SOUTH AFRICAN REWARD ASSOCIATION

GUIDANCE NOTES TO KING V™ PRINCIPLE 11 AND RECOMMENDED PRACTICES

Developed by SARA; endorsed by the IoDSA Remco Forum

INSTITUTE OF DIRECTORS SOUTH AFRICA

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PART 1:

INTRODUCTION

This document provides comprehensive guidance on Principle 11 of the IoDSA's King V™ Code[1], which mandates that governing bodies should ensure fair, responsible, and transparent remuneration practices to promote sustainable value creation by the organisation within its economic, social, and environmental contexts.

It offers detailed recommended practices and governance frameworks to support organisations in developing, implementing, and disclosing remuneration policies and outcomes effectively. In this report, matters pertaining to remuneration are stated under different principles of the King V Code, with the reference indicated in brackets.

The drafters are not legally liable for any misinterpretation of the King Code or other referenced laws and regulations.

[1] King V Code on Corporate Governance for South Africa, 2025, copyright and trademarks of which are owned by the Institute of Directors in South Africa NPC

PART 2:

GUIDANCE NOTES TO KING V PRINCIPLE 11 AND RECOMMENDED PRACTICES

PRINCIPLE 11: The governing body ensures that the organisation remunerates fairly, responsibly, and transparently, to promote sustainable value creation by the organisation within its economic, social, and environmental context.

STEERING AND SETTING DIRECTION: RECOMMENDED PRACTICE (RP) 111:

111. The governing body should provide strategic direction and be accountable for fair, responsible and transparent remuneration at all levels in the organisation.

1. Guidance notes: RP 111: The governing body and the committee's role in terms of fair, responsible, and transparent remuneration

a. The governing body and/or the Committee appointed by the governing body to oversee remuneration may, from a strategic guidance point of view, contribute to the development of the Remuneration Strategy and Policy. For purposes of this document, this Committee is referred to as the Remuneration Committee. It is acknowledged that although Remuneration Committee is the most frequently used term, that there are different terms used in the market.

b. The Remuneration Policy should be reviewed annually by the Remuneration Committee to ensure its continued relevance and compliance. Any material changes to the Remuneration Policy should be approved by the Remuneration Committee.

c. The Policy should cover all executive remuneration matters in the context of organisation-wide employee remuneration and, at a high level, the philosophy of setting remuneration on an organisation-wide basis, including a philosophy on minimum- or entry-level wages, if applicable.

d. A separate policy should be developed for determining non-executive directors' fees.

e. The Remuneration Committee should focus on remuneration governance for the entire organisation, including the CEO, the CEO's first-line reports (at a minimum, the prescribed officers and other executive directors), and the company secretary.

f. The Remuneration Report should focus on disclosure of the remuneration of the executive directors and prescribed officers ("Disclosed Officers"), as well as the principles governing the remuneration of all other employees.

g. The Remuneration Committee should ensure that there is regular monitoring of remuneration practices, to ensure adherence to the Remuneration Policy.

h. The Remuneration Committee should, through the Remuneration Report, inform stakeholders of any material deviations from the Remuneration Policy, as well as decisions where discretion was applied.

i. Effective committees move beyond ensuring compliance to being the strategic guardians of the organisation's reward philosophy and - culture.

STEERING AND SETTING DIRECTION: RP 112:

112. The governing body may, at its discretion, delegate its remuneration-related responsibilities as outlined below to the committee responsible for remuneration governance, if in place, and in addition to any statutory duties that the committee may have.

2. Guidance notes: RP 112: Committee Composition

a. The Remuneration Committee is not considered a statutory committee, and the governing body, through its Nomination Committee, is responsible for the election of members. The governing body has to evaluate whether a standalone committee is warranted for this purpose with regard to the organisation's operating context.

b. The context includes the size of the organisation, e.g., revenue, turnover, assets, market capitalisation, number of employees, complexity of geographical footprint, etc., and whether it is a holding-, subsidiary, private, or public company, a regulatory body, or NPO, which will influence the decision whether the governing body appoints a committee solely responsible for remuneration matters, or includes these in the responsibilities of another committee (Principle 6, RP 69).

c. The Remuneration Committee should have a minimum of three members who are non-executive directors, and be composed so that, as a collective, the members have the necessary competencies to execute the duties of the Committee effectively (Principle 6, RP53).

d. The majority of members should be independent (Principle 6, RP 71), and the Remuneration Committee should be chaired by an independent non-executive member (Principle 6, RP 72).

e. The chairperson of the governing body may be a member of the Remuneration Committee, but should not be the chairperson (Principle 5, RP 45). Although it is not explicitly stated in the RPs, the governing body should give due consideration to whether the chairperson of the Audit Committee should also be a member of the Remuneration Committee, particularly in the context of the implications of Section 30(B) of the Companies Amendment Act 16 of 2024 (when promulgated), as envisaged at the date of this document.

f. According to Principle 7, RP 78, the CEO should not be a member of the Remuneration Committee, but should attend these meetings, or a part thereof, by invitation, to contribute pertinent insights and information as needed. The CEO and any executive attending the meeting must be recused when their own remuneration is discussed. Additionally, no other executive or employee who may attend the meetings should be considered a member of the committee with full voting rights.

g. The chairperson of the governing body, through the Nomination Committee, should ensure that members of the Remuneration Committee possess the required skills and experience in remuneration governance, the organisation's business, and the sector/location within which it operates. This is critical that the Remuneration Committee be able to set appropriate performance targets that align with shareholder value creation over the short, medium, and long term, and to hold executives accountable for outcomes against these targets.

h. Succession for members of the Remuneration Committee is the responsibility of the governing body, typically through the Nomination Committee. The governing body should develop a succession plan for Remuneration Committee members and the chair (Principle 5, RP 33).

i. Any member of the governing body is entitled to attend any Remuneration Committee meeting as an observer. However, unless that member is also a member of the Remuneration Committee, the member is not entitled to participate without the consent of the chair, does not have a vote, and is not entitled to fees for such attendance, unless the payment of fees is agreed to by the governing body and shareholders or members.

j. In line with Principle 1, RPs 6–9, a performance evaluation of the Remuneration Committee should be conducted at least every two years, or as approved by the governing body.

3. Guidance notes: RP 112: Committee Terms of Reference

a. The Terms of Reference of the Remuneration Committee may also be referred to as a 'charter.'

b. The Remuneration Committee should have written Terms of Reference that are reviewed and approved annually by the governing body, or when circumstances or requirements change (Principle 6, RP 52). The Terms of Reference are often supported by a Committee Work Plan.

c. The Terms of Reference should set out the Remuneration Committee's role, responsibilities, membership, and meeting procedures (Principle 6, RP 52).

d. The Terms of Reference must also include the Remuneration Committee's statutory duties (if applicable). The Terms of Reference may comprise, *inter alia*:

i. The system of remuneration and the outcomes of executive remuneration;

ii. Principles of organisation-wide remuneration;

iii. The appointment of independent advisors, co-opted committee members, or committee members who are not members of the governing body;

iv. Delegated authority with respect to decision-making;

v. When and how the committee should report to the governing body, other committees, and relevant stakeholders;

vi. The committee's access to resources and information; and

vii. Meeting procedures to be followed.

e. Based on recommendations by the Recommendation Committee, the governing body should approve the remuneration of executive directors, prescribed officers, and the company secretary (Principle 7, RP 88), ensuring that decisions align with the Remuneration Policy.

f. Based on recommendations by the Remuneration Committee, the governing body should recommend the fees for non-executive directors of the governing body to shareholders for their approval at the AGM[2], ensuring that the recommendations align with the policy for remuneration of non-executive directors.

g. The governing body should exercise ongoing oversight of the management of ethics and the application of the organisation's ethical standards in terms of, *inter alia*, the evaluation of performance and, through the Remuneration Committee, the remuneration of employees. Core objectives and oversight entail:

i. Aligning pay with performance;

ii. Scrutinising remuneration structures to ensure they do not encourage excessive risk-taking that may jeopardise company sustainability;

iii. Balancing the need to attract, retain, and motivate employees with sustainable reward structures; and

iv. Acting in the best interests of all stakeholders.

h. The governing body should continuously assess how the organisation's activities and outcomes impact its standing as a responsible corporate citizen. This includes establishing targets for employment equity, upholding fair and responsible remuneration, and safeguarding the health, dignity, and safety of employees. Oversight of these principles also fall within the remit of the Social and Ethics Committee, and ongoing constructive engagement between the Remuneration Committee and the Social and Ethics Committee is encouraged.

i. Management is expected to provide the governing body with sufficient information to ensure that it can act in good faith and in the best interests of the organisation.

