

Non-executive directors' practices and fees trends report

*South Africa
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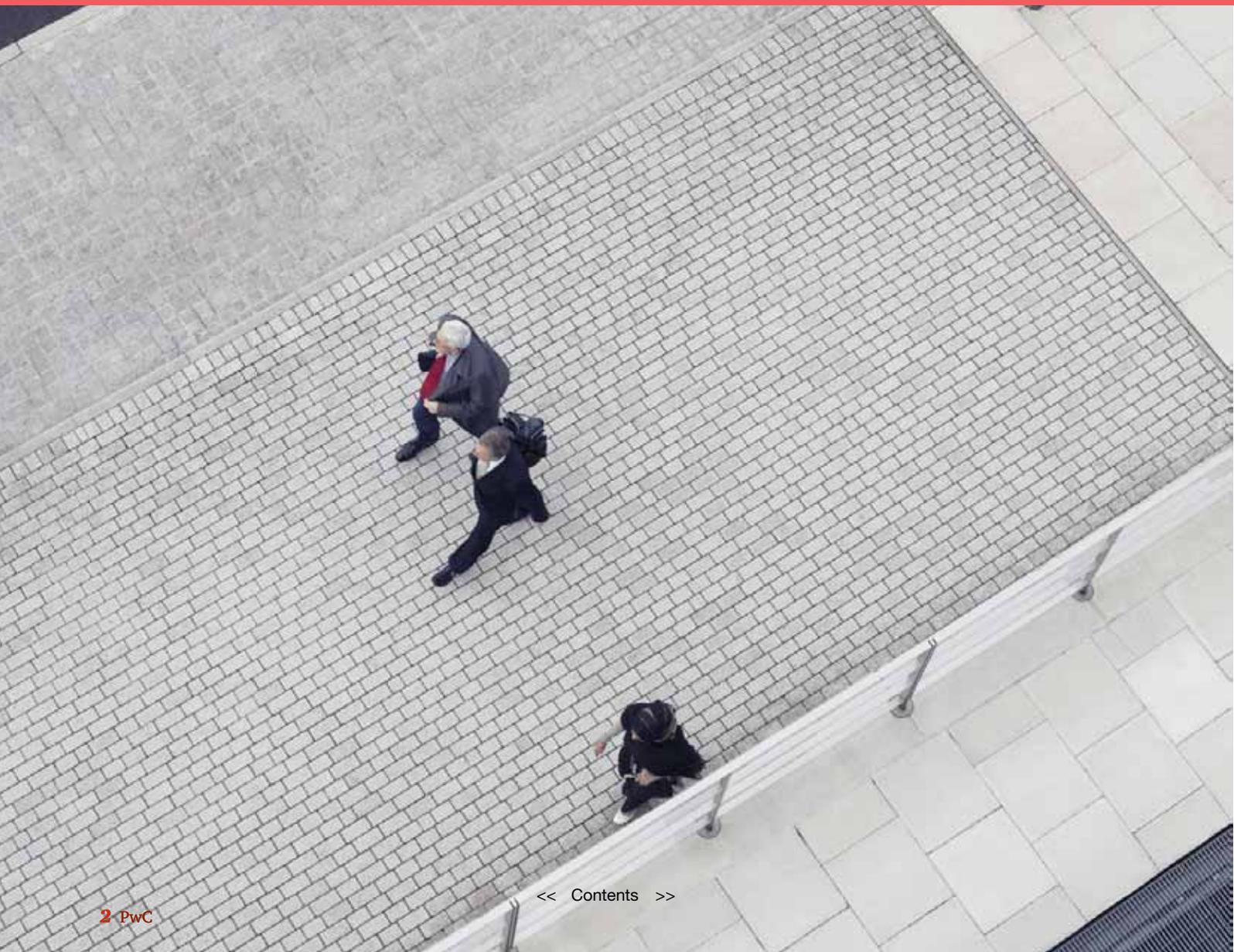


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Executive summary



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Welcome to our fifth edition of the annual review of the practices and fees trends of non-executive directors. As mentioned in our last edition, whilst we had lived through a year of regulation with a promise of more to come, the past twelve months did not let us down. In South Africa, we had our fair share of new regulation, with the introduction of the new Companies Act and the Consumer Protection Act to mention two.

More specifically, as King III was drafted using the Companies Act (Act)¹ as a baseline, there should theoretically not be conflicting provisions between the Act and King III². However, considering their respective purposes, one regulating a wide range of aspects regarding companies and the other being a code of good governance, it is not surprising that certain topics are expanded on in more detail in either the Act or in King III.

Compliance with the Act, therefore, does not necessarily result in compliance with King III, and vice versa. Furthermore, King III was released well in advance of the enactment of the Act and the Regulations, and would therefore not have taken provisions in either the Act or the Regulations into consideration.

In this publication, we compare the provisions of the Act and King III, as they pertain to non-executive directors³.

The rate and extent of this external regulatory change continues to happen here in South Africa and around the globe, is possibly indicative that business confidence remains lower, particularly in the shorter term, with the possibility that the global economy will decline even further in the next twelve months. There are however, signs of economic recovery in certain market sectors. As a result, organisations continue to invest heavily in the attraction and retention of talent. CEOs remain concerned about the availability of key skills and with their priority being around talent management, many are changing strategies around retaining talent.

It is therefore not surprising that in South Africa, many long-term incentive plans are driven with a certain weighting to retention.

However, shareholders will have no appetite for the steady spiral in executive pay and we have also seen increased media attention voicing their concerns on this topic. It is therefore imperative that CEOs have to engage with the boards of directors on these issues. Remuneration committees have grown in terms of scope and impact over the past few years, initially in response to the governance requirements, to a position where they now play a far more strategic role.



Gerald Seegers

¹ Act 71 of 2008.

² King Code of Corporate Governance for 2009.

³ See PwC's Steering Point – Companies Act series #3, for a comparison of the Act and King III, as they pertain to boards of directors and committees.

The non-executive director market remains beset by a shortage of skills. Last year we saw for the first time a decrease in the number of non-executive directors from 2,159 to 2,002. We are pleased to report that the trend is back in the right direction, with the number increasing by 13% to 2,267. Gender diversity on the board, was a hot talking point globally, but this was overshadowed by the debates around the levels of executive pay.

As the role and responsibilities continue to increase, it is therefore not surprising that during this reporting period, it was found that non-executive directors have, in certain instances, taken on additional positions in other companies, while retaining their present position. During the reporting period, 59 non-executive directors sit on more than three boards.

The overall median chairperson fee in South Africa of R354,000 (prior year R364,000) has followed the global trend in that such fees have either remained constant or shown a negligible drop in some cases. In the case of the non-executive directors, the overall median remained constant at R242,000 (prior year R240,000).

The average age of the chairperson remained at 51 and that of non-executive directors increased to 48 (prior year 45).

Against this background, we believe that the following areas are going to be key focus areas during the next reporting period:

- Talent management, particularly around retention;
- Ongoing regulatory environment;
- Addressing the 'pay gap' within the organisation;
- Better communication and engagement with all stakeholders.

I hope you will once again find this trends report and the issues it raises of assistance.



Gerald Seegers
Director

Information



Sources of information

The data set out in this publication is drawn from information publicly available on 30 November 2011 (the cut-off date). The information has been taken from the annual reports of 377 companies listed on the Johannesburg Securities Exchange (JSE). The total market capitalization value at that date was R6.486 trillion.

Format of information and definitions

Fees rarely follow a normal distribution curve. For this reason, we have used a quartile/percentile range in preference to averages and standard deviations that assume normality.

These quartiles/percentiles are defined as:

- **Lower quartile (25th percentile)**
75% of the sample earns more and 25% earn less than this fee level;
- **Median (50th percentile)**
50% of the sample earns more and 50% of the sample earns less than this fee level; and
- **Upper quartile (75th percentile)**
25% of the sample earns more and 75% earn less than this fee level.

Since the introduction of this annual publication in 2007, our belief remains that there is no definitive correlation between market capitalisation – calculated by reference to the number of shares in issue and the prevailing share price – and the remuneration of directors. However, we are of the view that market capitalisation is a good proxy for size and complexity, and is an

appropriate metric to set peer groups and for benchmarking purposes. It is against this backdrop that data is analysed in terms of:

- **Large-cap**
The top 40 JSE listed companies, valued by means of market capitalisation;
- **Medium-cap**
41 to 100 of the JSE listed companies, valued by means of market capitalisation; and
- **Small-cap**
101 to 377 of the JSE listed companies, valued by means of market capitalisation.

Those companies that are listed on the AltX have been aggregated into the above valuations. Where the AltX is evaluated as a standalone group, it refers to 63 companies with a market capital value of R16.68 billion.

In addition to analysing the fees paid to chairpersons and non-executive directors across the JSE as a whole, we have also analysed the fees paid by reference to four main industries (in addition to AltX) – financial services, basic resources, services and industrial. Further details about each industry and the sectors which make up that industry are set out in the annexure to this publication.

The expected contribution of a non-executive director



Last year we focused on the process for setting non-executive director fees. The discussion highlighted the need to clearly focus on the role and responsibility of the board and the various committees. In this year's edition we will dig a little deeper and explore some of the key considerations when determining fees. In particular, we will look at the structure and composition of boards.

Contribution was one of the key pillars of the fee setting process. It refers to the ability of a non-executive director to provide meaningful input to the complex set of challenges facing the company and provide the appropriate leadership to drive results at operational level. Specifically, King III indicates that directors should have the relevant knowledge, skills, experience and resources required for conducting the business of the board.⁴ In addition, the board should consider whether its size, diversity and demographics make it effective. Diversity applies to academic qualifications, technical expertise, relevant industry knowledge, experience, nationality, age, race and gender.⁵

⁴ Report Principle 2.18, paragraph 72.

⁵ Report Principle 2.18, paragraph 71.

In demystifying the formal interpretation of King III, we believe that integrity, expertise, diligence and intelligence are the clear characteristics of a high performing non-executive director. We believe that non-executive directors need to have the skills to identify the issues at hand and to think strategically, and that they require strong interpersonal and communication skills.

Furthermore, organisations require independence of thought in the application of decision-making. As such, non-executive directors should be independent to the business and its day-to-day operations whilst monitoring executive decisions and continually asking objective questions.

Thus, a good non-executive director makes a meaningful contribution by:

- Constructively challenging and contributing to the development of strategy;
- Monitoring the performance of management;
- Satisfying himself/herself that the financial information is accurate and that the financial controls and systems of risk management are robust; and
- Succession planning and determining appropriate levels of remuneration for executive directors.

In identifying and selecting non-executive directors with the ability to contribute as indicated earlier, due consideration must be given to the mix of non-executive directors and what each individual brings to the boardroom table.

Organisations require a diverse and specialised mix of non-executive directors that can address the unique challenges facing the organisation. The board needs to be multidisciplinary in expertise, and collaborative and engaging in culture.

Therefore, the challenge from the nominations committee perspective is as much about identifying the appropriate individual skills, expertise and demographics as it is about building a collaborative and empowered network of non-executive directors that can tackle a myriad of business challenges.

The responsibilities of a non-executive director





In order to make the contribution that is expressed in the preceding discussion, a non-executive director should carry out a number of activities to ensure the he or she is suitably empowered to contribute in a meaningful manner.

This typically takes the form of preparation and ongoing training. The Financial Reporting Council's Guidance on Board Effectiveness Report⁶ sets out six key responsibilities that a non-executive director is required to fulfil.

These are set out below:

- On appointment non-executive directors should devote time to a comprehensive, formal and tailored induction which should extend beyond the boardroom. Initiatives such as partnering a non-executive director with an executive board member may speed up the process of him or her acquiring an understanding of the main areas of the business activity, especially areas involving significant risk. The director should expect to visit and talk with senior and middle managers in these areas;
- Non-executive directors should devote time to developing and refreshing their knowledge and skills, including those of communication, to ensure that they continue to make a positive contribution to the board. Being well-informed about the company and having a strong command of the issues relevant to the business will generate the respect of the other directors;
- Non-executive directors need to make sufficient time available to discharge their responsibilities effectively. The letter of appointment should state the minimum time that the non-executive director will be required to spend on the company's business matters and seek the individual's confirmation that he or she can devote the amount of time to the role, consistent with other commitments. The letter should also indicate the possibility of additional time commitment when the company is undergoing a period of particularly increased activity, such as an acquisition or takeover, or as a result of some major difficulty with one or more of its operations;
- Non-executive directors have a responsibility to uphold high standards of integrity and probity. They should support the chairman and executive directors in instilling the appropriate culture, values and behaviours in the boardroom and beyond;
- Non-executive directors should insist on receiving high quality information sufficiently in advance so that there can be thorough consideration of the issues prior to, and informed debate and challenge, at board meetings. High quality information is that which is appropriate for making decisions on the issue at hand – it should be accurate, clear, comprehensive, up-to-date and timely; contain a summary of the contents of any paper; and inform the director of what is expected of him or her on the issue; and
- Non-executive directors should take into account the views of shareholders and other stakeholders, because these views may provide different perspectives on the company and its performance.

⁶ Financial Reporting Council – Guidance on Board Effectiveness: March 2011.

The structure of an effective board



A second key pillar explored in the 2011 report was that of job function. Our experience is that the job of non-executive directors has evolved from attending to ad-hoc board requirements to being very specific with defined roles and responsibilities. These specific roles and responsibilities have arisen from the various structures and job functions that have been put in place in order to facilitate the effective functioning of the board. In terms of these structures, many are homogenous across all organisations while others tend to be business specific and driven by regulatory responsibilities and industry considerations.

Organisations are constituted with a board of directors who act as representatives of the shareholders and who are ultimately responsible for the effective functioning of the executive management team and the organisation as a whole. The various responsibilities of the board are delegated down to either standing committees or ad-hoc committees. Standing committees are typically called operating committees and are committees the company uses on a continuous basis. Typically these include:

- Audit (and risk) committee;
- Remuneration committee; and
- Nominations committee.

Audit (and risk) committee

The audit committee is typically the most important committee ensuring that the financial information communicated to the investor community is accurate and a fair reflection of the organisation's performance. The committee is further responsible for ensuring that financial controls that are in operation serve the purpose of driving financial performance and facilitating prudent financial management. Specifically, the responsibilities of the audit (and risk) committee include:

- Approving audit fees and detailing the specific engagement terms of the external auditor;
- Verifying the independence of the external auditors;
- Reviewing internal and external audit reports and annual financial statements; and
- Investigating queries and irregularities uncovered through the financial reporting process.

In some instances the risk committee is combined with the audit committee. Irrespective of whether the risk responsibility is constituted within the audit committee or treated as a separate standing committee, the core risk responsibility refers to:

- Evaluating the effectiveness of risk management, controls and governance processes.

King III makes a recommendation that members of the audit (and risk) committee should be financially literate and at least one should be a qualified financial professional. In response to good governance principles, most organisations have an independent director, who is a chartered accountant, as chairperson of the audit and risk committee.

Remuneration committee

The remuneration committee has grown in terms of scope and impact over the past 3-5 years. Initially it grew in response to the governance requirements surrounding executive pay. However, we believe that rightfully so, the remuneration committee has taken on a far more strategic role.

