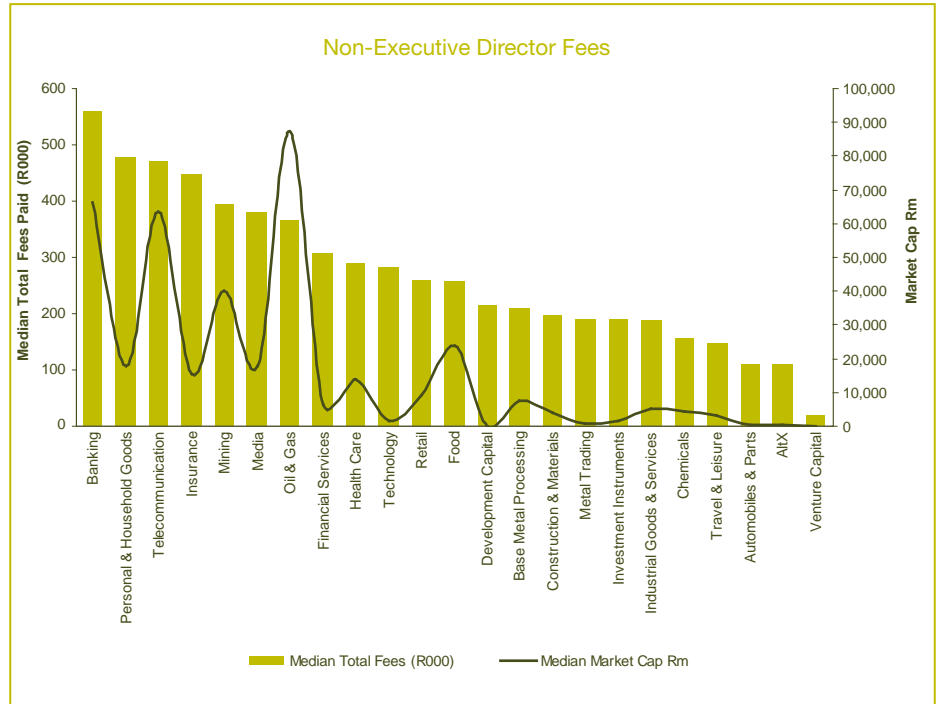
Chairpersons	Market cap Rm 2007	Fees 2007	Market cap Rm 2008	Fees 2008
Lower quartile	6 444	316 500	6 036	339 000
Median	20 393	730 000	12 865	786 000
Upper quartile	57 428	1 715 230	30 038	1 843 000
Maximum	563 387	5 978 838	280 006	8 383 284

Chairperson's fees – sector analysis

Chairpersons All Banks	2007	2008	Incr %
Lower Quartile	1,170,750	1,875,000	60.2%
Median	2,338,000	2,504,500	7.1%
Upper Quartile	3,463,500	3,544,233	2.3%
Chairpersons Large-Cap Financial Services	2007	2008	Incr %
Lower Quartile	362,000	447,000	23.5%
Median	822,000	940,000	14.4%
Upper Quartile	1,260,000	1,373,000	9.0%
Chairpersons Mid-Cap Financial Services	2007	2008	Incr %
Lower Quartile	94,750	117,750	24.3%
Median	223,000	244,000	9.4%
Upper Quartile	338,000	433,000	28.1%
Chairpersons Large-Cap Base Metals and Mining	2007	2008	Incr %
Lower Quartile	391,000	762,500	95.0%
Median	959,500	1,114,500	16.2%
Upper Quartile	2,763,636	2,840,191	2.8%
Chairpersons Mid-Cap Base Metals and Mining	2007	2008	Incr %
Lower Quartile	383,850	506,266	31.9%
Median	767,700	890,532	16.0%
Upper Quartile	807,602	1,192,494	47.7%
Chairpersons Large Cap All Other Sectors	2007	2008	Incr %
Lower Quartile	360,000	560,000	55.6%
Median	660,000	859,000	30.2%
Upper Quartile	1,295,000	2,203,000	70.1%
Chairpersons Mid-Cap All Other Sectors	2007	2008	Incr %
Lower Quartile	140,000	163,000	16.4%
Median	306,000	322,000	5.2%
Upper Quartile	735,000	811,000	10.3%