[2] At least once every two years by special resolution in terms of S66(9) of the Companies Act 71 of 2008

POLICY AND PLANNING: RECOMMENDED PRACTICE (RP) 113:

113. The governing body should consider and approve the policies and planning that give effect to its strategic direction on remuneration. These should be designed to achieve the following objectives:

a. Attract, motivate, reward, and retain human capital.

b. Promote the achievement of strategic objectives within the organisation's risk appetite.

c. Promote fair and responsible remuneration of executive management in relation to overall employee remuneration in the organisation.

d. Support positive and minimise negative impacts and outcomes over the short, medium, and long term on the resources and relationships that the organisation uses and affects, and on its economic, social and environmental context.

4. Guidance notes: RP 113: Policy Planning and Risk Management

a. An organisation's remuneration philosophy should be captured in the Remuneration Strategy to support its business- and human resources strategies, which are then translated into the Remuneration Policy.

b. The Remuneration Policy should provide the principles for the implementation of the Remuneration Strategy and the management of remuneration plans and processes.[3]

c. The Remuneration Committee should periodically review the Remuneration Policy and impartially evaluate whether the balance between fixed and variable remuneration is suitable for the organisation, ensuring it aligns with the Remuneration Strategy and supports both strategic and operational objectives.

d. The Remuneration Committee should ensure that variable pay schemes and related targets are structured so as not to incentivise behaviours that conflict with the organisation's risk framework, nor to inadvertently or deliberately promote excessive risk-taking. The appropriateness of these schemes should be assessed in relation to the stage of the organisation's life cycle, its industry, and its specific context.

e. Executives' basic daily living expenses should be met primarily through guaranteed remuneration, rather than relying heavily on incentive payouts, as excessive dependence on incentives may encourage adverse behaviours and unintended consequences.

f. The following practices mitigate the risk of unjustified rewards:

i. Regular annual long-term incentive awards, as opposed to larger once-off grants;

ii. An appropriate number and weighting of performance conditions;

iii. Gatekeepers and modifiers;

iv. Share awards such as restricted shares and performance shares, which are less leveraged than share options and share appreciation rights;

v. Longer vesting periods or, alternatively, holding or lock-in periods after the testing of performance conditions; and

vi. Malus- and clawback provisions applied to variable pay awards.

g. The Remuneration Committee should, at least annually, provide formal feedback to the governing body on the achievement of the Remuneration Policy's objectives, either as part of the approval process for the Remuneration Report or at the board meeting prior to the one tasked with approving the annual reporting suite, to allow more dedicated time allocated to this matter. The Background Statement of the Report should include a declaration of compliance with the Remuneration Policy, along with a summary of significant policy changes and exceptions, as well as the rationale for these exceptions. The King V Disclosure Framework for Principle 11 can also be used for this purpose.

[3] Section 30A of the Companies Amendment Act 16 of 2024 (not yet promulgated at time of compilation of this document) requires public and state-owned enterprises to have a remuneration policy and remuneration report, both approved by shareholders.

POLICY AND PLANNING: RP 114:

114. The governing body should ensure that the remuneration policy addresses:

a. The setting of remuneration principles for all levels in the organisation including, where applicable, an appropriate mix of fixed and variable remuneration elements.

b. Arrangements towards ensuring that the remuneration of executives is fair and responsible in relation to other levels of employee remuneration in the organisation.

c. The use of performance measures and targets that support positive and minimise negative impacts and outcomes on the resources and relationship that the organisation uses and affects, and on its economic, social, and environmental context.

d. The way in which responsible and transparent discretion is to be applied by the governing body in its decision making on variable remuneration in instances where the formulaic application of the policy may result in unintended consequences such as windfall gains or being unfairly punitive.

e. Events that may trigger pre-vesting forfeiture (malus) or post-vesting forfeiture (clawback), and how it is ensured that discretion by the governing body is exercised in a way that is substantively and procedurally fair.

f. The approaches to sign-on, buy-out, retention, termination, change of control and restraint payments or awards.

g. Whether there are provisions for minimum shareholding by executives, and, if so, the targets and periods over which the holding should be accumulated.

5. Guidance notes: RP 114: Policy Development

5.1 Remuneration Policy guidance

a. The Remuneration Policy should cover all pay elements used by the organisation, which may include the following:

i. Fixed pay: monthly salary and benefits, and how these are determined, including contributions to retirement funds, risk funds, medical benefits, leave entitlements, circumstantial allowances, flexible work conditions, and benefits in kind; [4]

ii. Variable pay: short-term incentives—annual or shorter performance measurements incentives; this generally includes cash performance-based payments, deferrals, and commission schemes;

iii. Variable pay: long-term incentives—performance measurement and/or vesting of longer than one year; this generally includes share-based awards, which can be retention- and performance-based;

iv. Provisions for pre-vesting forfeiture and/or post-vesting recovery of short- and long-term incentives;

v. Retention- and sign-on or buy-out payments;

vi. All other types of payments, including, e.g., loss-of-office- or termination- and restraint payments; and

vii. Minimum shareholding requirements.

b. The mix of short- and long-term incentives should align with an appropriate balance between the shorter-and longer-term business objectives, without introducing inappropriate risk to the organisation, and should be appropriate to the life cycle, industry, and type of organisation.

c. The value of total earnings and the targeted percentage contribution of each remuneration component within the total reward structure should be reviewed regularly, and the principles supporting the target pay mix should be described.[5]

[4] Entry-level or minimum wage determination is important to inform the pay gap reporting required under Section B of the Companies Amendment Act 16 of 2024 (not yet promulgated).

[5] Part 3 contains detailed guidance regarding disclosure of remuneration on a total earned/awarded basis.

d. An appropriate balance between financial and non-financial metrics should be maintained, whilst ensuring that performance measures reflect the relevant contexts and capitals for both short- and long-term incentive plans. Although there is no set requirement for the number of measures, it is advisable to limit them to a small number (typically three to five), focusing on the most critical objectives to ensure outcomes are aligned with the organisation's strategic priorities. The selection and emphasis of these measures may evolve as business priorities change over time.

e. The Remuneration Policy should include a description of the performance measures used to assess the achievement of strategic objectives and positive outcomes, including the relative weightings of each measure and the period over which it is measured. To ensure clarity regarding their calculation, definitions of the measures should form part of the disclosure.

f. The Remuneration Policy needs to explicitly cover several remuneration elements that are usually left to the discretion of the Remuneration Committee, including principles relating to:

   i. Remuneration increases;

   ii. Buy-out awards and remuneration on appointment; and

   iii. Termination payments.