In the past, remuneration committees pursued a 'legal form over substance' approach, dealing only with statutory matters pertaining to the disclosure of executive remuneration. Over time, it has become apparent that determining executive pay structures

Nominations committee

in isolation, with little regard for internal equity, succession planning, and talent management, will not serve the company's overall objectives. Furthermore, the financial crisis has highlighted the role that incentives can play in driving risk inclined behaviour – not only at executive level but throughout the organisation. As such, the remuneration committee's focus; has become more long-term, addressing remuneration as a whole within the organisation.

The specific responsibilities of the remuneration committee include:

- Determining and approving the group's general remuneration policy;
- Preparing the annual remuneration report;
- Reviewing the performance of, and approving annual total remuneration packages (guaranteed pay, short- and long-term incentives) for the most senior executives;
- Determining and setting performance measures for incentive plans; and
- Communicating with shareholders on executive remuneration.

In some instances the remuneration committee is combined with the nominations committee. Typically, this operates under the guise of the human resources committee. However, in most organisations the nominations committee is a stand-alone committee.

The role of the nominations committee is to facilitate the appointment of executive and non-executive directors, and to effectively engage with various stakeholders regarding succession planning. Specifically, the nominations committee is tasked with:

- Identifying and selecting appropriate non-executive directors; and
- Facilitating succession planning for the CEO and executive team.

Industry specific committees

Some committees tend to be industry specific. They arise from the fact that certain industries require board oversight with regard to operating activities due to the substantial risk and/or regulatory considerations applicable to these operating activities. The obvious industry specific committees include:

- Investment committee – typically found in the financial services industry where large investments are made, and/or assets managed during the course of operating activities. The investment committee is tasked with reviewing the financial feasibility of a particular investment and ensuring that the risks associated with the associated investment assets are appropriately managed; and
- Sustainability/safety, health and environment committee – typically found in the energy and resources sector, as well as the heavy industrials sector. This committee is tasked with the oversight of a broad range of activities ensuring that the impact of operating activities is not detrimental to the environment, the communities in which the organisation operates, and the employees that carry out the operating activities. Increasingly, the sustainability committee is gaining traction outside of the energy and resources, and heavy industrials sector, as it becomes a more mainstream part of corporate strategy.

Ad-hoc committees

Transformation committee – typically found across a range of industry sectors, and existing with varying mandates and responsibilities.

Our experience indicates that the constitution of a transformation committee is not specific to any particular industry but rather a function of the organisation's commitment to driving transformation within the organisation. The transformation committee's responsibility typically refers to the oversight of transformation in the areas of equity ownership, employment equity, procurement practices and enterprise development.

Social and ethics committee – in response to the Companies Act⁷ (the Act) we are noticing a move to introduce a social and ethics committee. The Act indicates that all state-owned companies and listed public companies should have a social and ethics committee. It is envisaged that the committee will address the following:

- Monitoring whether the company complies with relevant social, ethical and legal requirements and best practice codes;
- Communicating to the board any relevant matters pertaining to social, ethical and legal requirements; and
- Reporting to shareholders on matters pertaining to social, ethical and legal requirements.

This committee is an integral part of good governance and the Act indicates that it has to consist of a minimum of three board members (or prescribed officers), one of which has to be a non-executive director. In a similar manner to that of the remuneration committee, we envisage the initial implementation of the committee to be focused on compliance, although the long-term implementation is more likely to focus on value-adding activities aligned with the corporate strategy.

For a full review of the number of meetings per committee please see the table on page 37.

⁷ Act 71 of 2008

Evaluating board effectiveness



The issue of board effectiveness and the process of evaluation is one which is gaining significant traction in the global market. The Guidance on Board Effectiveness is one of a suite of guidance notes issued by the Financial Reporting Council to assist companies in applying the principles of the UK Corporate Governance Code⁸ (the Code). This guidance relates primarily to the sections of the Code on the leadership and effectiveness of the board. This guidance is not intended to be prescriptive, but to stimulate boards' thinking on how they can carry out their role most effectively.

The guidance notes suggest the need to continually monitor the performance of non-executive directors. This can be achieved through board evaluation, which provides a powerful and valuable feedback mechanism for improving board effectiveness, maximising strengths and highlighting areas for further development. The evaluation process should aim to be objective and rigorous.

Much like induction and board development, evaluation should be bespoke in its formulation and delivery. The overall responsibility for the process rests with the chairperson, who should select an appropriate approach and act on its outcome. The lead independent director should lead the process which evaluates the performance of the chairman.

Chairpersons of board committees should also be responsible for the evaluation of their committees.

The outcome of a board evaluation is something which should be shared with the whole board and fed back, as appropriate, into the board's work on composition, the design of induction and development programmes, and other relevant areas. It may be useful for the company to have a review loop to consider how effective the board evaluation process has been.

The Code recommends that the FTSE 350 companies have externally-facilitated board evaluations at least every three years. External evaluation can add value by introducing a fresh perspective and new ways of thinking. It may also be useful in particular circumstances, such as when there has been a change of chairman, where there is a known problem around the board table which needs to be dealt with a degree of sensitivity, or where there is an external perception that the board is, or has been ineffective.

Whether facilitated externally or internally, evaluations should explore how effective the board is as a unit, as well as the effectiveness of the contributions made by individual directors.

Some areas that may be considered, although they are neither prescriptive nor exhaustive, include:

- The mix of skills, experience, knowledge and diversity on the board, in the context of the challenges facing the company;
- Clarity of, and leadership given to, the purpose, direction and values of the company;
- Succession and development plans;
- How the board works together as a unit, and the tone set by the chairman and the CEO;
- Key board relationships, particularly chairman/CEO, chairman/senior independent director, chairman/company secretary and executive/non-executive;
- Effectiveness of individual non-executive and executive directors;
- Clarity of the lead independent director's role;
- Effectiveness of board committees, and how they are connected with the main board;
- Quality of the general information provided on the company and its performance;
- Quality of papers and presentations to the board;
- Quality of discussions around individual proposals;
- Process the chairman uses to ensure sufficient debate for major decisions or contentious issues;
- Effectiveness of the secretariat;
- Processes for identifying and reviewing risks; and
- How the board communicates with, and listens and responds to, shareholders and other stakeholders.

⁸ The UK Corporate Governance Code.

The rise of the lead independent director



The lead independent director has been known as a lead director, presiding director or senior independent director and has long been prevalent in the United States (US) and United Kingdom (UK). King II and III introduced the concept of a lead independent non-executive director in South Africa and, although not without criticism, the appointments of lead independent directors are becoming more and more prevalent in the South African market, especially in small-cap and AltX companies.

Roles

The Securities Exchange Commission's (SEC) disclosure rules around board leadership structures were introduced in 2010 in the US. Under these rules, companies are required to disclose the reasons for combining or separating the principle executive officer and board chairman positions. Where these are combined, a lead independent director should be designated to chair meetings of independent directors and companies need to disclose whether, and why, the company has a lead independent director as well as the specific role⁹. The Dodd-Frank Act¹⁰, requires the SEC rules to be further enhanced by stating that companies need to disclose why the role of chairman of the board and CEO will be separated or combined. According to the Lead Director Network (LDN), established in the US in response to these regulatory requirements, most US companies appointed a 'lead' or 'presiding director' whilst some companies appointed an independent director to serve as a non-executive chairman of the board. The responsibilities of these positions vary significantly from company to company¹¹. The LDN identified three

key manners in which lead directors augment value to companies and boards¹²:

- The development of a high-performing board by, inter alia, driving boards to make decisions and develop action points, focusing on strategic decisions and ensuring access to sufficient information to make decisions;
- Building a dynamic relationship with the CEO by mentoring and challenging the CEO, ensuring effective communication with the CEO and board and evaluating and offering feedback to the CEO. A study conducted by PwC US in April 2010 on lead directors¹³ (PwC US study) indicated that 73% of lead directors are former or current chairmen, CEOs or presidents of public companies. Interestingly, 50% of lead directors stated that they liaised with the CEO more than five times between board meetings whilst 45% spoke with other directors only once or twice between meetings; and
- Assisting in efficient shareholder communication. Surprisingly, respondents in the same PwC US study on lead directors confirmed that this is not a key part of a lead director's role.

⁹ <http://www.sec.gov/rules/final/2009/33-9089.pdf>. Accessed 06/12/2011.

¹⁰ Dodd-Frank Wall Street Reform and Consumer Protection Act 2010.

¹¹ <http://www.kslaw.com/News-and-Insights/Lead-Director-Network>. Accessed: 06/12/2011.

¹² Lead Director Network ViewPoints: The role and value of the lead director, Issue 1, 30 July 2008.

¹³ Lead Directors: A study of their growing influence and importance, April 2010.

The role of a lead director in the US appears similar to that of a senior independent director in the UK, which is stated by the UK Corporate Governance Code 2010 to be a sounding board to the chairman, to chair separate meetings with other non-executive directors and to act as intermediary for other directors and to resolve shareholder concerns where normal channels have failed. These were mirrored by the PwC Company Secretary Survey 2010 noted in the PwC UK NED survey 2010¹⁴ (PwC UK study). The study noted that the top three duties of senior independent directors are to be an intermediary for other non-executive directors, a sounding board for the company chair and intermediary between shareholders and the chairman.

In South Africa, the concept of a lead independent director was brought about by King II and III and appears less extensive than the roles ascribed to lead directors or senior independent directors in the US and UK respectively. King III states that the board should elect a chairperson who is an independent non-executive director and this should not be the same person as the CEO of the company. According to King III, a lead independent director should be appointed to provide leadership and advice to the board in the event where the chairman has

a conflict of interest, but at the same time the lead independent director should not detract from the authority of the chairman and his role should be to support the chairman and efficient functioning of the board as a whole. Although King III recognises that the role of a lead independent director and the deputy chairman may be combined, this is not usually the case as the latter is usually appointed for succession planning purposes.

Thus, in instances where the chairperson may be perceived to be in conflict, the lead independent director has the power and authority to lead and co-ordinate the activities of the board. It is widely accepted that a lead independent director should promote the highest standards of integrity, probity and corporate governance. As the concept of a lead independent director gains more traction in the market, time will tell whether the roles and responsibilities of a lead independent director will become more akin to those of a lead director in the US or a senior independent director in the UK.

Lead independent directors have been under some criticism in the South African market, specifically around whether some lead independent directors can truly be considered independent¹⁵. King III contains a detailed list of which non-executives are considered independent. These include, inter alia, non-executive directors who have not been employed by the company for the preceding three financial years and non-executive directors that do not receive remuneration dependent upon performance of the company. However, as is often the case, theory and principles do not necessarily cater for all scenarios and a non-executive director may be independent in terms of King III, but when looking at the specific facts and circumstances in practice, questions may be raised as to how independent they actually are. One example is when a lead independent director has effectively served on the board of a company for an extensive number of years, first as an executive director of the company and thereafter as a non-executive director. This long affiliation with the company raises the question as to how independent the director actually is.

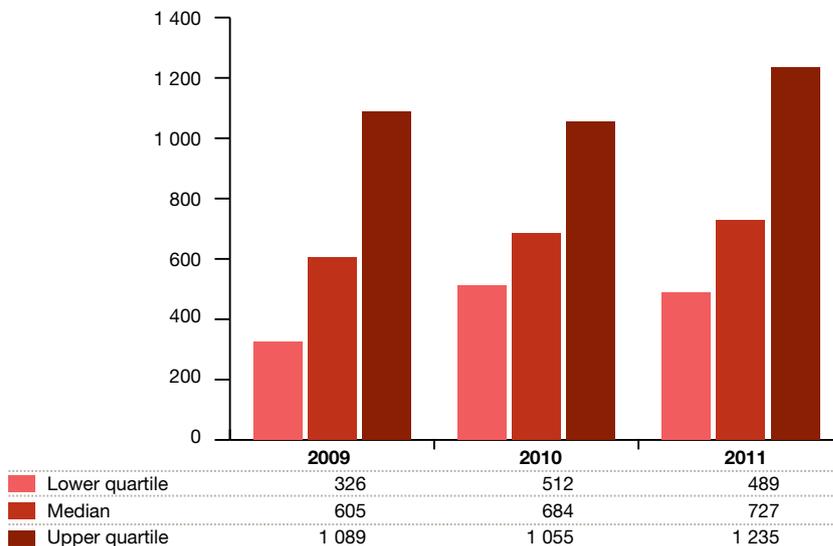
¹⁴ More pain, more gain? Non-executive director survey 2010 PwC UK.

¹⁵ Business Day: Monday Comment: True independent directors hard to find by Tim Cohen, 6 December 2010.

Fees

In South Africa, the median total fee paid to lead independent directors amounted to R684,000 in 2010, rising to R727,000 in 2011. The year-on-year percentage change of total fees paid to lead independent directors in South African amounted to 6% at the median and 17% at the upper quartile. Although the lead independent director may not always be labelled as a lead independent director in annual reports, a close inspection of non-executive director roles has been undertaken in order to identify the appropriate directors. The figures for these directors have been included in the analysis on the right.

Lead independent directors: total fees



Governance





Background

2011 saw the promulgation of the much debated and contentious new Companies Act in South Africa. Although the Act addresses a wide spectrum of company related governance, auditing and disclosure requirements it also addresses the issue of directors' remuneration and disclosure. In particular the way legislation relates to non-executive directors will be investigated in greater detail later in this section. The Act contains certain elements of the recently introduced Australian 'Say on Pay' legislation¹⁶ as well as the US Dodd-Frank Act which requires shareholders to vote on executive remuneration.

¹⁶ Reforms took effect in July 2011.

In terms of international corporate governance standards a discussion paper on Executive Remuneration was also released by the government of the UK in October 2011. This document questions the efficiency of an advisory vote by shareholders on companies' remuneration reports and questions whether this should not be a binding vote on pay to give shareholders a stronger voice.

The European Commission's green paper¹⁷, which is perceived as the vehicle which kick started further regulatory changes for Europe's listed companies, strengthens the legal liability of directors via an expanded 'duty of care'.

It is therefore clear that long-term governance principles are with us to stay. Whether companies are suffering from corporate governance and disclosure fatigue is a question being raised more frequently. However, shareholder activism and involvement trumps such questions, as shareholders feel that they should become more directly involved by appointing non-executive directors who will hold companies to account on their behalf. Both in South Africa and internationally we expect governance and disclosure in this area to become more stringent.

¹⁷ European Commission's green paper on the EU Corporate Governance framework

General update

Companies Act and other SA regulatory standards

As King III remuneration principles were drafted using the Act as a baseline, in principle, there should be no contradictions between the two. King III was, however, released well in advance of the Act. We have highlighted below some of the similarities and difference as it pertains to non-executive directors.

Reference	The Act	King III
Composition of the board	The Act does not use such terminology or contain provisions for the composition of the board with reference to executive, non-executive or independent non-executive directors.	Categorises and defines directors as either executive, non-executive or independent non-executive directors.
Directorships held by non-executive directors	Not addressed.	Non-executive directors should honestly apply their minds to their workloads and it is important that they should not hold more directorships than is reasonable for them to exercise due care, skill and diligence with regard to each.
Rotation of non-executive directors	Not addressed.	At least one third of non-executive directors should retire by rotation yearly.
Approval of directors' remuneration¹⁸	Except to the extent that the companies' Memorandum of Incorporation (MOI) provides otherwise, the company may pay remuneration to its directors for their services as directors in accordance with a special resolution approved by shareholders within the previous two years.	Shareholders should approve non-executive directors' fees in advance.
Removal of directors	Except to the extent that the MOI provides otherwise, an ordinary resolution adopted by shareholders can remove a director.	The MOI should allow the board to remove any director. Shareholder approval is not necessary for these decisions as long as the MOI provides for it.
Disclosure regarding remuneration of directors¹⁹	All remuneration as defined in the Act (includes all fixed pay, pensions, variable pay, equity etc) received by directors and prescribed officers should be disclosed.	Companies should provide full disclosure of each individual non-executive's remuneration; giving details of base pay, bonuses, share-based payments, granting of options or rights, restraint payments and other benefits.
Share options for non-executive directors	Section 42 of the Act deals with this and permits companies to issue share options provided that the requirements of this section is complied with.	The chairman and non-executive director should not receive share options geared to share price as this may be seen to impair their objectivity.
Membership of the remuneration committee	Except to the extent that the MOI provides otherwise, the committee may include persons who are not directors of the company as long as these persons are not disqualified to be a director in terms of the Act and do not have a vote on any matter decided by the committee.	All members must be board members and the majority of members should be non-executive, independent directors. The chairman should be an independent, non-executive director.