Non-Executive Director fees

The more comprehensive dataset as used for the Chairpersons was applied to fees paid to Non-Executive Directors, and the results are:



Summarised the result is as follows:

Non-Executive Directors	Market cap Rm 2008	Fees
Lower quartile	1 140	109 000
Median	5 140	180 000
Upper quartile	23 003	352 000
Maximum	280 006	5 006 000

Here again, looking back to last year, and selecting the same dataset of companies as outlined above for Chairpersons, the results for Non-Executive Directors reflect as follows:

Non-Executive Directors	Market cap Rm 2007	Fees 2007	Market cap Rm 2008	Fees 2008
Lower quartile	10 355	125 000	7 577	142 000
Median	24 725	215 000	14 464	218 000
Upper quartile	59 328	423 000	63 940	482 000
Maximum	563 387	2 597 084	280 006	3 730 000

All fees are higher, except in the upper quartile.

Non-Executive Director's fees – sector analysis

A more detailed drill-down into the data for Non-Director fees is considered necessary to examine the escalation year-on-year. Non-Executive Director's fees for 2008 has been compared to 2007 and tabulated under the same headings as for Chairpersons:

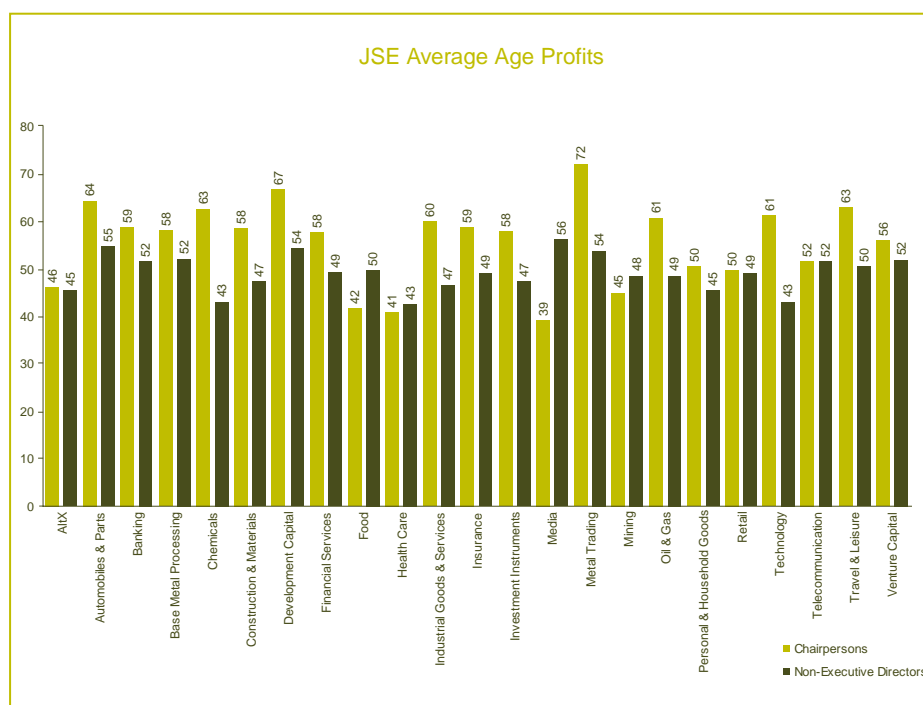
Non-Executives All Banks	2007	2008	Incr %
Lower Quartile	207,000	270,000	30.4%
Median	280,000	375,000	33.9%
Upper Quartile	547,000	630,000	15.2%
Non-Executives Large-Cap Financial Services	2007	2008	Incr %
Lower Quartile	60,000	64,000	6.7%
Median	240,000	286,000	19.2%
Upper Quartile	387,000	465,550	20.3%
Non-Executives Mid-Cap Financial Services	2007	2008	Incr %
Lower Quartile	33,000	39,000	18.2%
Median	105,500	120,000	13.7%
Upper Quartile	167,750	206,250	23.0%
Non-Executives Large-Cap Base Metals and Mining	2007	2008	Incr %
Lower Quartile	119,250	121,500	1.9%
Median	215,000	248,000	15.3%
Upper Quartile	426,500	439,000	2.9%
Non-Executives Mid-Cap Base Metals and Mining	2007	2008	Incr %
Lower Quartile	100,000	113,265	13.3%
Median	119,000	140,000	17.6%
Upper Quartile	394,188	398,400	1.1%
Non-Executives Large-Cap All Other Sectors	2007	2008	Incr %
Lower Quartile	35,250	91,500	159.6%
Median	219,500	309,500	41.0%
Upper Quartile	634,250	656,250	3.5%
Non-Executives Mid-Cap All Other Sectors	2007	2008	Incr %
Lower Quartile	81,000	88,500	9.3%
Median	137,000	152,000	10.9%
Upper Quartile	221,000	237,000	7.2%