5.2 Benchmarking

a. The Remuneration Committee should outline the organisation's approach to the use of market benchmarks informing competitive/market-related total remuneration. The approach should address the following:

   i. The use of benchmarks to set the ranges or salary bands for guaranteed/fixed packages (basic salary plus employer contributions to benefits, allowances, and other guaranteed earnings);

   ii. The use of benchmarks to inform threshold-, on-target, and maximum variable pay opportunities;

   iii. The target market positioning, for example, "We aim to position our fixed remuneration at the 50th percentile (median) of the market, with flexibility to adjust based on strategic talent needs, performance, and criticality or scarcity of skills";

   iv. The names of the benchmark providers;

   v. The names of the entities included in the peer- or comparator group, as well as the rationale for their selection; and

   vi. How often the benchmarking approach is reviewed to ensure its continued relevance and effectiveness.

b. Parameters for an appropriate peer group for benchmarking include, for example, organisation size, revenue, assets, geographical location, business life cycle, turnover, market capitalisation, enterprise value, industry or sector, geographical footprint, business model, and number of employees. Comparators are usually drawn from the same jurisdiction as the organisation, but international comparators may be used for multinational organisations. Comparisons should be adjusted for cost of living, taxation, and exchange rate differentials.

c. When benchmarking the nature and quantum of variable pay, the following minimum factors should be considered for comparable roles:

   i. For actual earned variable pay: the differences in underlying business performance of the various organisations in the comparator/peer group.

   ii. For short-term incentives: the level of actual awards for the financial year, any deferral structure (including the percentage of total bonus deferred and whether it is share-linked or share-based, as well as the deferral period), and the level of payment for threshold-, on-target, maximum, and stretch performance. This bonus deferral refers to an arrangement where a portion of the annual cash incentive is set aside, typically in the form of share units, and vest or are paid later.

   iii. For long-term incentives: the underlying nature of the incentive award (e.g., conditional or forfeitable shares, performance- or restricted shares, or share options), the face value of the actual award made for the financial year, the vesting period, the vesting performance conditions, and the level of vesting for threshold-, on-target, and stretch- or maximum performance.

   iv. These values should be reviewed in absolute terms and as a percentage of guaranteed package/basic salary, as appropriate.

   v. Organisations that set remuneration targets above the median of the market range, or the 50th percentile, should explain the reasons for this decision. Market benchmarks should be used with care—not as absolute targets, but only to guide remuneration decisions.

5.3 Job architecture

a. Job architecture provides the structural foundation to ensure internal equity and market competitiveness in reward practices. By clearly articulating job roles and levels, job architecture enhances accountability, supports informed remuneration decisions, and strengthens stakeholder confidence in the fairness of pay outcomes.

b. The Remuneration Committee should outline the organisation's approach to the use of job architecture in determining fair, responsible, and market-aligned remuneration. The approach should address the following:

   i. The use of job architecture to define roles, levels, and reporting lines, forming the foundation for consistent and equitable remuneration decisions;

   ii. How job architecture informs grading, salary bands, and variable-pay opportunities for roles across the organisation;

   iii. The methodology and governance to maintain the job architecture framework, including role evaluation processes and grading criteria;

   iv. How the job architecture is reviewed periodically to ensure it remains relevant, reflects organisational changes, and supports effective reward decisions; and

   v. The integration of job architecture with other remuneration tools, such as benchmarking data, performance management, and succession planning, to provide a consistent and transparent approach to pay.

c. Job architecture should be designed and applied consistently across the organisation, ensuring comparability of roles internally, alignment with market practices, and support for transparent and accountable remuneration decisions. Sound job architecture principles also enhance internal equity.

5.4 Determination of salary increases, buy-out awards, remuneration on appointment, and change-of-control awards

a. This section notes the factors typically taken into account when salary increases are determined, the requirement to work through collective bargaining structures, and the decision rights regarding salary increase costs. Salary increases are generally determined with consideration of a combination of factors:

   i. organisational—philosophy, budgets; and profitability;

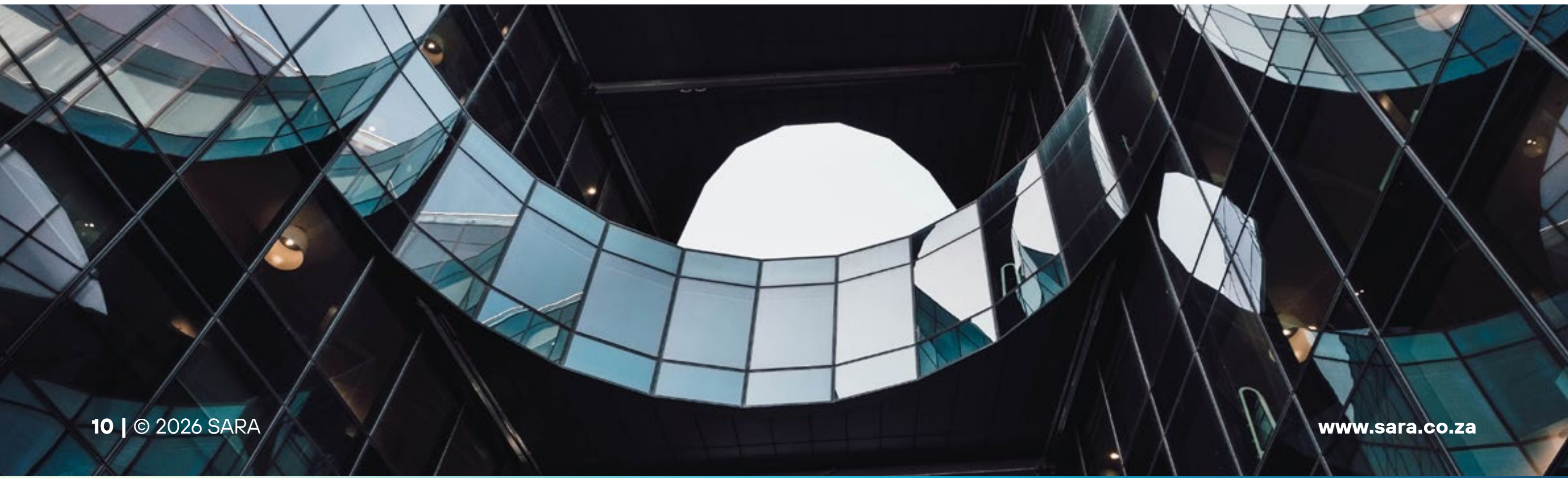
   ii. market—with reference to benchmarks, cost of living, and talent supply and demand; and

   iii. individual—the impact of personal performance, position in the pay range, tenure and experience, competence, and potential for promotions/actual promotion).

b. The Remuneration Policy should confirm that executive increases are approved by the governing body or Remuneration Committee, to provide assurance of independent decision making.

c. A section on buy-out awards and how remuneration is set upon appointment has to be included. For example, the policy for buy-out awards could specify that the value of any such award is no more than the value of awards forfeited when the employee terminated his/her previous employment. The policy for setting remuneration on appointment could refer to principles similar to those noted in the section above on increases, market benchmarks for the role, experience and qualifications, and note that the approved incentive policy provisions will apply to the new employee.

d. If additional awards are granted upon change of control (e.g., double trigger), the terms and conditions thereof must be covered in the Remuneration Policy, unless it is covered in the Long-term Incentive Policy.



5.5 Annual review of benefits

a. It is good practice for the Remuneration Committee to perform an annual review of the benefits offered by the organisation, to determine:

i. Whether they are appropriate, competitive, and sustainable, given the industry, the organisation's financial position, legislative requirements, and market benchmarks and trends;

ii. If the costs related to the administration of the benefits/schemes are justified. This may include an assessment of how the benefits are perceived and understood by participants;

iii. If the schemes/trusts are well governed;

iv. Whether the benefits/schemes meet the needs of employees and are fair towards all employees; and

v. Whether benefits offered to executives are similarly offered to employees and, if not, the justification for this.

b. As benefit funds (such as retirement funds and medical aid schemes) are typically administered independently through governing bodies of trustees, the Remuneration Committee (or another relevant governing body committee, such as the Audit Committee) would not typically be required to review the audited financial statements of the benefit fund, but it is important that the Remuneration Committee be satisfied that the interests of employees are protected through sound governance in the administration of such funds.

5.6 Variable pay design principles

a. The structure of variable pay for executives should seek to moderate the impact of positive and negative factors that are completely outside of their control. Examples of such factors are the platinum price for platinum mining houses, the international crude oil price for energy organisations, and the gold price for gold mining organisations. In such organisations, overall sustainable performance should be targeted using a mix of financial and non-financial targets that are directly controllable.