¹⁸ Dealt with in greater detail later in this document.

¹⁹ Whether such disclosure should be on a comparative figure basis and whether it should include details regarding service contracts will be dealt with later in this document.

Some of the frequently asked questions since the promulgation of the Act are:

- Does the approval of directors' remuneration (by way of shareholder vote) only pertain to non-executive directors?
- Does disclosure of individual directors' remuneration require comparative figures?
- What exactly does disclosure regarding directors' and prescribed officers' service contracts entail?

'Services as director' can be interpreted narrowly as only including fees as directors distinct from example salaries/fees paid for directorship (in other words as in the case of non-executive directors).

The other, broader interpretation would be that the authorisation extends to executive directors where their fees are not specifically paid for 'services as director', but by reason of their employment agreement and directorship is merely incidental to their employment agreement.

Both interpretations have been accepted by academic commentators and regulatory bodies such as the South African Institute of Chartered Accountants (SAICA). It is our experience that companies prefer to follow the narrower interpretation.

The Act does not specifically require comparatives for directors' and prescribed officers' remuneration disclosure. However, every company is required to comply with its prescribed

financial reporting standards in the preparation of its annual financial statements. Accounting standards require "Except when IFRSs permit or require otherwise, any entity shall disclose comparative information in respect of the previous period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements." It would therefore be a requirement to provide comparatives for the individual directors' (including non-executive directors') and prescribed officers' remuneration disclosure.

Section 30 of the Act requires that the annual financial statements of all entities that will be audited in terms of the Act, should include details of service contracts of current directors and individuals who hold any prescribed office in the company. Some guidance as to the level of disclosure can be found in the JSE listing requirements and the provisions of the "old" Companies Act.

The JSE listing requirements require that the term of office for which any director has been or is appointed, the manner in and the terms on which any proposed director will be appointed, should be disclosed. A brief summary of existing and proposed contracts, either written or oral, relating to directors' remuneration payable (including restraint payments) by the company or any of its subsidiaries need to be disclosed.

The 'old' Companies Act provided that directors' service contracts with notice periods in excess of one year and with provisions for predetermined compensation on termination of the contracts exceeding one year's salary and benefits in kind, giving reasons for such notice periods, should be disclosed. Also, the unexpired term of any director's service contract where that director is up for re-election should be disclosed. In addition, should no contracts exist for directors, a statement to this effect should be included in the annual financial statements.

Where companies have service contracts for non-executive directors in place, companies should disclose a fair amount of detail pertaining to the terms of non-executive directors' service agreements. Where no service agreements exist, this fact should also be disclosed.

It is also interesting to note that although King III and other international corporate governance standards view long term incentives (by way of share grants) as improper to non-executive directors, the new Companies Act has not legislated definitively against this.

The profile of a non-executive director



Introduction

The number of non-executive directors serving on JSE listed companies has increased by 13.2% to 2267 (2002). This confirms our opinion that a declining base of non-executive directors appeared to be out of line with international trends. Included in this year's total count are 293 (270) chairpersons, 73 (52) deputy chairpersons, and 64 (34) lead directors.

Gender diversity

The issue of diversity continues to be a hot talking point, and one of the areas of diversity that has attracted considerable attention is that of gender diversity within the boardroom. Our experience tells us that the majority of boards are looking to increase the number of women on corporate boards. Interestingly though, it appears as though companies are only willing to increase gender diversity on their own terms.

In response to the Green Paper on the EU Corporate Governance Framework²⁰, the majority of companies that supplied feedback indicated that they believed that a diversity policy, with a commitment to reporting on diversity objectives and progress, would be beneficial. However, in response to a proposed gender diversity requirement, most of the respondents rejected the idea.

The respondents that were against a formal gender diversity requirement justified their position on the grounds that it would be an interference in the shareholders' rights and decisions, and that the company should be able to set its own requirements regarding the profiles of the board members without undue external restrictions or requirements.

Further critics of the proposal suggest that diversity requirements that focused on gender alone are too narrow to have any constructive benefit. These critics underlined that board diversity should not be limited to gender, but should be seen from a wider perspective, as the skills, the professional qualifications and experience, for instance, are fundamental criteria within the selection process.

The danger is that the discussion regarding gender diversity may devolve into lip service, where organisations suggest that they are willing to drive gender diversity but appear unwilling to push themselves out of their comfort zones in the pursuit of this objective.

It is noted that significant stumbling blocks exist in building boards that are characterised by gender diversity. Importantly, the number of females currently in executive positions in corporate South Africa is relatively low. The implication of this is that the visible talent pool is reasonably limited and that the selection of appropriate individuals requires more pro-active and determined approach. The solution therefore requires organisations to look outside the immediate business community for suitable leadership talent.

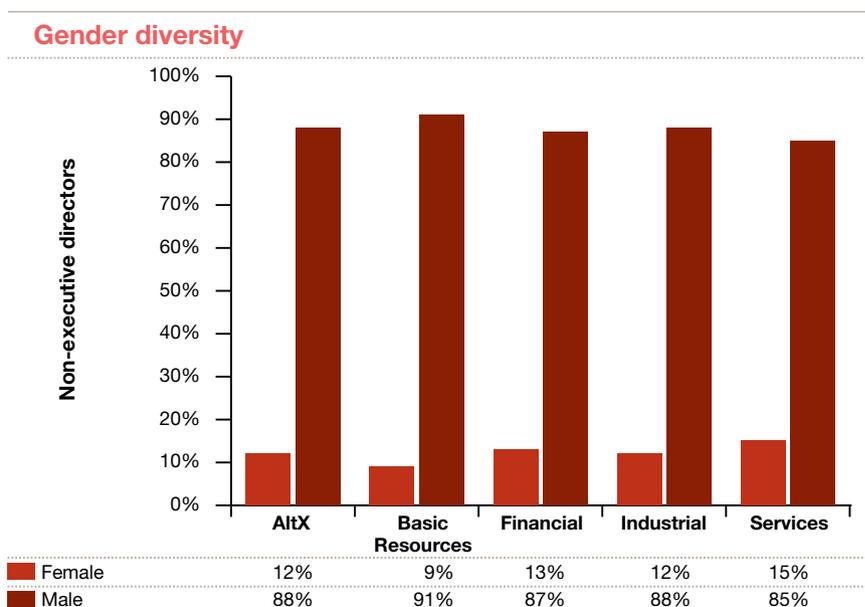
²⁰ Feedback statement: summary of responses to the Commission Green Paper on the EU Corporate Governance Framework'.

Juxtaposed against the aforementioned challenge is the sentiment that the board must be fit for purpose. If organisations are going to look outside of the business community for female leadership talent, then they will need to understand the role that these individuals will play in their contribution to the functioning of the board.

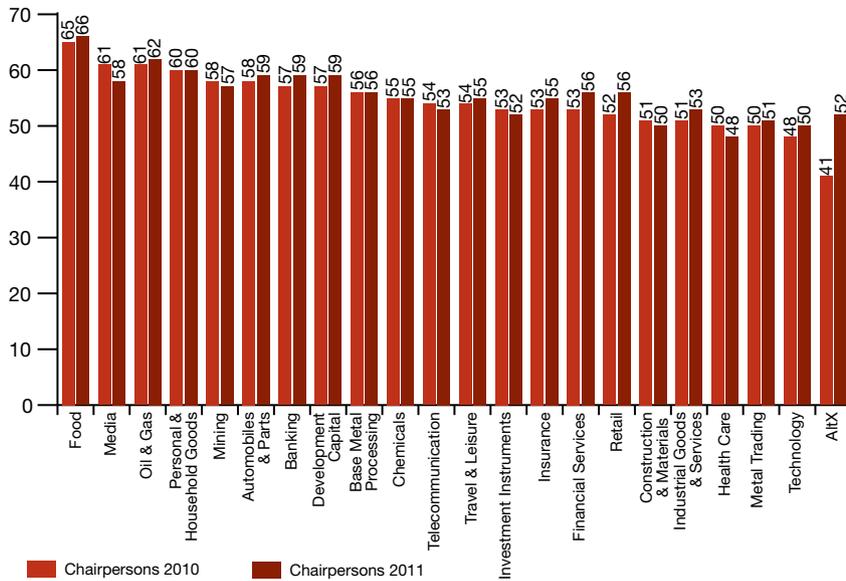
It is clear that achieving an appropriately diverse board from a gender perspective will remain a difficult task. The first steps will require the leadership will and commitment to pass over the stumbling blocks and set in motion pragmatic initiatives.

Against the backdrop of this discussion it is interesting to note the level of gender diversity within the South African environment:

The percentage of female non-executive directors ranges from 9% in the case of basic resources to 15% in the case of services. This clearly suggests that females constitute a minority group within the boardroom discussion.



Chairpersons: median age profile

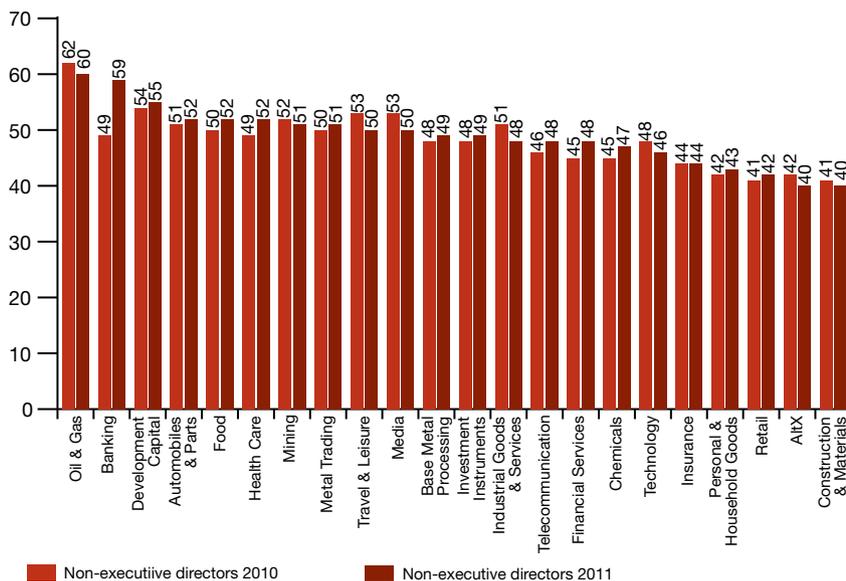


Age

We have noted a decline in the age of directors as a general trend since the inception of this report. This appears to have stabilised and the median age chairpersons remains at 51. The median age for non-executive directors is 48.

The age profile trend across the various sectors is reflected in the following two charts:

Non-executive directors: median age profile



ACI status

Transformation continues to be an important talking point within governance circles and it is encouraging to note that despite an increase in the number of directors, the percentage of ACI²¹ directors has increased to 36% from 34%.

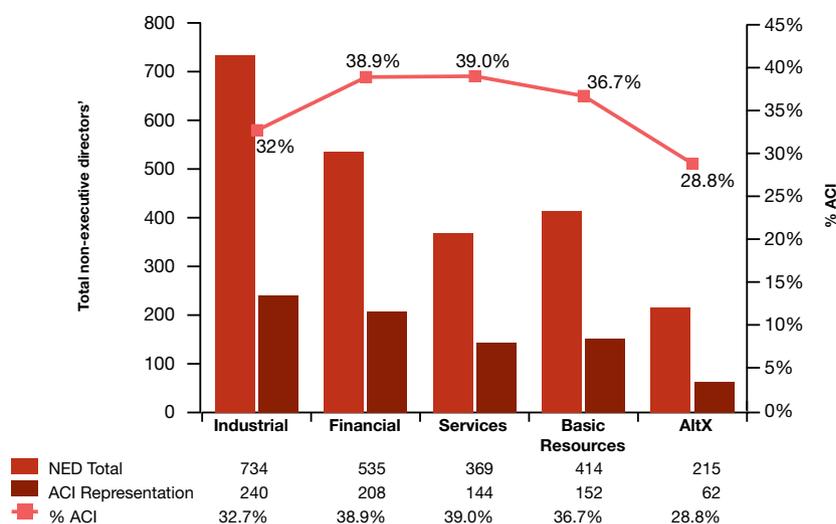
Our analysis indicates that relative to executive directors, non-executive directors continue to lead the way in terms of transformation. It is noted that the percentage of ACI directors in executive roles currently stands at 10%.

The financial services and services sector appear to be championing the drive for transformation achieving an ACI percentage representation of 39% at board level. The AltX reference group is the lowest in terms of transformation at board level.

One of the key discussion points that emanated from the EU's Corporate Governance Framework is that of diversity with the main objective of ensuring diversity of thought and eliminating group think. It is our firm opinion that the progress in terms of racial representation, while slow, is moving in the right direction and having a positive impact in terms of diversity of thought.

²¹ 'African, Coloured, Indian' referring to previously disadvantaged individuals as indicated in the Bill of Rights.

ACI status



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Independence status

The independence of non-executive directors is a key consideration for board composition. King III notes that the board should comprise a balance of power with the majority of directors being non-executive. The majority of non-executive directors should be independent.²²

The issue of independence is particularly important when one starts to consider the principle-agent conflicts that may exist within the boardroom environment. The principle-agent conflict arises from the fact that there is separation of ownership

and management. Shareholders are therefore represented by the board of directors, but conflicts may exist due to what behavioural economists call the influence of managerial power. The thrust of the argument for managerial power revolves around the incentive for directors to be re-elected, the friendship and loyalty developed between the board and the executive team, as well as cognitive dissonance and 'group thinking' of professionals who have shared similar career paths. Therefore if the board of directors, who act as a proxy for the shareholders, is not sufficiently independent,

there is considerable danger that the board may act in a manner that is in conflict with the best interests of the shareholder.

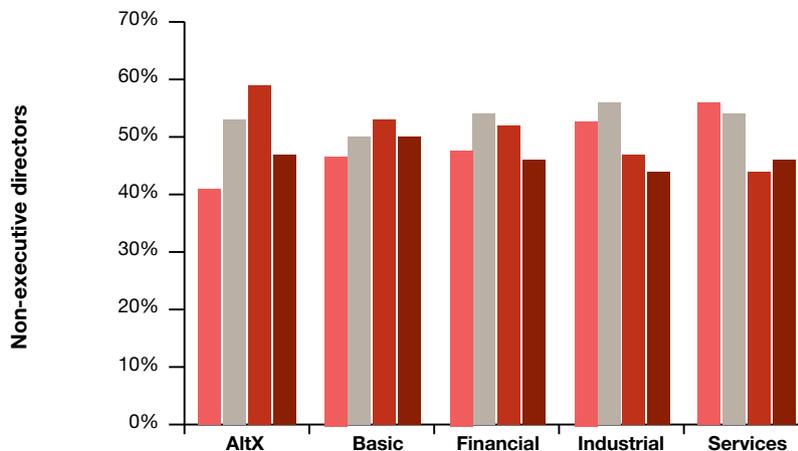
In order to address the independence of boards, the National Association of Pension Funds (NAPF) in the UK, has raised the issue of shareholder representation on nominations committees. In its Discussion Paper²³, the NAPF has responded favourably to the idea of having shareholder representatives on the nominations committee, indicating that this would assist minority shareholders have a clearer voice when it comes to matters of board selection.