Fees paid in UK

Non-executive director pay rose by around 6% last year, which is at a slower rate than in recent history, according to PricewaterhouseCoopers' newly-published annual guide Non-Executive Directors Practices and Fees. The news comes as evidence suggests that UK corporations are expecting more out of their non-executive directors than ever before, with the average director's time commitment rising from 15 days in 2003 to 20 days in 2007.

Age profile

The age profile for the Non-Executive Directors on JSE listed companies in the sector analysis is as follows:



A closer look at the ages interpreted the full sample for all Non-Executive Directors as follows:

Detailed Age Profile	Chairpersons	Non-Executive Directors
Lower quartile	48	43
Median	59	52
Upper quartile	67	61
The youngest	35	26 ¹²
The oldest	84	80

¹² The incumbent is an Alternate Non-Executive Director.

Incentives and Benefits



Short term incentives and company benefits, such as personal travel allowances and contributions to medical aid and pension, are paid to a small percentage of Non-Executive Directors.

So too does a small percentage benefit from long term incentives via company share schemes.

Whatever you do, you need courage. Whatever course you decide upon, there is always someone to tell you that you are wrong. There are always difficulties arising that tempt you to believe your critics are right.”

Ralph Waldo Emerson

Lead Directors



A leader takes people where they want to go. A great leader takes people where they don't necessarily want to go, but ought to be.

Rosalynn Carter

Since we believe that the role of lead director is coming to the fore, we repeat an extract from the *Non-Executive Directors Best Practices and Fees Report – Spring 2008 Edition*. Numerous external factors led to the establishment of a lead director position, which include stock exchange listing requirements and pressure from various stakeholders for clearly mandated separation of the two offices – that of the Chairperson and the CEO. More importantly, internal pressures have contributed to the evolution of the position. For example, in the event of a change of control transaction, continuity of and the smooth functioning of the board by default dictates that the helm of the company is in good hands, with the ability to steer the board until succession is in place. This position will create a backstop for the chairperson, or any other change or major functional challenge affecting the board.

The different meanings that lie behind the titles — “Lead Director”, “Presiding Director”, “Non-executive Chairperson” or “Independent Non-executive Chairperson” — and how these titles relate to the responsibilities of the role are merely semantics, but the intention is clear. The lead director is intended to be an independent gatekeeper.

Six years after the creation of the position, the most important contributions of lead directors have come not from the duties mandated by stock exchange requirements, but from the responsibilities that lead directors in fact have undertaken for their corporations. As some activist shareholders renew their call for the “European model” of board leadership, it will be interesting to see whether the lead director position will continue to evolve as a viable and preferred alternative for corporations and their stakeholders.

Compared to the power wielded by board chairpersons, the official tasks assigned to this new position were limited, focused on routine tasks such as convening independent directors for executive sessions and receiving shareholder communications. Corporations established this position with little fanfare, with most appointing a presiding or lead director, and a small number taking the step of appointing a non-executive chairperson.

Despite its humble beginnings, the lead director role has become increasingly important. Lead directors are contributing to improved corporate performance in at least four key areas:

- Enhancing the responsibility for improving board performance;
- Building bridges toward a productive relationship between non-executive directors and the Chief Executive Officer (CEO);
- Support effective communications with shareholders in a regulated manner; and
- Bolstering leadership in crisis situations.

Internationally there is concern that these areas where lead directors are making the most valuable contributions are not among those officially mandated for the role.