This principle should be carefully considered with regard to overall affordability and alignment with shareholder outcomes.

b. The use of more than one performance measure based on business outcomes reduces the risk of unintended outcomes impacting the entire award. For example, measures of performance based on accounting, shareholder-, absolute-, and relative aspects of performance are used together to provide a holistic view of business performance. However, simplicity should be retained. Different measures can also be used in different types of long-term incentive schemes that are used simultaneously (e.g., a combination of appreciation- and full-value share-based plans/schemes). It is ideal to avoid the duplication of measures in different incentive plans. The measures need to be understood by the shareholders and participants.

c. Where a performance measure is a relative measure, i.e., based on the organisation's performance relative to a peer group, this peer group should be disclosed, together with the rationale for any changes made to the selected peer group.

d. The weighting attached to different measures may differ at each level of the organisation, in line with the level of accountability of employees, to drive organisational performance and the desired behaviours.

e. It is important to differentiate between a gatekeeper and a modifier; the gatekeeper typically acts only as a penalty, while a modifier enhances or decreases incentives for performance relative to targets. The gatekeepers (e.g., safety) should be designed to ensure that fundamental principles governing the operation of the business are not violated in the pursuit of profitability.

f. The issue of affordability in the determination of incentives cannot be ignored, and incentive plans need to take into account an organisation's financial constraints or distress. Incentive-plan rules should be so worded that organisations are not obliged to pay any incentives or share-based payments in the event of early termination of employment due to resignation or dismissal for good cause.

g. Annual incentive designs are many and varied, but best practice dictates that they reward a combination of both business- and individual performance in a sustainable manner:

i. Business performance is usually assessed in terms of different performance indicators, most likely financial in nature, but increasingly with non-financial elements factored in.

ii. Individual performance is usually assessed using a weighted (balanced) scorecard of key performance areas or value drivers, which could be informed by the performance management framework. Where individual performance criteria form part of the variable pay calculation, meaningful disclosure on performance outcomes against these measures should be included to support the final approved incentive amount.

5.7 Variable pay target-setting principles

a. Certain target-setting principles are important to consider for inclusion in the Remuneration Policy, namely:

i. Phased or cliff-vesting of long-term incentives;

ii. Threshold-, target-, and stretch performance levels. Threshold performance relates to the minimum levels required for the payment of any incentives, such as the baseline performance of the prior year. Target performance relates to good performance, incorporating some stretch performance (e.g., compared to the previous year's performance), and stretch performance relates to truly exceptional performance in the context of the prevailing business- and economic environments;

iii. The balance between corporate and individual performance in the incentive calculation;

iv. A robust process for obtaining approval of the determination and payout of incentives; and

v. Clear and unambiguous targets, especially in the case of non-financial targets, to enable objective measurement.

b. Performance measurement and weighting principles are included in the Remuneration Policy, while the annual targets and the levels of achievement for the year under review are included in the Implementation Report.

c. Unless commercially sensitive, it is prevalent practice to include forward-looking long-term incentive key performance indicators (KPIs) in the Implementation Report.

5.8 Retention policy

The salient features of any retention policy should be included in the Remuneration Policy, e.g., the nature of the plan (cash or shares), the basis for the awards, the lock-in period, and the terms relating to termination of employment before the end of the retention- or lock-in period. Pure retention schemes or elements of a long-term incentive scheme where there are no specific performance criteria are not encouraged. The use thereof should be ring-fenced and appropriately disclosed.

5.9 Malus- and clawback conditions

The Remuneration Committee should consider malus- (pre-vesting forfeiture) and clawback (post-vesting recovery) provisions in line with current local and international regulations and market practices. Where such provisions are applied, any forfeitures or recoveries should be clearly disclosed in the Implementation Report.

5.10 Minimum shareholding requirements

Minimum shareholding requirements should apply to, at a minimum, Disclosed Officers. Executives should hold a specified percentage of their total guaranteed package, pensionable remuneration, or base salary in company shares as beneficial owners. This approach aims to strengthen alignment between executive- and shareholder interests, with an emphasis on sustainable company performance. Both the policy requirement and compliance status should be disclosed in the Implementation Report.

5.11 Exercise of discretion

The Remuneration Committee is responsible for exercising sound judgement in assessing performance and determining pay outcomes. Discretion should be applied with care and consistency, recognising exceptional contributions beyond standard metrics or, where necessary, reducing awards when pay outcomes do not appropriately reflect actual performance.

Each case should be evaluated on merit, taking into account the organisation's specific circumstances and rationale. Meaningful engagement with shareholders and key stakeholders is vital, particularly when the use of discretion has a material impact on pay or public perceptions of governance.

Transparent disclosure in the Remuneration Report is essential, detailing how and why discretion was exercised and how it aligns with the organisation's remuneration policies. The scope of and rationale for any discretion applied should be clearly reported.

The Remuneration Committee must ensure it has the legal and contractual authority to apply discretion, and stay within the limits of the Remuneration Policy approved by shareholders. Regular reviews of how often and to what extent discretion is used are recommended to ensure the Remuneration Policy remains effective and appropriate.

5.12 Loss-of-office-/termination payments

The Remuneration Policy should address any supplementary payments or awards arising from termination of employment, in addition to statutory entitlements and the standard provisions of incentive plans.

5.13 Outcome of shareholder voting

The procedure for reporting legitimate and reasonable concerns raised by shareholders should be outlined, accompanied by a description of the steps taken to address these issues and reach consensus with shareholders.

5.14 Executive employment terms

High-level principles covering executive employment terms, including notice periods, retirement age, and termination-/loss-of-office payments, should be covered in the Remuneration Policy, and any changes from the prior year should be highlighted in the Policy, which is included in the Remuneration Report.

POLICY AND PLANNING: RP 115:

115. For companies, the criteria to be applied to determine the fees of the non-executive directors of the governing body should be outlined in a non-executive director fee policy suitable for submission to shareholders for their consideration when voting on the fees for directors' services in accordance with the Companies Act.

6. Guidance notes: RP 115: Non-executive Director Fee Policy

a. The Non-executive Director Fee Policy should not form part of the Remuneration Policy (which is subject to a separate shareholder vote), and should be a stand-alone policy, which is to be tabled for shareholder approval at the AGM at least once every two years prior to its implementation.

b. To avoid a conflict of interests in determining their own fees and remuneration structure, the Remuneration Committee should request that executive management (through independent advice, if required) recommend, *inter alia*, a fee structure.

c. Factors that influence the fees of non-executive directors include level of responsibility, which could be determined with reference to revenue, turnover, market capitalisation, assets, enterprise value, complexity of geographical footprint, level of competence required of directors, time commitment (for attendance and preparation), and location.[6]

d. Location differentials could be in the form of an allowance compensating for hours travelled, or differentiated fee structures in base currencies. Factors that are considered in determining location differentials should be disclosed in the Fee Policy. Occasionally, the contribution and profile of the director are used, but this is not common, and it is not recommended.

e. Ad hoc fees and consulting fees to non-executive directors should be discouraged unless specific governance guardrails and limitations on payment are included.

f. Governing body fees should not be paid for attendance, but in recognition of the role that the non-executive directors play.

g. When benchmarking fees, it is considered best practice to use the same comparator group and benchmarking principles used for executive remuneration. The peer group chosen for benchmarking non-executive directors' remuneration must be disclosed, along with the rationale for any differences between executive and non-executive benchmarking groups.

h. Governing body fee structures should not be designed to reward non-executive directors for performance. Performance-based shares and share-option schemes are not recommended for non-executive directors, as these may create conflicts of interests—particularly where non-executive directors are responsible for setting and assessing performance targets. Providing full-value share grants that are not geared instruments and do not have performance criteria for vesting may be used for payment of fees. Similarly, non-executive directors should not participate in performance bonus schemes.

[6] Remco Forum paper on NED remuneration

OVERSIGHT AND MONITORING: RPs 116–118:

116. To ensure that its policy formulation and decision making on remuneration are informed, the governing body should ensure ongoing engagement with shareholders and other relevant stakeholders.