The underlying rationale is that a more collaborative selection process will ensure that the board is suitably independent and free of managerial influence at the hands of the executive team. The NAPF does acknowledge the practical challenges associated with such a proposal indicating that in many instances shareholders are not sufficiently active in their engagement with the board.

The discussion raises the key issue about the role played by the board in ensuring that it pursues the best interests of the shareholder in its leadership of the management team. It provides further context to the issue of independence and the reason it has gained traction in the market.

²² Report Principle 2.18, paragraph 64.

Independence status



Resources	Independent NED 2010	Independent NED 2011
AltX	41%	53%
Basic Resources	47%	50%
Financial	48%	54%
Industrial	53%	56%
Services	56%	54%

²³ Executive Remuneration: Discussion Paper – A Response by the National Association of Pension Funds.

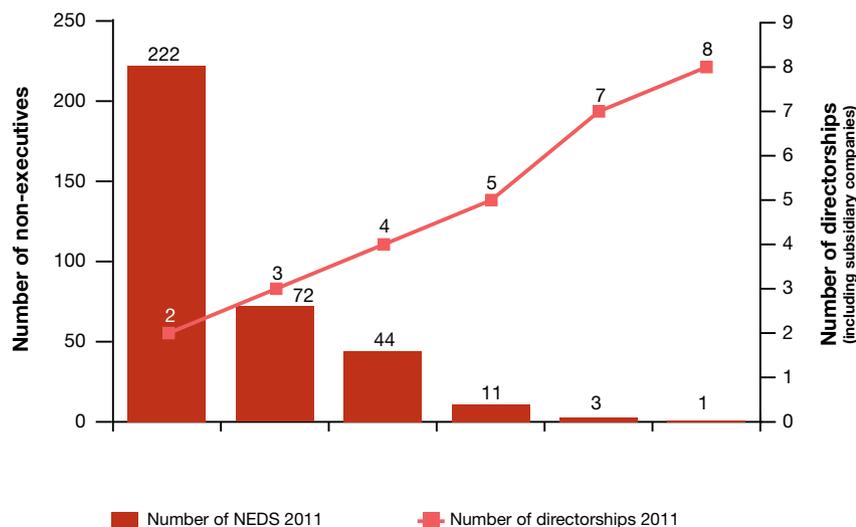
It is encouraging to note that the current data set indicates that the majority of non-executive directors are independent directors across all sectors, except in the basic resources sector, where the split was shown to be exactly even. These figures are all

an improvement from our 2011 report where only industrial and services companies displayed a majority of independent non-executive directors. The industrial companies are shown to have the highest percentage of independent non-executive directors at 56%.

Number of directorships

As indicated in our 2011 report, the balance between having suitably qualified and experienced directors must be weighed against the need for directors that can make a meaningful contribution, given their portfolio of responsibilities. The issue of multiple directorships was raised in the response summary to the EU's Corporate Governance Framework. In the response summary it was asked whether there should be a measure in place to limit the number of boards a director may serve on. The issue is clearly an important discussion point globally, with 77% of responses indicating a clear preference to managing the number of directorships held by non-executive directors.

Non-executive directors: number of directorships



At this point it does not appear as though there is any consensus on whether a formal guideline could be effectively implemented, or the number of mandates that are appropriate. It is noted that a guideline recommendation may be the most sensible approach adopted, with nominations committees having the task of evaluating the suitability of directors that hold multiple directorships.

Within the context of this report, it is evident that the number of directors who hold more than five listed company mandates, has remained the same (15). The number of directors holding two or three directorships has risen by 13.2% and 12.5% respectively.

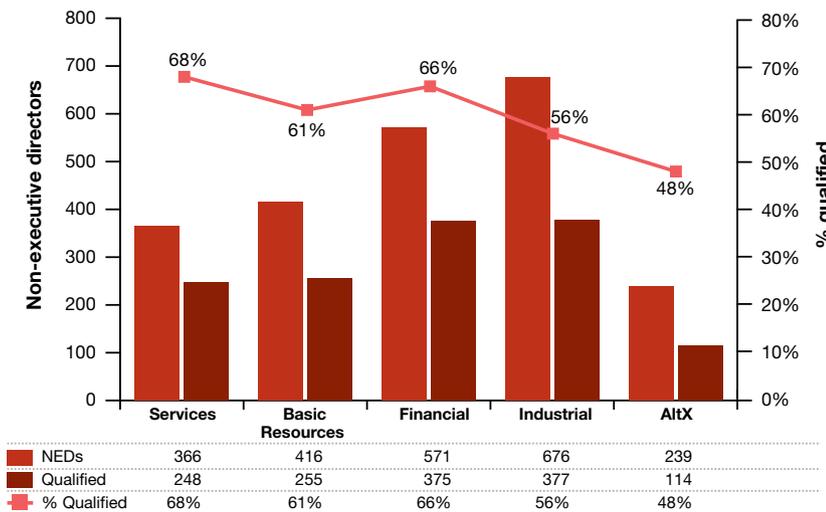
Qualifications

Along with diversity considerations, the issue of skills is a board composition consideration, and is one of the reasons that some directors are selected to hold multiple directorships. There are no specific selection policies pertaining to the skills of board members and there does not appear to be traction in the global marketplace to regulate these selection policies. The response summary to the EU's Corporate Governance Framework indicated that respondents did not feel that a 'one size fits all' approach to selection is appropriate.

Our experience indicates that the skills necessary for the effective functioning of the board are influenced by the industry in which the organisation operates, as well as the diversity shown on the board. It is noted that the majority of directors have formal qualifications, bringing learned skills such as accounting, taxation, law, engineering, and economics along with their vast business experience.

Interestingly it is noted that the reference group that shows the lowest percentage of formally qualified directors is the AltX group of companies. This is a predictable observation, given the entrepreneurial nature of these companies.

University degree or similar higher education



Resident status

The proportion of non-resident non-executive directors has risen to just over 9% from 6.24% last year. The largest percentage of foreign non-executives comes from the UK, followed by Australia and the US.

Interestingly, the most notable increase has been in the number of Chinese nationals (none in 2010 to 12 in 2011) and nationals from African countries (Nigerian nationals, none in 2010 to 11 in 2011, Namibian nationals, none in 2010 to 8 in 2011; Zimbabwean nationals, none in 2010 to 6 in 2011, Botswana nationals, none in 2010 to 4 in 2011), now serving on South African boards.

Country of residence	Number NEDs 2010	% of Total	Number NEDs 2011	% of Total
South Africa	1 877	93.76%	2 062	90.96%
Australia	23	1.15%	29	1.28%
UK	56	2.80%	54	2.40%
USA	16	0.80%	23	1.00%
German	13	0.65%	19	0.85%
Chinese		0.00%	13	0.56%
Italy	1	0.05%	11	0.50%
Nigeria		0.00%	11	0.50%
Namibia		0.00%	8	0.33%
Zimbabwe		0.00%	6	0.28%
Canada	5	0.25%	5	0.22%
French	2	0.10%	5	0.22%
Greek	1	0.05%	5	0.22%
Switzerland	4	0.20%	5	0.20%
Botswana		0.00%	4	0.17%
Japan		0.00%	3	0.11%
Brazil		0.00%	1	0.06%
Netherlands	1	0.05%	1	0.06%
New Zealand	1	0.05%	1	0.06%
Spain	2	0.10%	1	0.06%
Grand Total	2 002	100.00%	2 267	100.00%

A review of non-resident directors' remuneration where boards of directors have both non-resident and local directors appointed, indicates that non-resident non-executive directors receive the following premium in total fees:

Advantage over that of local incumbents (based on the median of all resident NEDs in the company)²⁴

	Upper quartile	Median	Lower quartile
Retainer as member of the board	296%	152%	54%

²⁴ Comparators for chairpersons are indeterminable since a board has only one chairperson at a time

The level of fees for non-resident non-executive directors is often a contentious issue that companies grapple with. This is exaggerated by the following:

- Disclosure of non-executive director fees is not yet at a level that one can access if fees paid to non-resident non-executives include expenses as 'away-from-home' allowances or stipends for out of pocket expenses;
- The travel and accommodation component for non-executive directors is not adequately reported;
- There is no indication if non-resident non-executive directors spend fixed times during the year in South Africa; and
- Disclosure is lacking on whether any of the incumbents live in their own properties, and spend most (or all) of their time in this South Africa.

In arriving at a proposal for setting fees for non-resident non-executive directors, companies should typically consider the following:

- The nature of the company – in the case of a truly 'global company', one would expect to compare the fees for non-residents with both comparable South African companies and international companies. On the other hand, non-resident non-executive directors serving on boards of South African companies where the company is seen as a South African company (for example where the majority of board meetings are conducted in South Africa or where the company is only listed on the JSE), one would expect to draw a comparison with South African companies only. The fees for non-resident non-executive directors residing in Africa are normally at a similar level to those of non-executive directors residing in South Africa;
- The need to have non-residents on the board – it is not always clear why non-resident directors are required on the board and companies need to evaluate the need for non-residents when setting fees; and
- Location where board meetings are conducted – where the majority of board meetings are conducted outside South Africa, one would expect a level of adjustment of fees.

Fees



General

King III indicates that directors should be remunerated fairly and responsibly. Gaining clarity on what this means for directors who assume a non-executive role has, however, been rather challenging. Importantly, non-directors must be appropriately rewarded for their time. Non-executive directors typically have a range of commitments and, given their expertise in the market, their time is valuable. A further consideration is risk. The role of the non-executive director has become increasingly onerous from a risk perspective where directors can be held liable for their actions. In complex environments such as financial services and mining, the existence of risk cannot be understated. Therefore, it is important that fees take into account the level of risk. A final consideration is the independence of non-executive directors. The report has already mentioned the importance of independence, and this discussion can be extended further to include the consideration that remuneration may play in hampering independence. Therefore, the remuneration afforded to these directors should not impair this independence.

King III provides guidelines indicating that non-executive directors should receive a base fee, as well as a fee per meeting²⁵. This is a shift from past practice where the director typically received a base fee plus a committee fee, and is receiving some traction in the market but has not been subject to wide-scale implementation. The structure of fees still takes on a number of alternatives.

²⁵ Report Principle 2.25 paragraph 153.

Structure

Analysis of the market indicates that there are four main approaches to setting fees. These include:

- Fixed fees – a simplistic approach that sees an all inclusive lump sum fee being paid to directors. Chairpersons typically receive a fixed fee irrespective of the committees that they serve on, or the additional responsibilities that they assume. Our observation is that it is uncommon for non-executive directors to receive fixed fees;
- Fixed board fee plus set fees for either chairperson or member of the committee – the separation of board duties and committee duties. This remains the most widely used approach to determine non-executive fees;
- Fixed fees for each category of meeting, based on a pre-arranged agenda for the ensuing year – the determination of fees is based on an aggregated fee per meeting. The emphasis on specific meetings is beginning to gain traction in the market, with many companies determining fees based on aggregated meeting fees; and
- Fixed fees for each category of meeting, with the proviso that there is no payment for non attendance – the determination of fees based on an aggregated fee per meeting, with a condition that attendance is a pre-requisite for payment. This approach is still in its infancy, as companies have yet to implement a ‘no show, no pay’ philosophy with rigour.

Analysis

Fees paid to chairpersons and non-executive directors of companies listed on the JSE have been examined and analysed by sector. The main industries analysed are: financial services, basic resources, services, and industrial. In respect of each industry, we have split the data by reference to large-cap, medium-cap and small-cap companies within that industry. In addition, the report provides a separate analysis for AltX companies. In each case, the values given are total fees paid and are the sum of aggregated fees based on the various committee structures mentioned earlier in the report.

Based on the data extracted from annual reports, the following table indicates the median number of meetings held for the board as well as the various committees. The table provides data for the past three years and it is evident that the number of meetings has remained stable over the past three years, across the entire sample. The aggregate number of meetings – including board and committee meetings – for the entire sample is 31, exactly the same as the median figure for 2010.

Across the various sectors, the aggregate number of meetings has remained the same in all except for the mining sector. It is interesting to note that the aggregate number of meetings has risen to 35, from 29 in the previous years’ report.

Meetings	Board 2009	Board 2010	Board 2011	Audit 2009	Audit 2010	Audit 2011	Corp. Governance 2009	Corp. Governance 2010	Corp. Governance 2011	Nominations 2009	Nominations 2010	Nominations 2011	Other 2009	Other 2010	Other 2011	Remuneration 2009	Remuneration 2010	Remuneration 2011	Risk 2009	Risk 2010	Risk 2011	Sustainability 2009	Sustainability 2010	Sustainability 20102	Aggregate All Meetings 2009	Aggregate All Meetings 2010	Aggregate All Meetings 2011
Mining	3	5	5	2	4	4	3	2	4	4	2	6	5	7	6	6	2	4	3	3	3	4	4	4	30	29	36
Banking	4	6	7	4	3	5	3	4	5	6	2	6	3	2	2	4	3	2	5	6	6	4	3	4	33	29	29
Food	3	5	4	3	4	3	4	3	6	3	3	4	4	4	6	3	4	4	6	7	6	4	6	5	30	36	36
Telecommunication	2	5	4	2	6	5	6	3	4	3	2	3	2	5	6	5	3	3	5	3	5	4	8	4	29	35	35
Oil & Gas	4	3	4	5	3	2	3	3	3	4	2	5	6	5	5	4	2	3	6	6	5	6	3	6	38	27	27
Insurance	4	6	7	3	2	3	3	3	2	2	2	4	2	3	2	5	2	2	5	5	7	4	6	4	28	29	29
Financial Services	6	5	6	2	4	5	2	3	5	2	2	6	3	7	4	5	3	4	6	5	4	5	7	3	31	36	36
Industrial Goods & Services	2	3	3	2	4	2	3	3	2	6	2	4	4	4	3	2	2	2	4	7	4	6	7	6	29	32	32
Retail	6	5	5	6	2	5	4	3	5	4	3	4	5	5	3	4	2	4	6	7	6	4	4	5	39	31	31
Personal & Household Goods	6	6	5	5	4	2	5	4	5	3	3	2	2	5	6	3	2	3	5	5	3	2	6	5	31	35	35
Media	4	4	4	6	2	2	4	3	5	3	2	1	2	6	2	5	4	4	3	3	5	3	7	5	30	31	31
Construction & Materials	3	5	6	6	4	2	3	3	5	3	4	3	2	7	7	3	4	3	4	6	7	5	3	4	29	36	36
Base Metal Processing	5	6	5	2	4	2	3	2	2	4	4	4	2	4	2	6	3	3	4	6	6	5	6	4	31	35	35
Health Care	4	6	5	3	2	5	4	2	2	2	3	6	3	4	6	5	3	3	5	3	5	5	6	6	31	29	29
Travel & Leisure	5	5	4	2	4	2	3	2	3	4	2	6	2	7	7	5	3	2	5	3	7	3	3	5	29	29	29
Chemicals	2	3	3	5	4	2	3	2	5	2	4	4	3	2	3	3	3	2	6	3	5	2	8	4	26	29	29
Technology	6	3	4	3	5	5	6	2	2	2	3	2	2	4	4	4	2	2	5	4	4	4	6	6	32	29	29
Investment Instruments	5	3	4	4	5	4	5	3	6	3	2	1	4	6	2	2	3	4	5	4	6	3	5	3	31	31	31
Alt-X	2	4	3	3	2	4	3	4	2	6	3	4	3	3	4	4	3	4	3	3	3	3	6	5	27	28	28
Automobiles & Parts	3	6	4	3	2	2	2	4	2	6	4	6	2	7	2	6	2	4	2	5	6	2	2	6	26	32	32
Metal Trading	5	5	4	5	4	2	5	3	5	3	2	6	3	3	6	4	4	2	3	3	5	4	2	3	32	26	26
Venture Capital	4	3	3	5	5	3	5	2	4	6	3	6	6	7	7	5	2	3	3	7	5	2	6	5	36	35	35
Development Capital	5	4	2	5	2	3	4	3	4	3	2	2	3	3	6	2	2	2	4	6	5	2	5	6	28	27	27
Median	4	5	4	3	4	3	3	3	4	3	2	4	3	5	4	4	3	3	5	5	5	4	6	5	30	31	31

Executive to non-executive ratio

A new point of analysis in this year's report is the ratio of executive directors to non-executive directors. In compiling a board, the ratio of executive directors to non-executive directors is reasonably important, as it has a bearing on the balance of power and the extent to which there is significant managerial influence on the board.