While boards must have an independent nominating and corporate governance committee accountable for certain aspects of board and committee operations, increasingly lead directors are taking responsibility for monitoring and improving board performance. For example, lead directors are increasingly active in facilitating board discussions, helping directors reach consensus, and formulating “next steps” to be taken on important matters. Lead directors often keep the board’s discussion at the right altitude and attitude – ensuring effective engagement on corporate issues, without meddling in management’s day-to-day decision-making. This engagement is particularly valuable in shaping the corporation’s

strategy.

Many lead directors also are now handling a task that has always been difficult for the Chairperson-CEO: dealing with difficult or underperforming directors. Rather than letting these situations fester until annual board self-evaluations or nominations, lead directors can proactively and politically address these situations.

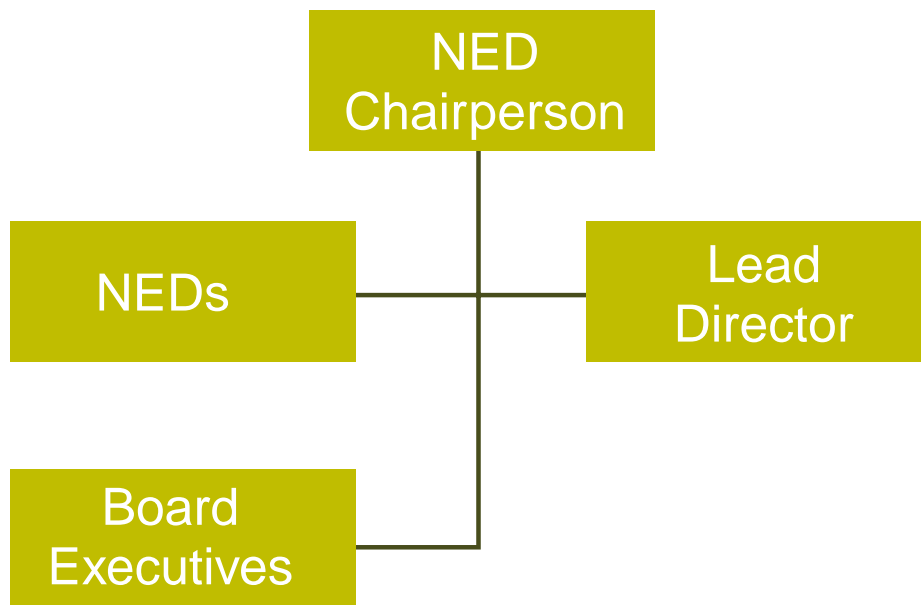
The main criteria are independence.

It is interesting to note that very few South African quoted corporations still have the Chairperson-CEO position combined, in that these roles have been separated. This is in no small measure due to King II and the correct influence of the Johannesburg Securities Exchange.

To synopsis global best practise, the following points are pertinent in setting corporate policy for lead director:

- The lead director shall be an independent director.
- He will oversee that the board of directors discharges its responsibilities, ensure that the board of directors evaluates the performance of management objectively and that the board of directors understands the boundaries between the board of directors and management responsibilities.
- The lead director will chair periodic meetings of the independent directors and assume other responsibilities which the independent directors as a whole might designate from time to time.

- The lead director should be able to stand sufficiently back from the day-to-day running of the business to ensure that the board of directors is in full control of the corporation's affairs and alert to its obligations to the shareholders.
- The lead director shall provide input to the executive chairperson of the board on preparation of agendas for board and committee meetings.
- The lead director shall chair the Corporate Governance Committee and shall chair board meetings when the chairperson of the board is not in attendance, subject to the provisions of the by-laws of the corporation.
- The lead director shall provide leadership for the independent directors and ensure that the effectiveness of the board is assessed on a regular basis.
- The lead director shall set the agenda for the meetings of the independent directors. The lead director shall report to the board concerning the deliberations of the independent directors as required.
- The lead director shall, in conjunction with the chairperson of the board, facilitate the effective and transparent interaction of board members and management;
- The lead director shall provide feedback to the chairperson of the board and act as a sounding board with respect to strategies, accountability, relationships and other issues.



Human Resource Services



About PricewaterhouseCoopers

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We would like to thank the following person/s for their valuable input in putting this report together:

- Martin E. Hopkins, specialist adviser to PwC
- Val du Pre le Roux, specialist adviser to PwC
- David L. Yzelle, independent project researcher

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