117. The governing body should ensure that the implementation of the remuneration policy achieves its set objectives and that there is transparent and meaningful disclosure on remuneration decisions and outcomes arising from the implementation of the policy.

118. Subject to specific remuneration resolutions applicable under the Companies Act, the governing body of a company that falls within the category that is required in terms of the Act and its regulations to appoint a social and ethics committee, should consider submitting for separate non-binding advisory votes by shareholders both the executive remuneration policy and the statutory remuneration disclosure. The policy should be submitted for voting every three years or when substantively changed, and the remuneration report should be submitted for voting annually.

7. Guidance notes: RPs 116–118: Disclosures and Stakeholder Management

a. The governing body has discretion to determine where remuneration disclosures are made, e.g., as part of the Integrated Report, Sustainability Report, or a separate Remuneration Report. Compliance with King V has to be noted in the Disclosure Report.

b. The Remuneration Report should consist of three parts:

i. Background Statement (Letter from the Remuneration Committee Chair);

ii. Remuneration Policy; and

iii. Implementation Report.

7.1 Background Statement

a. The Background Statement provides high-level context to the organisation's performance and how this influenced remuneration decisions, contrasted with macro-economic factors, the business, the people strategy, and the risk strategy.

b. It should be simple and easy to read, with graphics used where possible, and should illustrate, using specific examples, how outcomes were achieved.

c. The Background Statement in the Remuneration Report should further reflect:

i. Shareholder votes cast in favour of or against the Remuneration Policy and the Implementation Report of those who voted in the most recent AGM;

ii. The shareholder engagement process followed, who was engaged, and the manner of the engagement;

iii. Reasonable and material issues raised by shareholders, as well as actions implemented to address these issues; and

iv. A summation of the future outlook.

d. The reader should obtain a clear view of the Remuneration Committee's control over pay matters and the aims of pay practices. Policy changes, together with the rationale for such changes, and key decisions taken by this committee should be covered.

7.2 Remuneration Policy

The guidance notes and in Part 3 provide details of the information to be incorporated into the Remuneration Policy. As an option, a synopsis of the Policy's salient features can be included in the Remuneration Report, sufficient to inform the vote on the Policy, supplemented with a link to the full Remuneration Policy on the organisation's website.

7.3 Implementation Report

a. Section 30(4A) of the Companies Amendment Act 16 of 2024 (not yet effective) states: "Where any provisions of the directors' remuneration report, as contemplated in section 30B, becomes subject to an audit in terms of this section, any company policies or the background statement of the remuneration report must not be made subject to such audit." This section refers to the disclosure of directors' remuneration in the annual financial statements (AFS), which are audited as part of the AFS. Although the total remuneration information in the Implementation Report[7] is similar to what is in the AFS, additional information is required in the AFS, including, *inter alia*, fees for director services, loans, and financial support.[8] Accordingly, these requirements do not mandate the Implementation Report to be incorporated into the AFS or disclosed as part of the remuneration disclosures in section 30(4). However, directors' emoluments must be included in the annual financial statements.

b. Remuneration disclosure has to be on a named individual basis for each Disclosed Officer.

c. The remuneration outcomes should be disclosed in a clear and concise manner in the annual Remuneration Report, under the section 'Implementation Report.' Plain language should be used and industry jargon avoided. Where technical or legal terms or references to schemes are used, their meaning should be explained.

d. Stakeholders must have insight into how incentives were calculated. Therefore, the results of performance against all measures in the corporate and/or individual scorecard should be disclosed in such a way that the stakeholder can reasonably assess whether the incentive is in line with the performance measures and the Policy.

e. Where absolute targets and ranges are disclosed together with actual performance, the stakeholder should be able to correlate or reconcile these values with those reported in other annual documents (e.g., AFS), and appropriate justification should be provided.

f. Payments for termination of office or employment should be disclosed separately in the Implementation Report, together with a detailed rationale. A reference to a policy document that governs this type of payment (if not included in the Remuneration Policy) will aid the understanding of stakeholders.

g. Part 3 of this document provides the principles to be applied in the disclosure of Disclosed Officers. The extent of the policy disclosure for other employees, while not to the same level of detail as that applicable to Disclosed Officers, should provide an understanding of the composition of total earned remuneration used in determining entry-level wage, the pay gap disclosure requirements, and supporting detail informing fair pay principles.

[7] Refer to Part 3 for more detail

[8] CAA Section 30(4) read with (6)

7.4 Voting on the Remuneration Policy and the Report

The Remuneration Policy and Report for public and state-owned enterprises will be voted on annually by shareholders. Refer to sections 30A and B of the Companies Amendment Act 16 of 2024 (when effective) and the detailed guidance notes to these sections distributed by the South African Reward Association (SARA). [9]

7.5 Stakeholder management

a. While the governing body remains ultimately accountable, active engagement with shareholders by committee members—ideally including the chairperson—is expected, and should be documented in the Implementation Report, along with details of any changes made to the Remuneration Policy following shareholder consultation. Typically, executives would not attend these meetings with shareholders, to avoid a conflict of interests. Although group calls are sometimes arranged with shareholders, one-on-one engagement is the preferred approach.

b. In organisations with a dispersed shareholder base, the principle of materiality should guide engagement efforts. Where consensus with shareholders cannot be reached, the Background Statement should explain the reasons for this and clarify why the governing body chose to amend or retain the Remuneration Policy and its method of implementation.

c. In all circumstances, the Remuneration Committee should ensure that shareholder concerns are well understood and, where reasonable and justified in light of the organisation's business model, strategic objectives, and macro-economic context, addressed accordingly.

d. Ultimately, the Remuneration Committee should make the appropriate decision in accordance with the business- and people strategy.

8. King V™ Disclosure Framework

a. The use of the King V™ Disclosure Framework is a requirement for any organisation that claims adherence to King V, and organisations should be familiar with the Application and Disclosure Framework in the King V Foundational Concepts. The Disclosure Framework provides the frame or outline for disclosure on the application of King V, and is not a substitute for judgement.

b. Principle 11 requires that organisations confirm whether the recommended practices have been applied.

c. To prevent duplicate disclosures, incorporation of information by means of links to the organisation's Integrated Report or other reports or the website is encouraged.

d. The form and design of the Disclosure Framework may be adapted based on the preferences of individual organisations, provided that the contents address the stipulated declarations and disclosures.

e. The Disclosure Framework should be published on the organisation's website, together with the other external reports.[10]

[9] https://www.sara.co.za/Portals/8/CAA%20Interpretation%20notes_final%20for%20conference_20102025b.pdf?ver=l6P1E1_ncEm-5q_HmfxXVQ%3d%3d

[10] King V™ Disclosure Framework

PART 3:

GUIDANCE NOTES ON TOTAL EARNED REMUNERATION

3.1. Disclosure of pay mix

The following section provides guidance, in varying degrees of detail, on key disclosure elements for the Remuneration Report.

a. Disclosure of the pay mix of Disclosed Officers is required in the Policy section of the Remuneration Report.

b. The Remuneration Policy should outline all components of remuneration used by the organisation per the most recently approved Policy.

c. If the Policy has not yet been approved, the forward-looking policy should be tabled for approval.

d. The disclosure of the pay mix in the Policy provides total remuneration scenarios based on minimum, target-, and maximum performance outcomes outlined in the Remuneration Policy. If there are year-on-year changes, it is advised that organisations present the pay mix from the last approved Policy alongside the proposed pay mix for the next financial year. The impact of share price movements in respect of any share-based remuneration should not be included in the pay mix scenarios.

e. Scenario disclosures can be presented as a graph or a table, detailing total remuneration split into guaranteed and variable components.

f. Variable remuneration should identify the portion(s) tied to annual performance (short-term incentives) and those linked to longer periods (long-term incentives).

g. Where companies employ a 'cliff' for performance at a level below target, that level should be disclosed as a minimum or threshold level. Achievement below this minimum should not be rewarded.

h. Where maximum total remuneration is not defined in the Remuneration Policy, this information should be disclosed in the notes to the respective scenarios.

i. Ad hoc- and 'other' remuneration should not be included in the pay mix scenarios.

