PUBLIC INVESTMENT
CORPORATION

Corporate Governance and Proxy Voting

Principles, Policies and Practical Application

"The principle of integrity should underpin all corporate conduct"

CONTENTS

EXECUTIVE SUMMARY

Public Investment Corporation Limited's (PIC) Corporate Governance and Proxy Voting Policy specifies a framework of principle and action for its stakeholders, primarily the companies in which it invests and fund managers that invest on behalf of PIC. The framework reflects the conviction that in South Africa socially responsible governance and sound management practice are inseparable.

The purpose of the Policy is to create consistency of outlook and practice between PIC, its stakeholders and mandated fund managers and to provide an indication of the way that funds entrusted to PIC will be managed.

The Policy extends on the King II corporate governance view that governance "is concerned with holding a balance between economic and social goals". PIC believes the two are interdependent. Thus the Policy states its expectations as a custodian of pension funds and recommends actions and structures to embed the best economic and social practice in organisational structure and implementation.

The pivotal principles underpinning a design for best practice are:

- **discipline** – senior management's commitment to correct and proper behaviour;
- **transparency** – ensuring that outsiders have the power to view and thus assess corporate philosophies and actions;
- **independence** – the entrenchment of checks and balances of power in a corporate structure;
- **accountability** – the mechanisms to expose policies, decisions and actions to investor scrutiny;
- **behaviour** – the ability to correct actions where necessary;
- **fairness** – the operation of systems that balance diverse interests within a corporate milieu that shape a company's present and future;
- **social responsibility** – to ensure good corporate citizenship involving non-discriminatory, non-exploitative and responsible action in relation to environmental and human rights issues; and
- **good stakeholder relations** – the ultimate aim of conserving that repository of value represented by stakeholders.

In terms of these values, the Policy details what PIC considers desirable practices by stakeholders to ensure transparency, equity, integrity and compliance. It deals specifically with proxy voting on PIC's behalf, and needs of certain classes of stakeholders, notably directors, BEE partners and auditors.

PIC has provided guidelines for proxy voting. They flow from the principle of equitable treatment of shareholders, especially minorities, and the direct and indirect safeguarding of their interests. Directly, safeguarding involves enfranchising shareholders to express their interests in an informed way. Indirectly, PIC's Policy favours the mechanisms that safeguard these interests. Proxy voters are informed of PIC's attitude to specific actions that might benefit certain classes of shareholder and prejudice others, or impair the rating of a share. The Policy informs proxy voters, too, of PIC's dividend policy preferences and how proxy voting should express these.

Recommendations about the directors emphasise the importance of separation of powers between executive and non-executive directors; empowering directors with the skills and independence to fulfil their mandates knowledgeably and effectively; and creating a corporate environment that benefits from the diversity of backgrounds, outlooks, skills and experiences it contains.

The document looks at BEE deals from the point of view of transparency, equity, responsibilities, integrity and compliance. It commends structures and approaches to ensure that partnerships are significant, not nominal; on creating value without excessively diluting existing rights; and recognising the need for innovative and unconventional funding mechanisms.

Recommendations of best practice by auditors involve structures and processes to bolster their independence, protect their ability to fulfil their fiduciary duties and obviate relationships that might limit their independence. Vigilance on fees is also a requisite.

PIC lays out a policy for executive remuneration. It should, in addition to being openly and fully disclosed, respect a broader social context; be consistent with remuneration approaches and levels throughout the company – and firmly link reward to performance.

Guidelines for sustainability reporting, organisational integrity and social transformation are also given. The Policy outlines reporting and operational procedures to entrench corporate, environmental, safety and responsiveness into structures of management action.

Corporate governance, as a balancing mechanism aligning the interests of individuals, corporation and society, must be accompanied by financial performance, the primary motivation of the shareholder. Directors must be accountable for failures affecting shareholders' investments including insufficient earnings growth, profitability, inappropriate gearing and acquisitions.