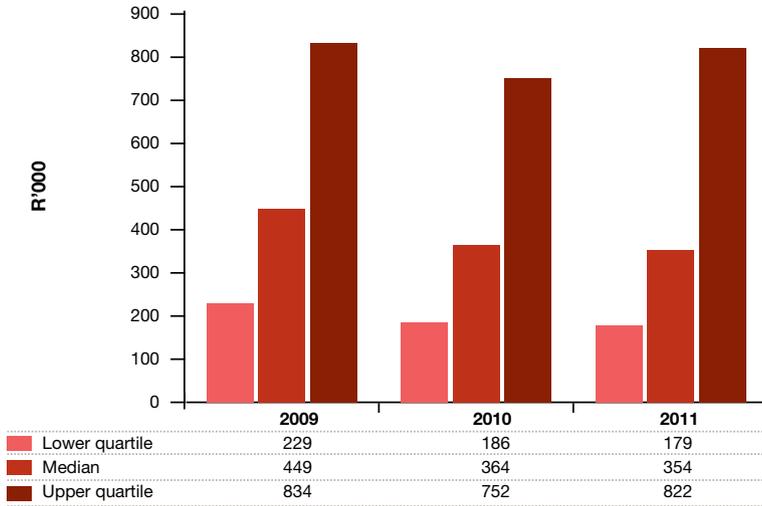
The following table indicates that there is a majority of executive directors in the AltX group of companies, but in all the other industry groupings the majority of the directors are non-executive. The overall observation indicates that executive directors constitute 34% of all directors while 66% of directors are non-executive. This is in keeping with good governance.

Sector	Executive directors	Non-executive directors
AltX	51%	49%
Basic resources	28%	72%
Financial services	29%	71%
Industrial	35%	65%
Services	32%	68%
All sectors	34%	66%

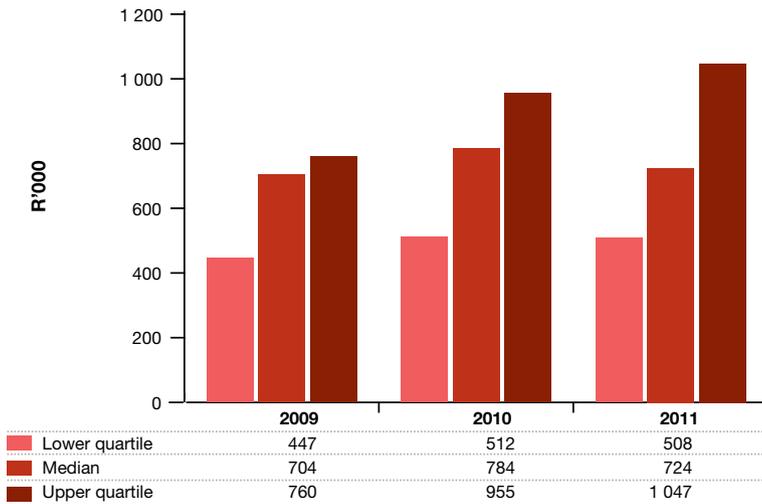
Chairpersons' fees



Chairpersons total fees: all sectors



Deputy chairpersons total fees: all sectors



Overall

The overall chairperson's fee has remained relatively stable over the past year. Last year we reported a small decline in median overall chairperson's fee. The latest data indicates an almost negligible 3% drop at the median. This adjustment takes the median chairperson fee for the entire sample to R354,000. We would attribute small variances like that to market movements, with a small number of companies either entering or exiting the JSE. It is noted that at the upper quartile there has been a 9% increase in chairpersons' fees. The upper quartile fee is R822,000.

Deputy chairperson

In 2011, the number of deputy chairpersons has increased from 52 to 73. This remains a reasonably small sample relative to the entire chairperson sample, so a direct comparison against the role of chairpersons is cautioned against. Nevertheless, the role of deputy chairperson is typically a succession planning role, with the intention of moving the deputy chairperson into the chairperson role within a medium-term timeframe. Thus the deputy chairperson takes on a range of chairperson responsibilities with the intention of grooming the individual for the chairperson role.

It is noticeable that the median deputy chairperson fee is R724,000. This is equitable with the lead independent director role where the median fee is R727,000, despite there being distinct differences in the role between the deputy chairperson and the lead independent director.

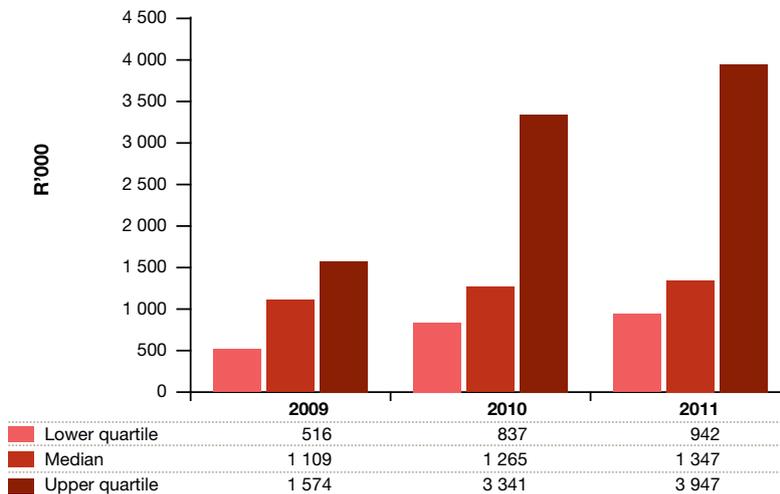
Financial services

The financial sector is one of the most highly regulated industries. In particular the banking sector is subject to significant regulatory requirements, with the Banking Supervision Division of the South African Reserve Bank being particularly assertive in its implementation of Basel II. This has played a key role in ensuring that South African banks have remained profitable with capital adequacy ratios well above the regulatory minimum. This has led the International Monetary Fund (IMF) to describe our local banks as 'orderly and stable' throughout the financial crisis of 2008, and the subsequent years of global economic downturn²⁶.

Providing suitable leadership within this context is thus a significant and onerous challenge and as such, the financial services industry has consistently been one of the most highly paid industries, with the banking sector leading the way.

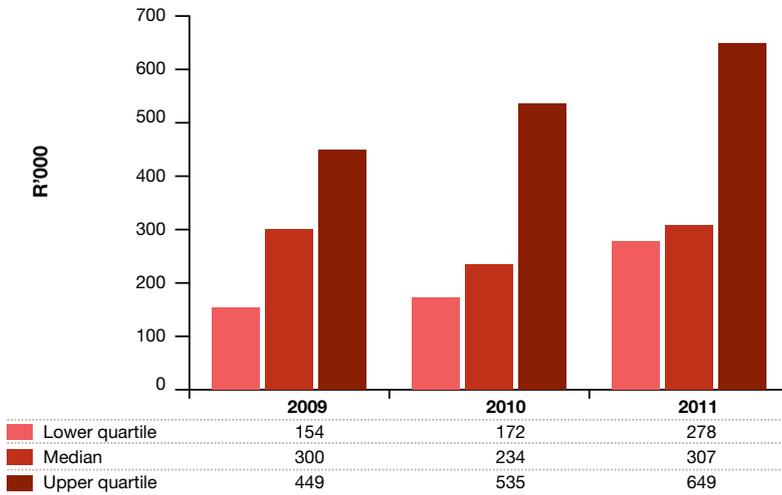
Fees paid to chairpersons of large-cap financial services organisations, and this typically refers to the large banks and insurance organisations, has shown a 6% increase at the median. The median chairpersons' fee have risen to just short of R1,35m per annum. It is noted that at the upper quartile, the all inclusive fee is more than double that of the median at just short of R3,95m.

Chairpersons: large-cap financial services



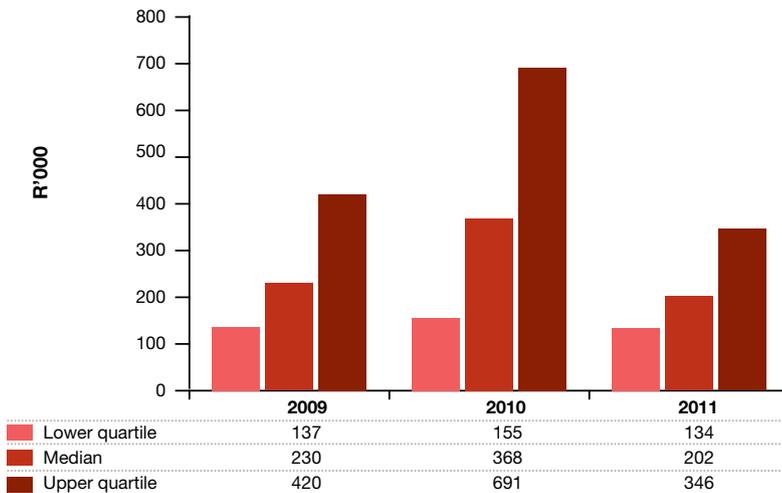
²⁶ International Monetary Fund. Retrieved from: www.imf.org/external/pubs/ft/survey/so/2009/car092509a.htm.

Chairpersons: medium-cap financial services



The difference in fees for chairpersons within large-cap financial services organisations and medium-cap financial services organisations is substantial. The median fee is R307,000 and is 77% lower than the median for large-cap organisations.

Chairpersons: small-cap financial services



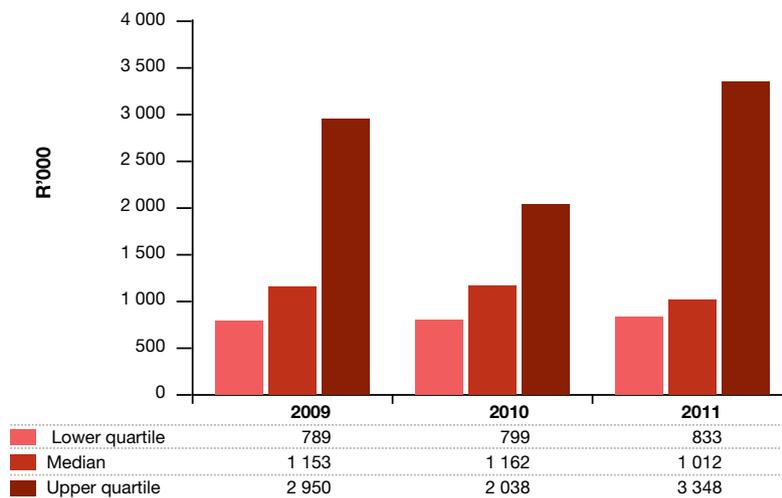
The difference between the median chairpersons' fee for medium-cap financial services organisations and small-cap financial services organisations is typically not as pronounced as the difference between the medium-cap financial services organisations and large-cap financial services organisations. The median chairpersons' fee for small-cap financial services organisations has declined to R202,000 following a sharp rise in 2010. It is believed that the 2010 observations were driven by unusual changes in the small-cap group, with some companies moving up into the medium-cap group and others shifting down.

Basic resources

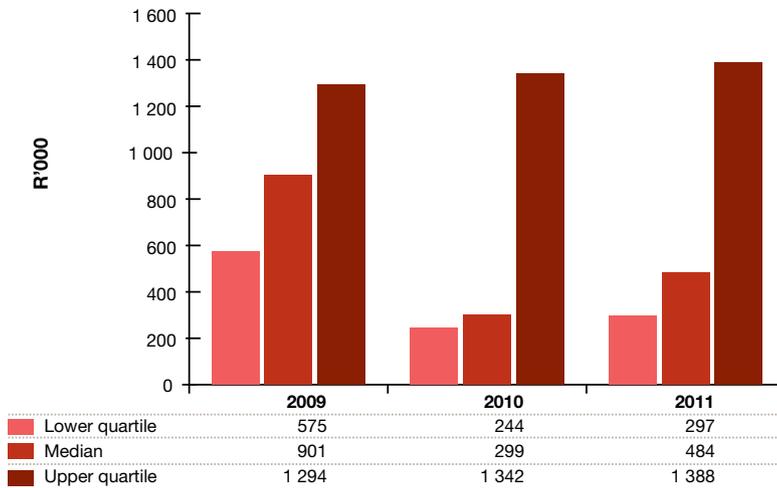
In a similar vein to that of financial services, the basic resources industry is a particularly complex one, influenced by significant regulation and broader public concerns. Mining, in particular, is subject to strict mineral development policies and mining rights are necessary for any mineral extraction activities. Furthermore, key issues include participation and ownership, people issues such as health and safety, and environmental management.

Basic resources has typically trailed the financial services industry, but has still shown reasonably aggressive pay policies and these are observed in fees paid to non-executive leadership. It is noted that the median fee for chairpersons' of large-cap basic resources organisations has declined by 13%. The median chairpersons' fee is just over R1m.

Chairpersons: large-cap basic resources

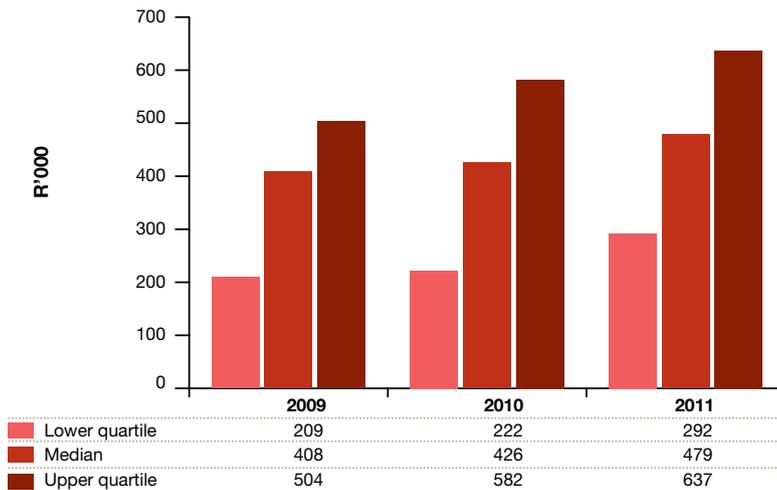


Chairpersons: medium-cap basic resources



In contrast to that of the large-cap observation, the median chairpersons' fee for medium-cap basic resources organisations has increased substantially to R484,000. This follows a significant decline in 2010. We believe that deviations of this magnitude are a function of movements between the market capitalisation groupings and should be interpreted with a degree of caution.