3.2. Disclosure of total remuneration

This section addresses the practical disclosure requirements for the total remuneration of Disclosed Officers. The disclosure of total remuneration (previously referred to as 'total single figure of remuneration') is required in the Implementation Report of the Remuneration Report. Terminology referred to in this section is explained in the glossary of terms (Part 6).

There are no substantive differences between the Total Earned Remuneration Table and the Single Figure Table of Remuneration, as it was previously known. The name was changed to align with the Companies Amendment Act 16 of 2024, and minor clarifications have been added to aid user application.

3.2.1 The following principles are to be considered in the disclosure of total remuneration:

a. The disclosure of total remuneration of Disclosed Officers is intended to enhance the transparency of all pre-tax remuneration components awarded, paid, and settled during the reporting period.

b. The approach to disclosure should be consistent year on year to allow meaningful comparisons across years. Any change in approach should be explained, and comparative data should be provided to inform the impact of such change in the approach.

c. Total remuneration consists of the following components: guaranteed remuneration, variable remuneration, ad hoc remuneration, and other remuneration.

d. Guaranteed remuneration includes basic salary, benefits, any allowances, and employer contributions to benefit funds.

e. Variable remuneration includes short-term and/or long-term incentives, as well as interest and dividends accrued in relation to such awards.

f. Ad hoc- and other remuneration include awards not made on a regular basis but as and when appropriate. Examples of remuneration awards in this category are sign-on/buy-out awards, once-off retention awards, change-of-control payments, termination payments, restraint of trade, ex gratia payments, leave encashments, recognition awards (e.g., for long service), and reimbursements for relocation. Details should be provided as notes to the table.

g. Any related paid party work should be reflected.

h. For each Disclosed Officer, total earned remuneration should be disclosed for both the current and prior reporting periods, in tabular format.

3.2.2 Minimum required disclosure requirements

Total earned remuneration reflects the remuneration outcomes in relation to performance measured during and up to the end of the reporting period. **This version of remuneration is the minimum requirement for disclosure.** Other versions of disclosure are disclosed later. Total earned remuneration includes the following components:

a. Guaranteed remuneration/basic salary and benefits include total basic salary and the cost of all benefits paid or accrued in the reporting period. Where the salary or guaranteed remuneration is increased part-way through the reporting period, this will be a total of partially prior and partially new guaranteed remuneration processed for the reporting period.

b. Variable remuneration: Whether variable remuneration should be disclosed in the current or a future reporting period depends on whether performance conditions apply, and, if so, the period over which performance is measured.

c. Variable remuneration is remuneration that is subject to performance conditions that do not extend beyond the end of the reporting period, or is not subject to any performance conditions. Such remuneration is disclosed in the reporting period to which it relates, even if it is awarded after the reporting period. Examples of variable remuneration in this category include cash-based short-term incentives related to the current reporting period, as well as deferred short-term incentive (STI) awards and long-term incentive (LTI) awards with respect to the current reporting period that are not subject to future performance conditions. LTI awards granted in a prior reporting period but subject to multi-year performance conditions for which the performance period ends in the reporting period are also included in this category of remuneration.

d. Organisational versus individual performance conditions: Variable remuneration subject to future organisational performance conditions is only disclosed in the reporting period that coincides with the end of the performance period. Where individual performance conditions apply without accompanying organisational performance conditions, the nature and probability of such conditions being achieved should be considered to determine the reporting period in which disclosure should take place. For example, where only a minimum threshold individual performance rating requirement applies to a deferred STI award, the condition may be deemed a gatekeeper condition that is likely to be met. In this case, disclosure should take place in the current reporting period, instead of being postponed to the reporting period in which the condition will be met. However, in the case of a target or stretch individual performance condition of which the outcome is uncertain, the disclosure should only take place in the reporting period when the condition was met.

e. Valuation of shared-based awards in total earned remuneration: When a share-based award subject to multi-year performance conditions is reflected in total earned remuneration, it should be valued at the reporting period year-end share price for 'full value' shares, or at the intrinsic value (calculated as the year-end share price less the grant price) for options and share appreciation rights. In determining the year-end price, either the year-end closing price or a volume-weighted average price (VWAP) measured over a period of not more than 30 days to the end of the reporting period may be used. The valuation methodology should be disclosed and applied consistently from year to year. Share-based awards that are not subject to future performance conditions should be reflected at their award value.

f. Dividends and/or interest earned with respect to variable remuneration received and receivable during the reporting period, as reflected in the Total Earned Remuneration Table, should be disclosed together with the incentive to which they relate, but as a separate line. However, dividends and/or interest arising from any remuneration award after its reflection in total earned remuneration should not be reflected in the Total Earned Remuneration Table in any subsequent reporting periods.

g. Ad hoc- and other remuneration are any remuneration not reported elsewhere. The basis for inclusion of these awards in total earned remuneration for a reporting period is the timing considerations described above.

h. Where a previously disclosed award does not subsequently vest, or is recovered due to termination of employment, application of malus, clawback, or any other reason stated as a trigger in the policy document (other than performance outcomes below minimum or threshold levels of performance, i.e., where there was no vesting), an amount equal to that originally disclosed should be disclosed as a negative amount in the Total Earned Remuneration Table in the year in which the award was forfeited. Full disclosure of the surrounding circumstances should be made.

3.2.3 Additional complementary forms of disclosure

Other complementary versions of total remuneration (i.e., in addition to the minimum requirements, and only for voluntary disclosure) may be included to enhance the detail of disclosures, as deemed appropriate by the governing body, for example:

a. Total target remuneration is the remuneration resulting from the application of the Remuneration Policy for the reporting period, using the assumption that all performance conditions have been met at target level.

b. Total awarded remuneration refers to all forms of remuneration awarded in respect of the reporting period, even if the actual awards are only made after the reporting period, and irrespective of whether future performance conditions apply.

c. Total cash remuneration refers to the pre-tax cash received during the reporting period. Each of these categories is described later.

3.2.3a Total target remuneration includes the following components:

i. Guaranteed remuneration: The annualised guaranteed remuneration or the annual basic salary (as appropriate) for the reporting period post the annual salary review (i.e., the full annual basic salary/guaranteed remuneration once the annual increase/market adjustment approved in the reporting period has been applied, and not necessarily what was processed).

ii. Variable remuneration: Reflects variable remuneration arising from the application of the approved Remuneration Policy for the current reporting period. This is the target or expected outcome based on the application of policy assuming on-target performance outcomes. Substantial once-off LTI awards should form part of the Remuneration Policy, annualised if appropriate.

iii. Ad hoc and other remuneration: This is always zero for total target remuneration.

3.2.3b Total awarded remuneration includes the following components:

i. Guaranteed remuneration: The same definition and value as for total target remuneration applies;

ii. Variable remuneration: The award value of all variable remuneration awards made with respect to the current reporting period, even if the actual awards are only made after the reporting period, and irrespective of whether future performance conditions apply; and

iii. Ad hoc and other remuneration: The award value of all ad hoc or other remuneration awards made with respect to the current reporting period (not reported elsewhere), even if the actual awards are only made after the reporting period, and irrespective of whether future performance conditions apply.

3.2.3c Total cash remuneration includes the following components:

i. Guaranteed remuneration: The same definition and value as for total earned remuneration applies, namely all salaries, allowances, and benefit contributions processed during the reporting period;

ii. Variable remuneration: If there was a cash payment in the reporting period or when all suspensive conditions on equity settled awards have been lifted during the reporting period. This includes interest and dividends processed either in cash or in equity-settled awards; and

iii. Ad hoc and other remuneration: Cash payments processed during the reporting period and not reported elsewhere.

3.3 Disclosure of outstanding (unvested) share awards

The disclosure of outstanding share awards is required in the Implementation Report section of the Remuneration Report.