INTRODUCTION

This document is intended to serve as a guideline to all stakeholders in Public Investment Corporation Limited (PIC) and the external managers who manage funds on behalf of PIC. It provides an indication of the way that funds entrusted to PIC will be managed.

Corporate governance in South Africa was formalised with the publication of the original King Report in 1994. Since then a second report by the Institute of Directors was published in 2002. This report is popularly known as King II. That document forms the basis of most of this policy document. As the King Report is tailored to the South African institutional environment, it assists PIC when engaging corporates on issues where there might be differences of opinion in matters concerning corporate governance.

Corporate governance is not only an ethical issue, as a lack thereof has severe negative economic implications. This is not only for a company and its shareholders but also for the wider economy as a whole. Countries where corporate governance structures are regarded as well functioning are also countries which attract domestic and foreign investment.

IMPLEMENTATION AND USE OF GUIDELINES

1. This document and the updates thereof will be provided to all the external PIC managers to guide their votes on behalf of those PIC investments that it manages.

2. The guidelines on which shares PIC will vote on and which ones the external managers will vote on will be supplied to the managers separately. The instances where PIC votes on all its investments and those where it delegates might be amended from time to time. There will also be *ad hoc* instances where PIC will inform the external managers and PIC custodians well in advance that it will vote on all the shares in a specific company.

3. The external managers will vote exactly as specified in this document. If there are issues that prevent them from doing so they may contact PIC to engage in discussions for the resolution of the matter. Any PIC instruction following this will be final.

4. PIC will continuously engage with the external managers on issues of corporate governance. If there are any instances where managers are unsure of how to direct voting or have problems interpreting sections of this document they must contact PIC for guidance.

5. The external managers must forward copies of their voting records, on behalf of PIC investments to PIC on a monthly basis for record keeping. If requested by PIC, report backs must be done with regard to any votes cast.

6. PIC may coordinate votes together with other role players with regard to matters of voting and common concern with regard to corporate governance issues.

7. Materiality and relevance remain key in all deliberations.

1. Approach and assumptions

It is PIC's policy to promote strong corporate governance in the companies that it invests in.

This document formulates the PIC voting policy at shareholder meetings to ensure that where applicable, the resolutions adopted comply with the principles of sound corporate governance.

This document also directs the user in assessment and evaluation of corporate governance practices to ensure that the process is consistent, transparent and objective. The emphasis is therefore on practical guidelines rather than lengthy rhetoric.

2. PIC principles

PIC endorses the following eight characteristics of good corporate governance namely, discipline, transparency, independence, accountability, responsibility, fairness, social responsibility and meeting stakeholder obligations.

The King II report quotes Sir Adrian Cadbury on corporate governance as follows:
"Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. . . the aim is to align as nearly as possible the interest of individuals, corporations and society".

PIC has adopted a set of principles which will ensure that this balance is not only suggested, but also actively pursued. These principles form the basis of the PIC Proxy Voting Policy. This report will outline these policies in as much detail as is practical. However, when the proposed resolution or situation is not specifically covered in the report, PIC, and/or its external managers, should vote in accordance with the fundamental principles.

2.1 Discipline

Corporate discipline is a commitment by a company's senior management to adhere to behaviour that is universally recognised and accepted to be correct and proper. This encompasses a company's awareness of, and commitment to the underlying principles of good corporate governance, particularly at senior management level.

2.2 Transparency

Transparency is the ease with which an outsider is able to make a meaningful analysis of a company's actions, its economic fundamentals and the non-financial aspects pertinent to that business. This is a measure of how good management is at making necessary information available in a candid accurate and timely manner – not only the audit data but also general reports and press releases. It reflects whether or not investors obtain a true picture of what is happening inside the company.

2.3 Independence

Independence is the extent at which mechanisms have been put in place to minimise or avoid potential conflicts of interest that may exist, such as dominance by a strong chief executive or large shareholder. These mechanisms range from the composition of the board, to appointments to committees of the Board, and external parties such as auditors. The decisions made, and internal processes established, should be objective and not allow for undue influences.