Chairpersons: small-cap basic resources



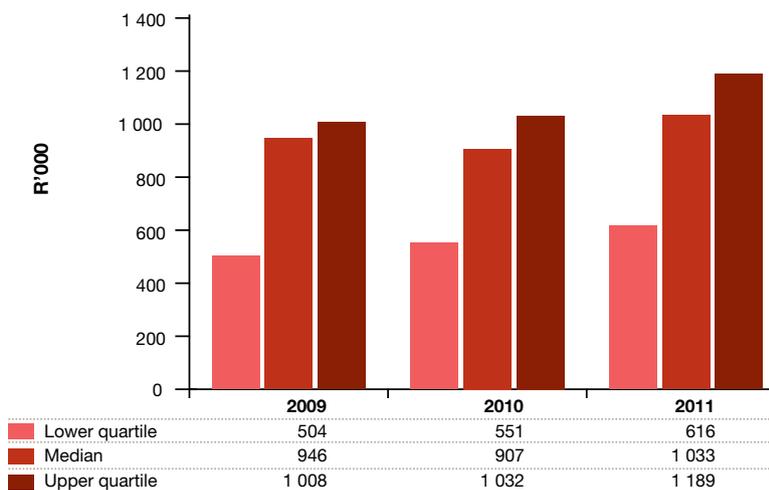
The chairpersons fee in the small-cap basic resources organisations has indicated moderate changes at all levels. At the median level the chairpersons' fee has increase by 12% to R479,000, while at the upper quartile, the chairpersons' fee has increased by 9% to R637,000.

Services

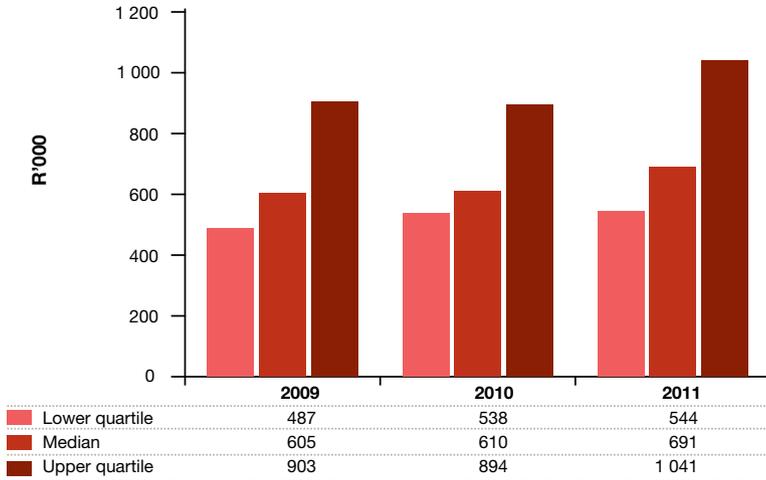
The services industry is a diversified one made up of healthcare, media, pharmaceuticals, retail, telecommunications and travel and leisure organisations. It is an unusual industry, with certain sectors being subject to significant regulation such as the pharmaceutical and telecommunications sectors, while other sectors showing very limited regulation. As such, we expect the need for industry specific experience and skills to be less pronounced than in the case of the financial services and basic resources industries. Nevertheless, the size and complexity of the organisation within this diversified industry is still likely to drive pay levels to reasonably comparable levels.

After a small decline in 2010, the median chairpersons fee for large-cap services organisations has risen to just over R1m.

Chairpersons: large-cap services

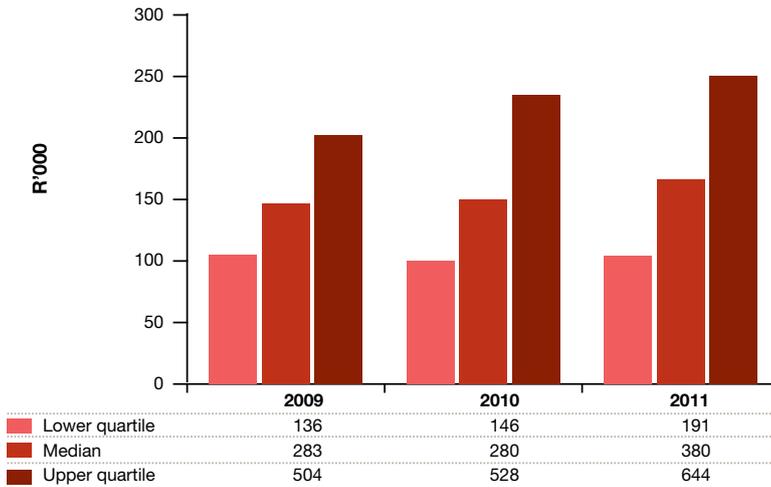


Chairpersons: medium-cap services



The median chairpersons' fee for medium-cap services organisations is shown to have increased by 13% to R691,000. Interestingly, this is higher than the median chairperson fee for the financial services and basic resources industries. It is marginally lower than the median chairpersons' fee for industrials.

Chairpersons: small-cap services



The median chairperson fee for small-cap services organisations has experienced a notable increase in 2011, after remaining relatively flat in 2009 and 2010. The median fee increased from R280,000 to R380,000, while the fee at the upper quartile was reasonably robust at R644,000 having increased from R528,000.

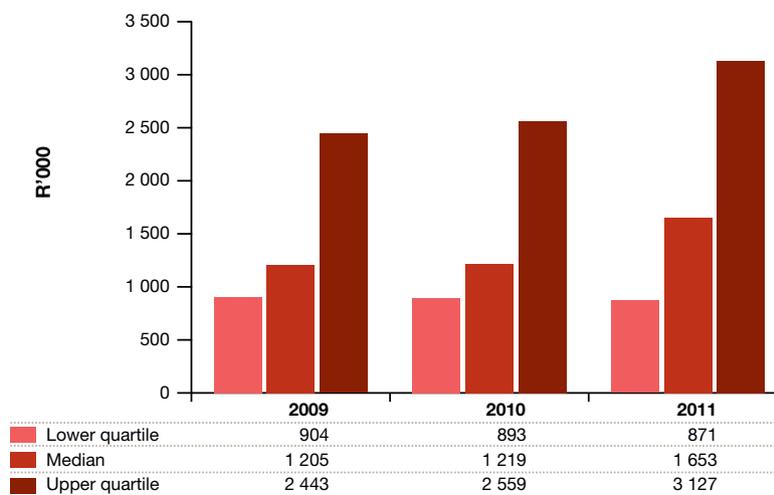
Industrial

The industrial industry has the highest number of chairpersons at 96 and includes sectors such as automobiles and parts, beverages, chemicals, construction and materials, food, industrial goods and services, oil and gas, personal and household goods, and technology. The industry is particularly diversified, both in terms of industry sectors as well as size of organisation.

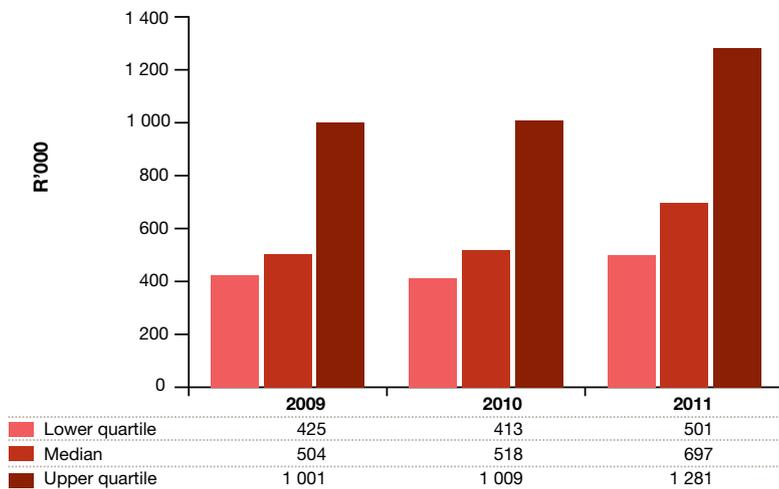
Similar to that of the services industry, there are numerous sectors which are subject to specific regulatory considerations. However, it is not an industry which is characterised by regulation. As such, we expect the skills requirements in this industry to be broad, with non-executive directors being selected from a range of different industry backgrounds.

The median chairperson's fee for large-cap industrial organisations has increased considerably to a fee of just over R1.65m. This increase over the 2010 figure of just over R1.2m pushes it up to be the highest earning median fee for the various industry groupings. It is noted that this group includes some of the major dual listed organisations including Sasol, SABMiller, and British American Tobacco. It is noted that with numerous foreign currency denominated fee structures in the industrials group, it may be more susceptible to fluctuations in exchanges rates and therefore the year on year fluctuations may be more noticeable.

Chairpersons: large-cap industrials

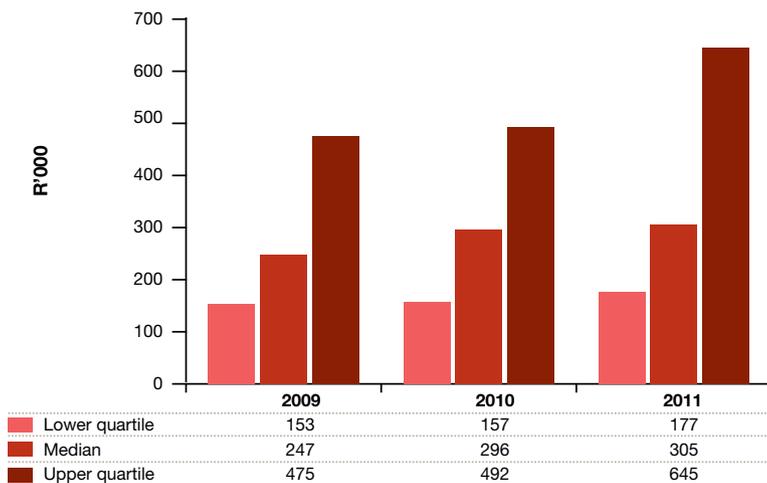


Chairpersons: medium-cap industrials



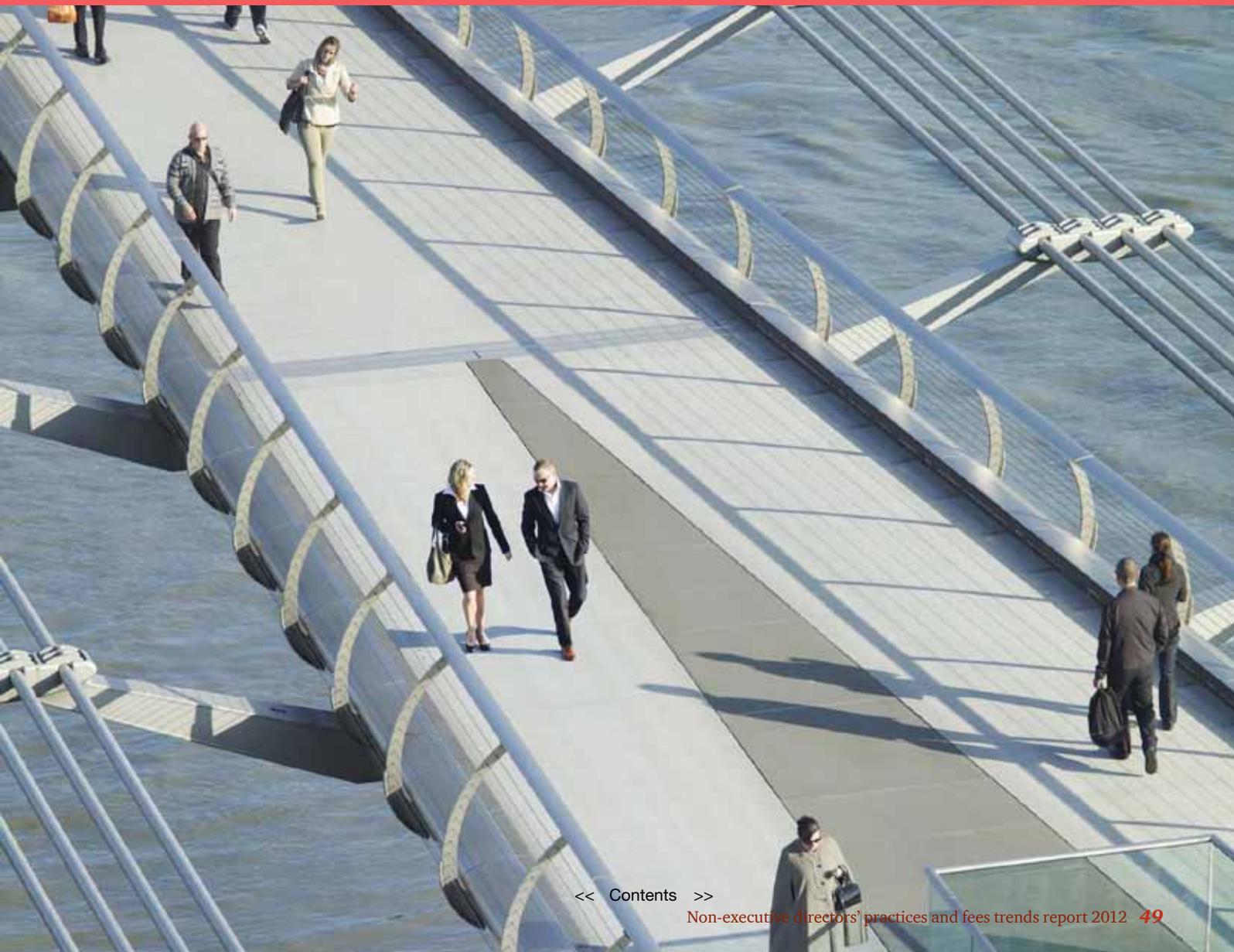
The fee for chairpersons of medium-cap industrial organisations has increased at the lower, median, and upper quartile, with the most notable increase being at the median and upper quartile.

Chairpersons: small-cap industrials

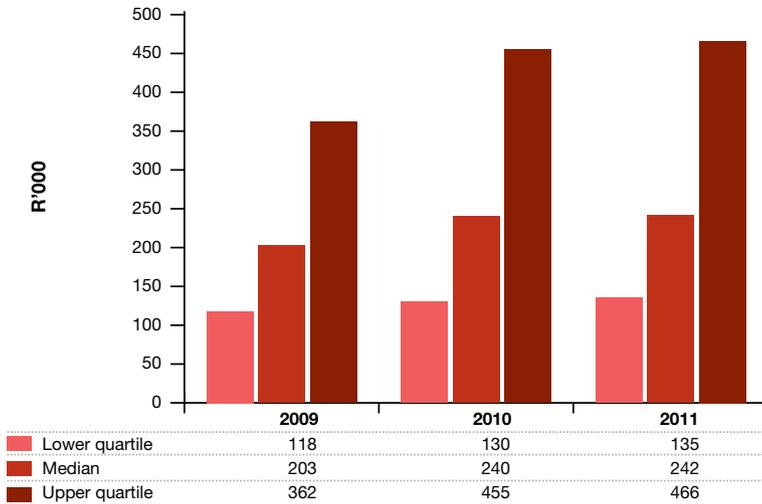


The median chairperson fee for small-cap industrial organisations is shown to be R305,000. In contrast to the increases noted in large-cap and medium-cap industrial organisations, the fee for small-cap industrial organisations has remained relatively flat. Interestingly, the fee at the upper quartile has increased fairly substantially and is shown to be more than 100% of the median.