This table has to provide details of all unvested and outstanding awards at the end of the financial year. All salient details of these awards should be disclosed, so that the reader can assess the nature, timing, and value of awards that may be earned by each Disclosed Officer.

Value of share-based awards in the Table of Unvested Awards: In the case that an instrument vests within twelve months of the financial year end, the value should reflect the appropriate number of units estimated to vest in the future. All outstanding awards should be reflected in this table—unvested and vested-but-unexercised awards.

If an instrument vests more than twelve months after the end of the financial year, an appropriate valuation methodology may have to be adopted for disclosure purposes (which includes an estimate of the achievement of performance factors, etc.). The determination of fair value should reflect the effect of all applicable performance conditions, not just the market conditions (as applied in the IFRS 2 accounting statement). In determining fair value for purposes of remuneration disclosure, any market-accepted valuation methodology may be used. However, the methodology used should be disclosed in the Remuneration Policy and applied consistently from year to year.

PART 4:

EXAMPLES OF DISCLOSURE TABLES

The following table summarises the way in which the elements of remuneration are included across the four views of total remuneration.

	Earned (minimum required)	**Target per most-recently approved policy applied in the year under review** (optional)	**Awarded** (optional)	**Cash flow** (optional), typically used for pay gap disclosure purposes
Guaranteed remuneration	Salary & benefits for months prior to increase + salary & benefits for months post increase.	Annual salary & benefits for the reporting period (i.e., post annual increase).	Salary & benefits for months prior to increase + salary & benefits for months post increase.	Salary & benefits for months prior to increase + salary & benefits for months post increase.
Variable remuneration				
Cash STI (also cash portion of a single incentive scheme)	Cash award for current reporting period based on actual performance and discretion applied (if applicable).	Cash award for current reporting period if all performance targets are met.	Cash award for current reporting period based on actual performance and discretion (if applied).	Cash award related to prior reporting period but paid in the current period.
Deferred STI (also share portion of a single incentive scheme)	Deferred award for current reporting period based on actual performance and discretion (if applied).	Deferred award for current reporting period if all performance targets are met.	Deferred award for current reporting period based on actual performance and discretion (if applied).	All prior deferred STI awards that were either paid in cash, or suspensive conditions lifted and share ownership transferred (this may be the sum of multiple tranches of prior awards).
Retention share award				
Performance share award	If award is subject only to time, full value is disclosed.	Nil	If award is subject only to time, full value is disclosed.	Amount processed via payroll once all conditions have been fulfilled.
Share option / Appreciation right (no performance vesting conditions)	No disclosure until conditions have been met. Fair value of options awarded.	100% target performance-linked share award value	Value of performance share award. Fair value of option award.	Amount processed via payroll once all conditions have been fulfilled.
Share option/ Appreciation right (no performance vesting conditions)	No disclosure until conditions have been met.	100% option value in terms of policy	Fair value of option award.	Amount processed via payroll once all conditions have been fulfilled.
Ad-hoc remuneration	Amount awarded (paid or unpaid).	Nil	Amount awarded	Amount processed via payroll (gross).
Other remuneration	Amount awarded (paid or unpaid).	Nil	Amount awarded	Amount processed via payroll (gross) .
Total remuneration	Total of guaranteed + variable + ad-hoc + other	Total of guaranteed + variable + ad-hoc + other	Total of guaranteed + variable + ad-hoc + other	Total of guaranteed + variable + ad-hoc + other

PART 5:

FAIR AND RESPONSIBLE REMUNERATION

Principle 11 of King V states: "The governing body ensures that the organisation remunerates fairly, responsibly and transparently to promote sustainable value creation by the organisation within its economic, social and environmental context."

The term 'fair and responsible pay' was introduced in King III, and gained further prominence in King IV and King V. It requires special focus at the outset of remuneration policy development, emphasising that transparency extends beyond disclosing pay figures, to explaining the rationale, processes, and criteria behind remuneration decisions.

Remuneration that is, or is seen to be, unfair, excessive, or irresponsible can result in a decline in stakeholder confidence, which could threaten the sustainability of the organisation. The governing body is responsible for ensuring that the organisation remunerates fairly, responsibly, and transparently, aligned with the principles set out in the Remuneration Policy, thereby promoting sustainable value creation.[11]

What is considered fair is defined differently by various stakeholders and organisations. For instance, junior-level employees will have a different perception of fairness compared to an executive or a shareholder. It is, therefore, unlikely that there will be agreement on what constitutes fair and responsible remuneration. Fairness is also related to justice—social, distributive, procedural, interactional, and environmental.

Fairness in pay is an issue of social justice, where equity and relativity are reflected in financial terms. In this context, fair remuneration is a principle referring to both a fair value and a fair process. Fair remuneration acknowledges that all workers should receive an appropriate level of remuneration, one that enables them to participate in the economy.

King V, in Principle 1(e), refers to fairness as entailing:

- Adopting a stakeholder-inclusive approach in the execution of their governance role and responsibilities; and
- Awareness of the organisation's potential and actual impact on the natural environment, society, and future generations.

In summary, fair, transparent, and responsible remuneration is externally competitive and internally equitable, and supports a sustainable organisation. A well-governed reward process and system enhances perceptions of fairness, ensures accountability, and ultimately enhances stakeholder trust in the organisation.

Remuneration can be regarded as fair and responsible in the following circumstances:

- Individuals performing the same or similar job at the same or similar level of performance in the organisation receive the same or similar levels of remuneration, as determined in the Remuneration Policy.
- Variable pay outcomes are linked to performance and value creation, which are influenced by a range of factors. As such, higher levels of performance and value creation should result in increased variable pay, while lower performance or value erosion may lead to reduced variable pay
- Variable pay plans are designed to protect stakeholders' interests, particularly in the case of windfall gains.
- Performance and value creation are aligned with the strategy and assessed over the short, medium, and long term. Awards based on arbitrary performance metrics are, therefore, avoided.

[11] www.sara.co.za / A Guide to the Application of King IV principles on remuneration governance.

- Variable pay is the result of well-structured and tested incentive plan design principles and reasonable targets. These incentive plan design principles should ensure that remuneration outcomes reflect genuine performance, value creation, and individual contribution, rather than being arbitrary or the result of external factors beyond the executive's control. This principle is less rigidly applied in lower levels in the organisation, where employees have less line of sight in terms of the organisation's performance, their contribution to the performance outcomes, and, hence, the amount of variable pay they can expect to receive.

Well-designed remuneration policies and structures, including incentive schemes, prevent the following:

- Pay for failure;
- Backdating or re-pricing of share incentive grants, where grant prices are restated to a lower value due to a depressed share price. This is unfair to shareholders, who do not have the opportunity to reset the share price at which they invested;
- Retesting of performance conditions for the vesting of incentives, i.e., postponing the measurement of performance against the targets until a later period when there is a better chance of achieving the targets, or giving executives a second chance to meet these targets over a longer period;
- Changing of performance measures during or at the end of a performance cycle when the outcome is already evident;
- Adjusting performance against measures on an arbitrary basis to yield a more positive / negative outcome;
- Absence of controls to prevent policy decisions from being overruled by management;
- The use of discretion by the Remuneration Committee to override policy, unless in exceptional circumstances and appropriately disclosed; and
- Managers determining their own remuneration structure without oversight by the governing body.