2.4 Accountability

Individuals or groups in a company, who make decisions and take actions on specific issues, need to be accountable for their decisions and actions. Mechanisms must exist and be effective to allow accountability. These provide investors with the means to query and assess the actions of the Board and its committees.

2.5 Responsibility

With regard to management, responsibility pertains to behaviour that allows for corrective action and for penalising mismanagement. Responsible management would, when necessary, put in place what it would take to set the company on the right path. While the Board is accountable to the company, it must act responsively to and with responsibility towards all stakeholders of the company.

2.6 Fairness

The systems that exist within the company must be balanced in taking into account all those that have an interest in the company and its future. The rights of various stakeholders have to be acknowledged and respected. For example, minority shareholders' interests must receive equal consideration to those of the dominant shareholder(s).

2.7 Social responsibility

A well managed company will be aware of and respond to social issues, placing high priority on ethical standards. A good corporate citizen is increasingly seen as one that is non-discriminatory, non-exploitive, and responsible with regard to environmental and human rights issues. A company is likely to experience indirect economic benefits such as improved productivity and corporate reputation by taking those factors into consideration.

2.8 Meeting stakeholders obligations

Companies should understand the relationship that they have with stakeholder groups. Boards that strive for active dialogue and cooperation with stakeholders are most likely to have an enhanced understanding of the impacts in relation to society and the physical environment. Poor stakeholder relations represent intangible liabilities that could lead to a loss of value to shareholders over the long term. Poor management of environmental and social impact transfers costs to future generations of shareholders in the interest of short-term profit taking.

While stakeholder groupings are different from company to company, and the responses differ according to size, sector and geographic location, PIC would require companies to:

2.8.1 Identify stakeholder groupings. Stakeholders can, in short, be described as those whose relations to the enterprise cannot be completely contracted for, but whose cooperation and creativity it depends on for its survival and prosperity.

2.8.2 Establish communication channels with such groupings to ensure that the company is aware of their views.

2.8.3 Understand the impact of its operations through both internal and external processes.

2.8.4 Establish a set of ethics and core values for the company and principles of business practices that will support these values. These values and principles should be communicated to stakeholders, and the company should constantly monitor how these principles are applied.

2.8.5 Seek to address the impact of its operations at both strategic and operational level, and communicate its strategies and programmes to both stakeholders and shareholders.

2.8.6 Monitor progress with respect to such programmes and communicate this to both stakeholders in manner that engenders their trust.

2.8.7 Participate in broader initiatives that contribute towards lowering the overall negative impact on business and to development of a more equitable society.

It should be noted that the later these issues are addressed, the more costly it becomes to rectify them as remedial costs invariably far outweigh the costs of prevention.

3. Board issues

PIC strives to ensure that the companies in which it invests are headed by effective boards. These boards should have a balance between executive and non-executive members, with no individual having too much power. It would also want to ensure that members of the board be submitted to re-election processes at regular internals with fair and transparent procedures. It is also essential that the board should be supplied in a timely manner with information in such form and quality appropriate to enable it to discharge its duties. PIC would also want to ensure a fair and transparent remuneration structure that aligns the interests of the shareholders with that of the board. Finally, PIC wants to ensure that the boards provide transparency and comfort to investors on the quality and fairness of their decisions and decision-making process.

3.1 Board and committee structure

All companies should be headed by an **effective board,** which can both lead and control the company. PIC favours the concept of a **unitary board**, consisting of executive directors, with their intimate knowledge of the business and non-executive directors, who can bring a broader view to the company's activities. This is in line with the so-called Anglo American model that is applied in South Africa in contrast to some continental European and Japanese models. The board remains accountable to its shareholders and can not delegate its accountability to a board committee. Evaluators should consider the following in assessing the effectiveness of the board:

3.1.1 The board should comprise a majority of non-executive directors

Non-executive directors:

(i) are not involved in day-to-day management and are not full-time salaried employees of the company or its subsidiaries; and

(ii) may be in the full-time employment of the holding company or its subsidiaries (other than the company concerned), unless such individual's conduct or executive authority could be construed to be directing the day-to-day management of the company and its subsidiaries.