Non-executive directors' fees



Non-executive directors: all sectors



Overall

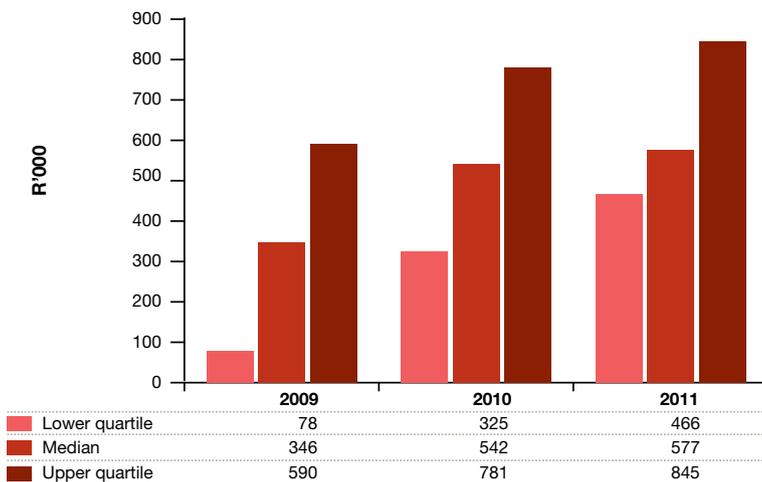
Similar to that of the overall chairpersons' fee, the overall non-executive directors' fee has remained static at the median. The median fee for non-executive directors in the 2011 report is shown to be R242,000, a negligible increase of R2,000 given the significant sample size. It is further noted that the fees at the lower and upper quartiles have also remained stable over the past year.

Financial services

Within the financial services industry, the most notable movements in non-executive directors' fees have been moderate to strong increases found within the medium-cap group. It is also noticeable that the upper quartile fee for the small-cap group has declined by 19%.

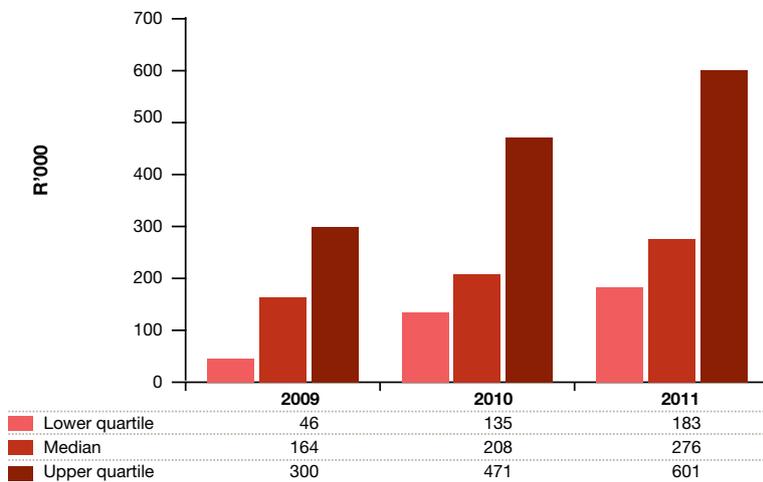
Looking specifically at large-cap financial services organisations, increases at the median and upper quartile have been in line with market expectations at 6% and 8% respectively. The median chairperson fee for large-cap financial services organisations has increased to R577,000.

Non-executive directors: large-cap financial services



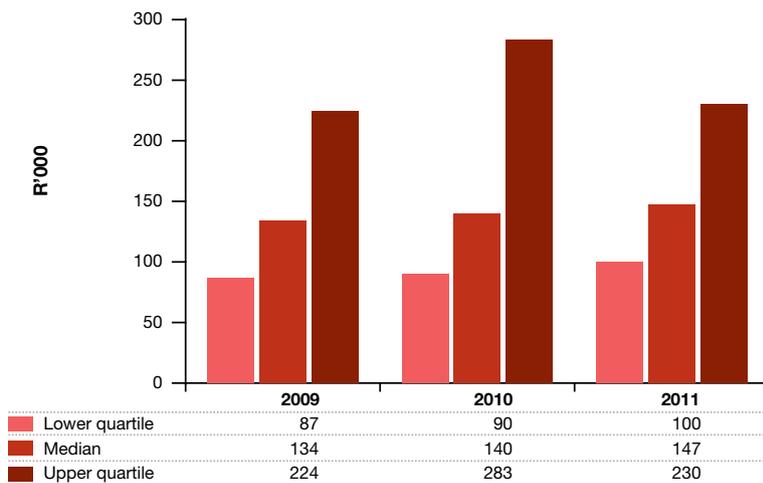
The median non-executive fee for medium-cap financial services organisations is shown as R276,000, which is a considerable rise from R208,000 as indicated in the previous report. Similarly, growth in the upper quartile has also been robust, increasing by 28% to R601,000.

Non-executive directors: medium-cap financial services

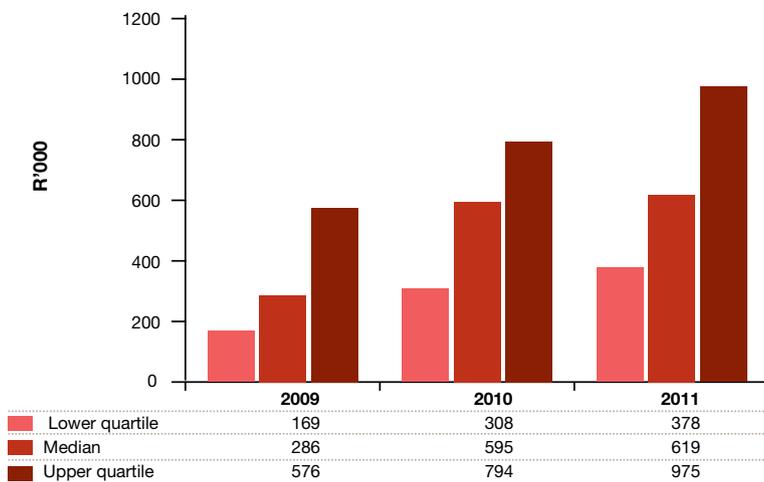


The non-executive directors fee for small-cap financial services organisations has seen growth similar to that of that large-cap financial services group, with the median increasing by 5% to R147,000.

Non-executive directors: small-cap financial services



Non-executive directors: large-cap basic resources

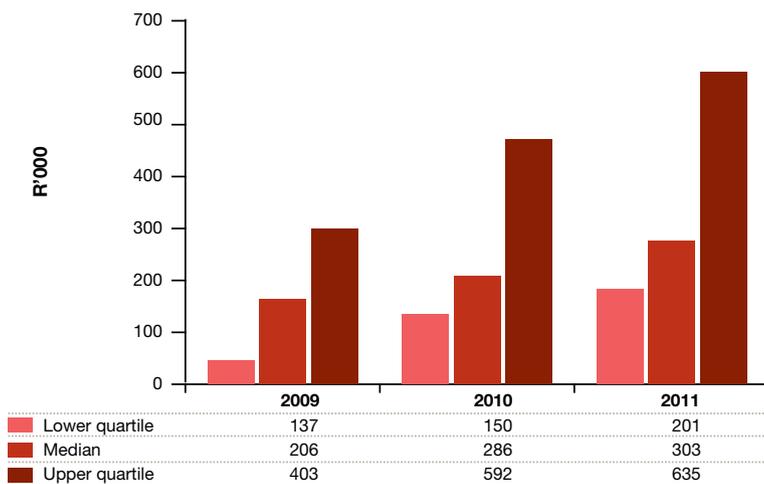


Basic resources

The basic resources industry has not shown any major deviations from the overall market trends. The movements in the large- and medium-cap groups have been in line with expectations, while the small-cap group has seen a moderate increase at the median.

Within the large-cap basic resources group, the median non-executive director fee increased from R595,000 to R619,000, a 4% increase. It is noted that at the upper quartile, the movement from the 2010 observation has been more noticeable, increasing from R794,000 to R975,000.

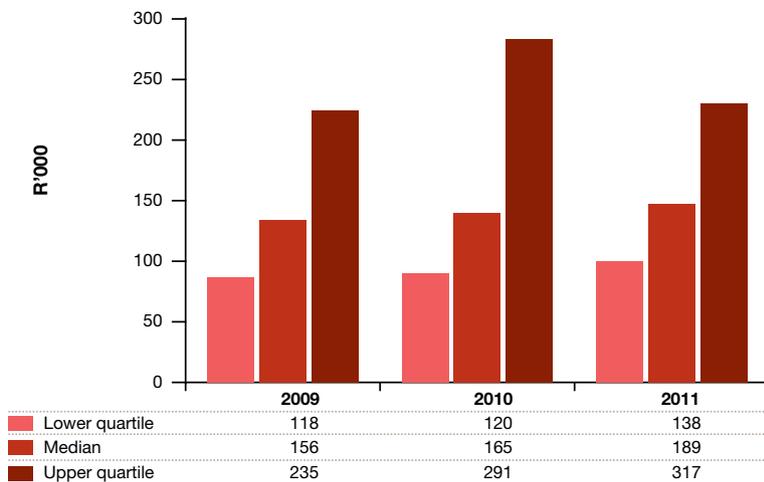
Non-executive directors: medium-cap basic resources



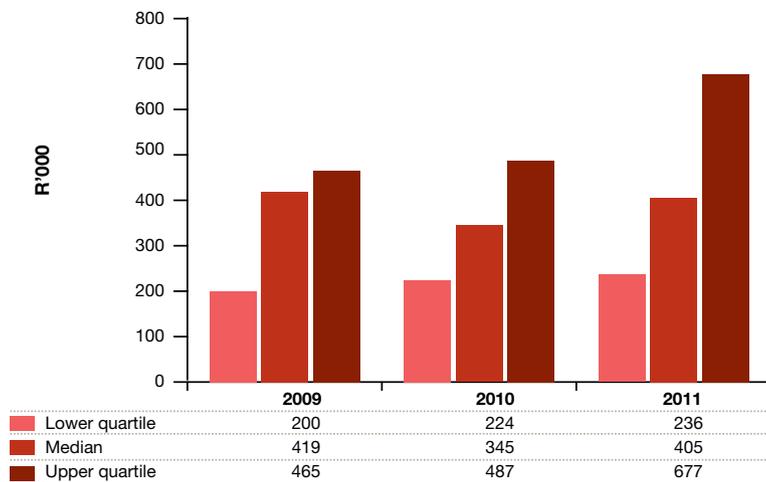
After a significant increase in 2010 (38.8%), the median non-executive director fee for the medium-cap group increased by 15% to R303,000. The upper quartile showed the least movement, increasing by 9% to R635,000.

The median non-executive director fee for the small-cap group has experienced moderate growth from R165,000 to R189,000. Interestingly the fee at the upper quartile has decreased by 8.2% to R317,000.

Non-executive directors: small-cap basic resources



Non-executive directors: large-cap services

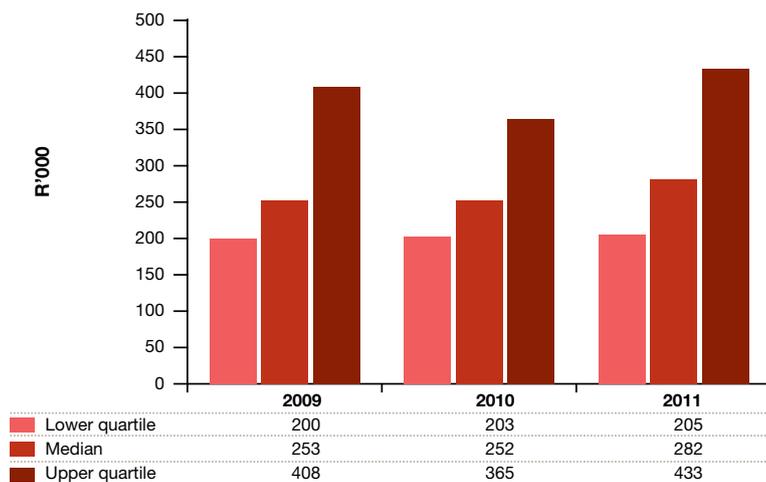


Services

As was the case with chairpersons in the services industry, the fees for non-executive directors have shown solid growth. The services industry has experienced double digit growth across all of the size groupings, with the most notable changes being found in the large-cap group.

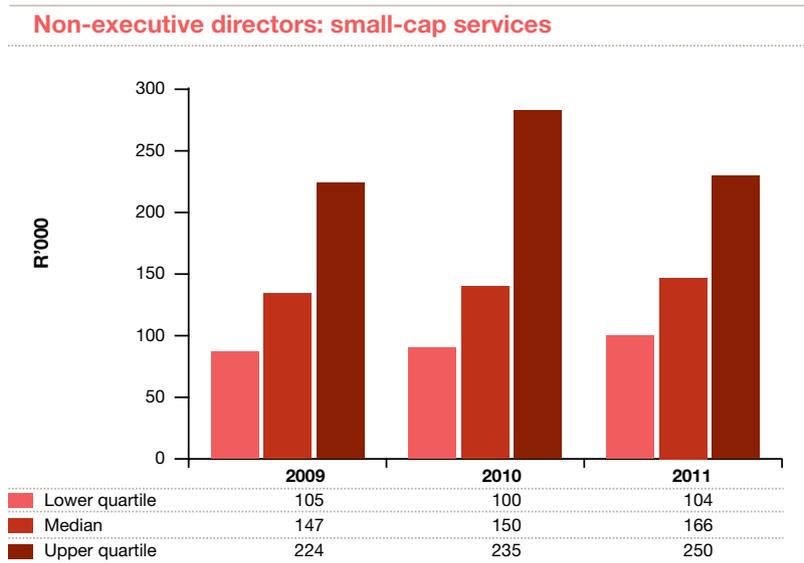
The median non-executive director fee increased by 17% to R405,000. It however remains the lowest median non-executive director fee across the four industry groupings for large-cap organisations.

Non-executive directors: medium-cap services

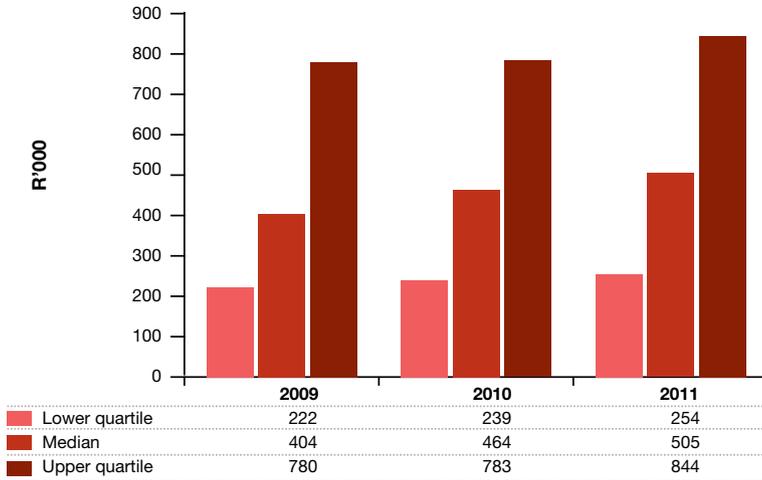


The median non-executive directors' fee for medium-cap services companies has increased by 12% after having been flat in 2010. The median fee is now shown to be R282,000.