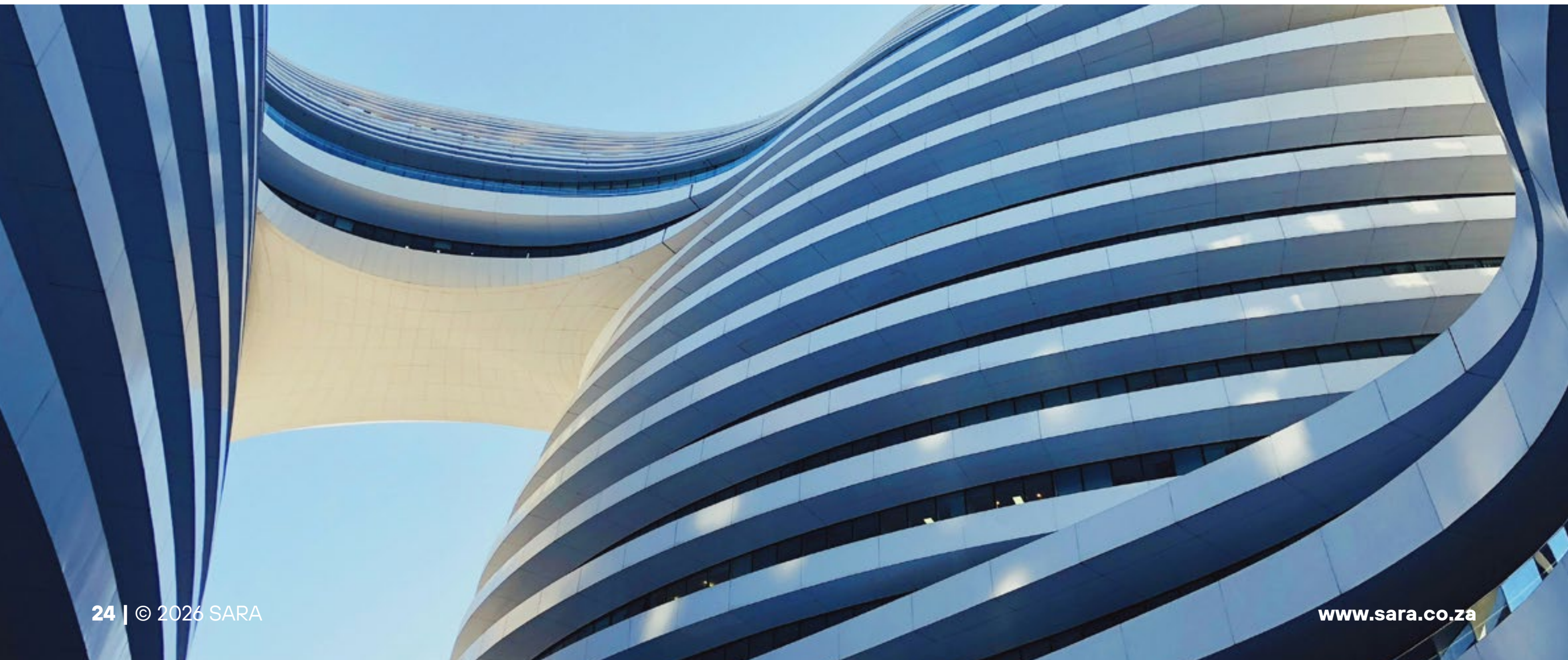
For executive management, all incentives should be subject to broad and comprehensive financial and non-financial performance conditions.

Decisions on remuneration as an appropriation of the organisation's profits are made after taking into account the impact on all stakeholders, including shareholders, customers, and employees, in a responsible manner that does not compromise the sustainability of the organisation.

Governing bodies should display, through disclosure, deliberate actions taken over time to reduce inequality and improve the living standards of the lowest-level employees in a responsible manner that does not compromise the sustainability of the organisation.

The governing body should monitor quantitative measures of income dispersion within the organisation. Measures of inequality should be interpreted in context, i.e., considering the type of organisation, industry, the business model, and organisational maturity.

A perception of unfair pay is often rooted in poorly communicated remuneration decisions. Greater care should be taken to provide evidence to stakeholders of the linkages between executive remuneration outcomes and shareholder value creation. Disclosure should be transparent regarding the choice of performance measures and value drivers, achievements against those metrics, and how these translate to variable remuneration outcomes.



PART 6:

GLOSSARY OF TERMS

- **Ad hoc and other remuneration:** Awards or payments made on an irregular basis, not part of the standard or performance-linked remuneration.
  Examples include:
  - sign-on or buy-out payments;
  - retention awards;
  - termination payments;
  - leave encashments;
  - relocation reimbursements; and
  - long-service or recognition awards.
- **Clawback clause:** A provision allowing the organisation to reclaim variable remuneration previously awarded and paid, typically under circumstances such as misstatement of financial results or misconduct.
- **Deferred short-term incentive (STI):** A portion of an STI that is deferred to a future date; it may be settled in cash or shares, and may or may not be subject to additional performance conditions.
- **Disclosed Officers:** Executive directors and prescribed officers whose remuneration must be transparently disclosed in accordance with regulatory requirements.
- **Fair value:** An estimate of the potential value of a remuneration award that includes the impact of performance conditions, typically derived using market-accepted valuation methodologies.
- **Face value:** The nominal value of an award, calculated as the number of shares granted multiplied by the share price on the grant date, without considering any performance conditions or vesting risks.
- **Guaranteed remuneration:** The fixed portion of total remuneration, including basic salary, employer contributions to benefit funds (e.g., retirement, medical), and allowances, also known as 'guaranteed package'.
- **Implementation Report:** A component of the Remuneration Report that details actual remuneration outcomes during the reporting period, including tables of Total Earned Remuneration and Outstanding Share Awards.
- **Long-term incentive (LTI):** Variable remuneration tied to the achievement of long-term performance goals typically spanning more than one financial year; can include, but is not limited to, performance shares, share appreciation rights (SARs), and options.
- **Malus clause:** A provision allowing the organisation to reduce or cancel unvested incentive awards before they are paid, typically due to misconduct or underperformance.
- **Pay mix:** The ratio between guaranteed remuneration and variable remuneration, often expressed in scenarios (minimum, target-, and maximum performance) to indicate the potential composition of total remuneration.
- **Prescribed Officer:** A member of senior management who exercises significant control over the business and whose remuneration is subject to disclosure (further guidance is provided in the Companies Act regulations).
- **Remuneration gap:** A metric comparing total remuneration of the top 5% highest-paid employees to total remuneration of the bottom 5% lowest-paid employees (refer to CAA 2024 Section 30 A & B; not yet promulgated), used to illustrate internal equity and fairness.

- **Remuneration Policy:** The organisation's formal policy outlining the future remuneration structure, including, *inter alia*:
  - types of pay elements;
  - eligibility criteria;
  - performance metrics; and
  - pay mix.
- **Remuneration Report:** A three-part report comprising:
  - Background Statement—Letter from the Remuneration Committee Chair;
  - Remuneration Policy; and
  - Implementation Report.
- **Short-term incentive (STI):** Performance-linked remuneration awarded based on achievements within one financial year, often paid in cash or partly deferred, either in cash or shares.
- **Stretch performance:** Performance levels that exceed the target, often triggering the maximum potential variable remuneration.
- **Suspensive conditions:** Conditions that must be met before certain remuneration elements (e.g., share-based awards) become payable or vest.
- **Total awarded remuneration:** Total of all remuneration components awarded in the reporting period, regardless of whether they are subject to future performance conditions or paid after the period.
- **Total cash remuneration:** Pre-tax cash received during the reporting period, including guaranteed remuneration, variable remuneration paid in cash, and ad hoc remuneration.
- **Total earned remuneration:** Remuneration outcomes based on performance assessed during or before the end of the reporting period, including guaranteed remuneration, variable remuneration (performance-dependent), and ad hoc- and other remuneration.
- **Total remuneration:** An umbrella term comprising guaranteed remuneration, variable remuneration, ad hoc-, and other remuneration, which can be expressed in different ways: earned, target, awarded, or cash.
- **Total target remuneration:** Hypothetical remuneration assuming 100% achievement of performance conditions, used to present expected outcomes if all targets are met.
- **Variable remuneration:** Performance-based remuneration awarded in addition to guaranteed pay; includes STIs, LTIs, performance-linked dividends, and interest.
- **Volume-weighted average price (VWAP):** The average share price weighted by trading volume over a specified time period (typically ≤ 30 days), used for calculating share-based award.

This paper was peer reviewed by the following forums:
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IoDSA Remuneration Committee Forum

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