Similarly, the median non-executive director fee for small cap services was flat in 2010, but has experienced more noticeable growth in 2011, moving from R150,000 to R166,000 (11%). It is further noted that the median fee is the second lowest in terms of the industry groupings for small-cap organisations. Only the small-cap financial services companies have a marginally lower median fee.



Non-executive directors: large-cap industrial

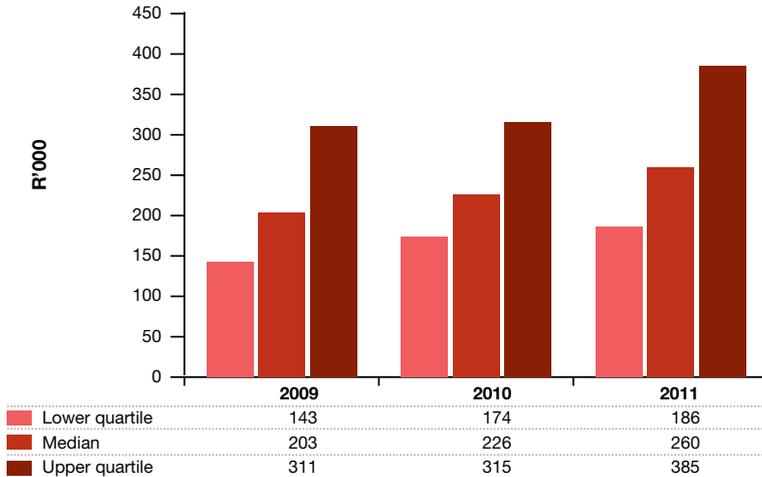


Industrial

Within the industrial group, the large-cap companies have shown the least change from 2010 figures. The observations for the lower, median, and upper quartile have all been single digit movements, while changes for the medium-cap and small-cap companies have been more noticeable.

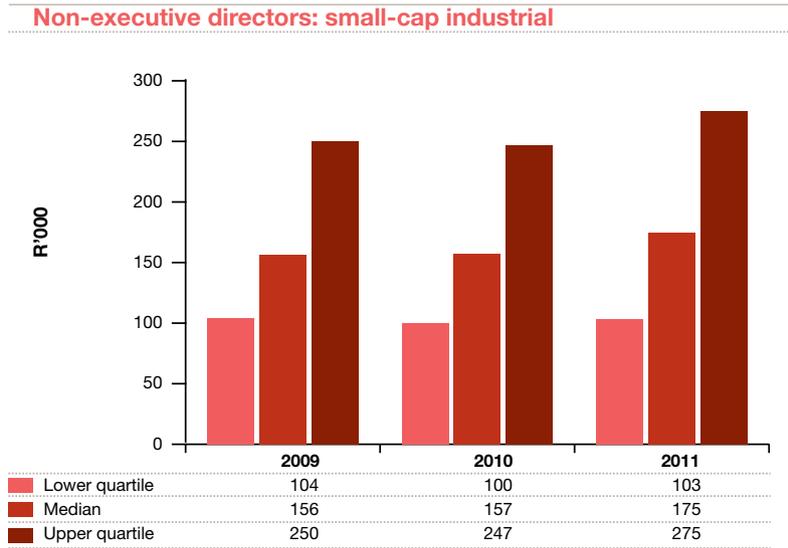
The median non-executive directors' fee for large-cap industrial companies has increased to R505,000, a 9% movement over the 2010 figure.

Non-executive directors: medium-cap industrial



The median non-executive directors' fee for medium-cap industrial organisations has shown a somewhat stronger increase, moving from R226,000 to R260,000 in 2011. This represents an increase of 15% over the 2010 figure. It is noted that in terms of the four industry groupings, the industrial group has the lowest median fee in terms of medium-cap companies.

Similar to that of medium-cap industrial companies, the small-cap industrial organisations have shown double digit growth. This is after having experienced a decline in fees at the lower quartile and upper quartile, and flat growth at the median in 2010. The median non-executive directors' fee for 2011 is shown to be R175,000.



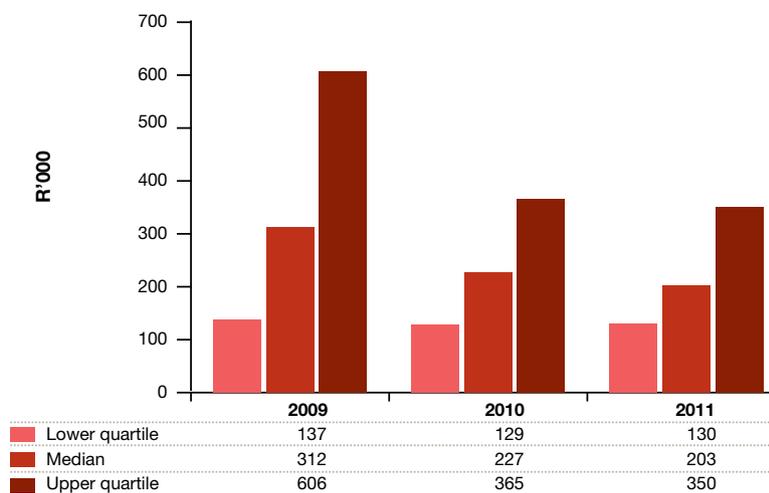
AltX chairpersons and non-executive directors



Chairperson

In contrast to a large percentage of the main board observations, the fees for chairpersons' of the AltX group has continued to decline. The median chairperson fee has declined from R227,000 to R203,000 in 2011, having already declined significantly in 2010 from the 2009 observation of R312,000. The observation represents an 11% decline for the most current year.

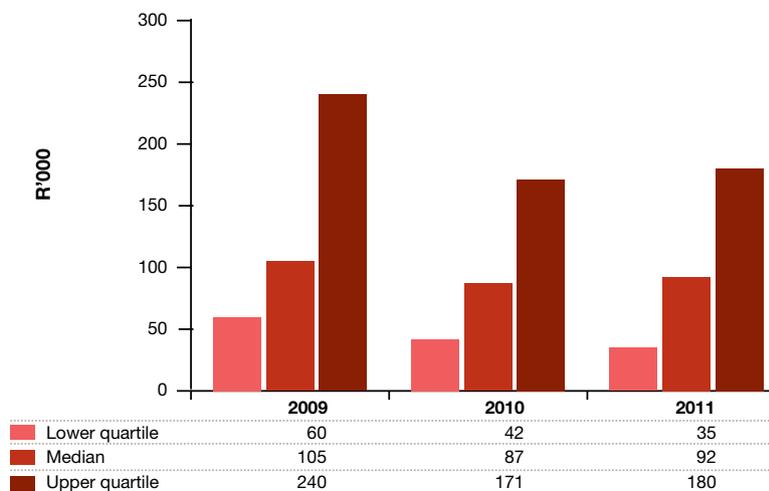
Chairpersons: AltX



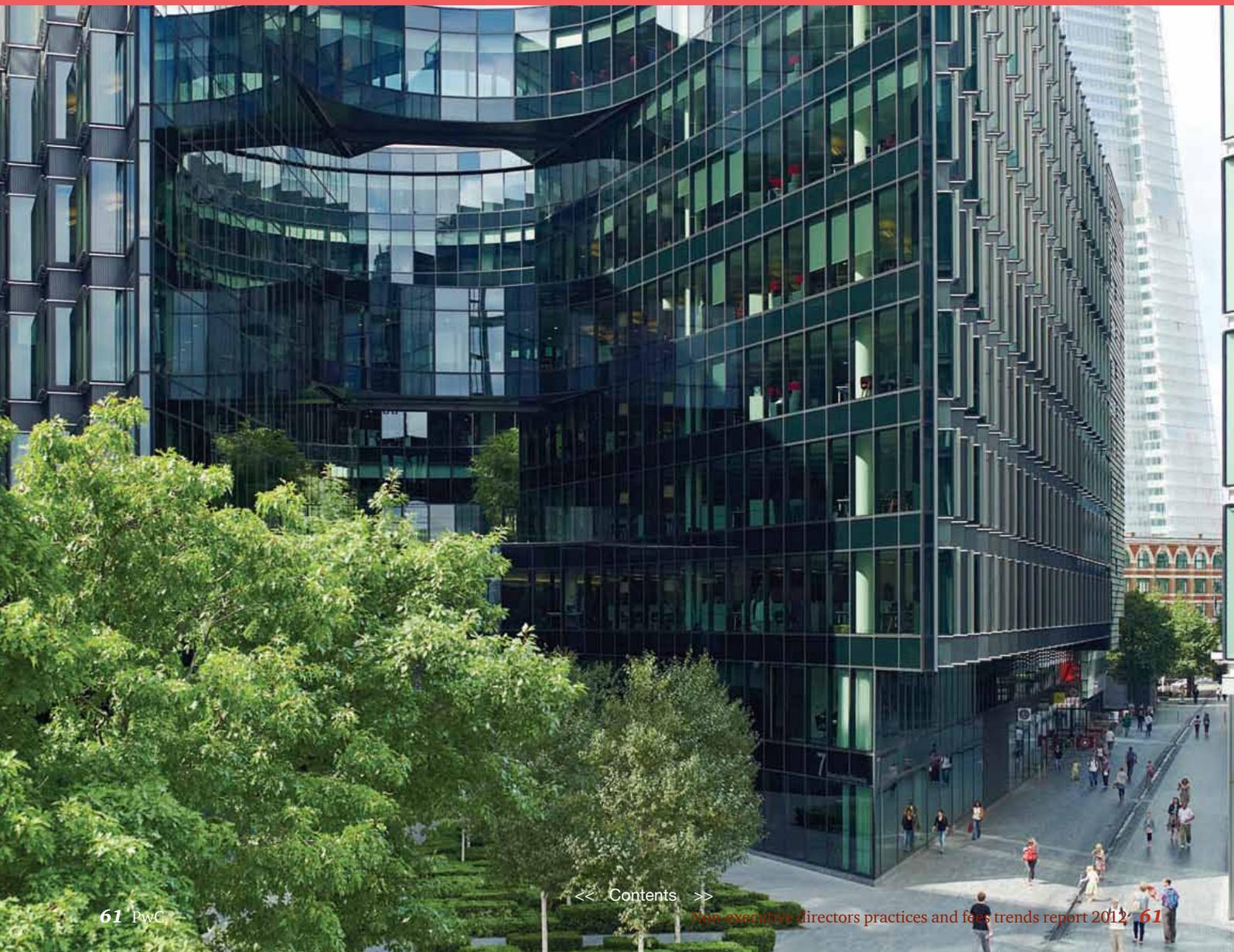
Non-executive directors

The median fee for non-executive directors has increased marginally in 2011 to R92,000. This increase is a 5% increase over the previous year's figure. Interestingly, the upper quartile has also experienced a 5% increase in fees. The AltX group provides the lowest median non-executive director fee observation for all of the reference groups reviewed in the report.

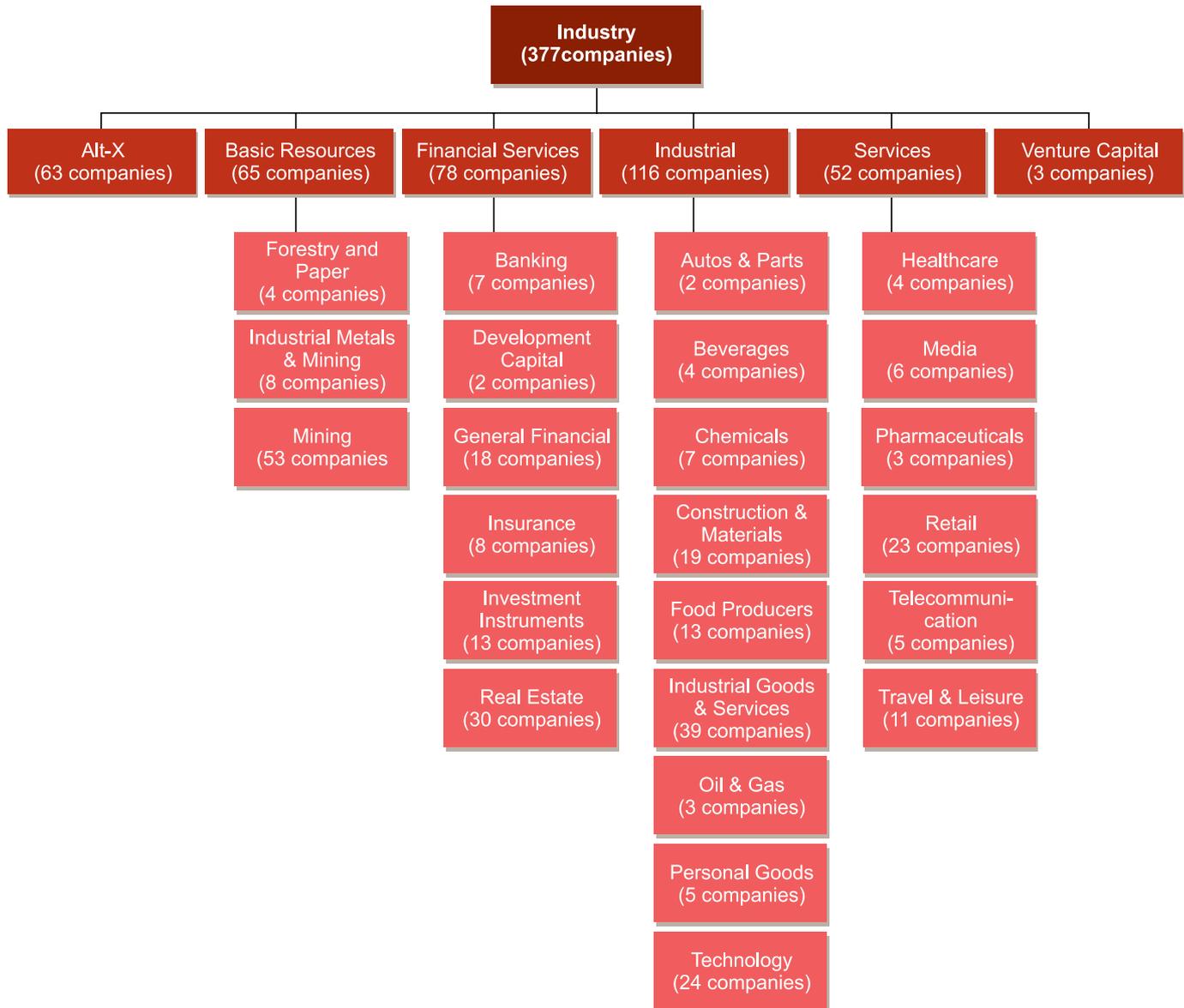
Non-executive directors: AltX



Appendices



The South African marketplace



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Acknowledgements

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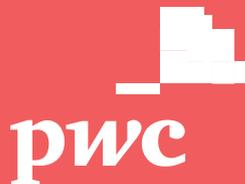
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