3.1.2 The board should consist of a majority of non-executive directors, with a majority of non-executive directors who are independent of management

An "independent director" is one who:

(i) is not a representative of a shareholder who has the ability to control or significantly influence management;

(ii) has not been employed by the company or the group of which it currently forms part, for the preceding three years;

(iii) is not a member of the immediate family of an individual who is, or has been in any of the past three financial years, employed by the company or group in an executive capacity;

(iv) is not a professional advisor to the company or group, other than on a director capacity;

(v) is not a significant supplier to, or customer of the company or group;

(vi) has no significant contractual relationship with the company or group; and

(vii) is free from any business or other relationship that could be seen to materially interfere with the individuals' capacity to act in an independent manner.

3.1.3 The number of directors should be appropriate for the size of complexity of business

The appropriate number of directors for a board will vary and this issue will be viewed on a case-by-case basis. A board requires a critical mix of skills and experience, with the recommended balance of non-executive and independent directors, and sufficient capacity to fulfil the requisite committee functions.

3.1.4 The board should display an appropriate balance of power and authority, such that no one individual or block of individuals can dominate the decision-making process

Non-executive directors should be individuals of calibre and credibility and have the necessary skills and experience to bring judgement to bear, independent of management on issues of strategy, performance, resources, transformation, diversity and employment equity, standards of conduct and evaluation of performance.

3.1.5 Non-executive directors should be fit and proper to assume this role

boards or the appointed nominations committee must ensure that potential new directors are fit and proper, and are not disqualified from being directors by the JSE Listing Requirements, the Banks Act Companies Act and Financial Advisory and Intermediary Services Act. The company should also consider instituting training programmes for directors in order to equip them for their role. The board should also establish a formal orientation programme to familiarise directors with the operations of the company.

3.1.6 The board should be diverse

The board should bring together individuals with different skills, backgrounds and frames of reference. This diversity can manifest in a number of ways, such as academic qualification, technical expertise, industry knowledge, experience, nationality, age, race and gender. In light of South Africa's need for social transformation, the two last-mentioned are particularly pertinent. In cases where PIC believes that the board has not adequately addressed this issue it will nominate directors for election at a shareholders meeting.

In instances where family members of current or previous (who served on the board for a period of three years prior to the nomination) non-executive or executive board members before are nominated for board positions, shareholders must be made aware of the relationship and any possible conflicts of interest.

3.1.7 Non-executive directors should be dedicated

Non-executive directors must ensure they have (and take) the time required to devote properly to their obligations. It is expected of them to:

(i) attend board and relevant committee meetings;
(ii) acquire and maintain a broad knowledge of the business and the economic environment;
(iii) in view of the time and dedication required to fulfil the above obligations properly, PIC would consider it important that board members do not hold any more directorships than what would be prudent in order for them to provide the dedicated care that is required from a board member;
(iv) the attendance register of board and board committee meetings must published in the annual report of the company; and
(v) the annual report should also disclose the number of directorships of each board member.

3.1.8 Frequency of meetings

Directors and committee meetings should be held as often as necessary. The cost of the meetings should not outweigh the benefit. The number of regularly scheduled meetings should reflect the size and complexity of the company, with additional meetings called if dictated by special circumstances, such as sudden change in the economic environment, a deterioration in the financial condition of the company, or if particular threats and opportunities present themselves.

It is recommended that a board should meet at least quarterly and attend the annual general meeting of shareholders.

3.1.9 The chairperson of the board

PIC will regard the following as sound practice:

(i) The chairperson and chief executive officer should be different persons. There should be a clear distinction between management and the supervision of management, between setting the strategy and executing the strategy.
(ii) The chairperson should preferably be an independent, non-executive director. The board itself should be independent from management.
(iii) The chairperson should provide overall leadership of the board without limiting the principle of collective responsibility.
(iv) PIC considers it prudent that a non-executive director fulfils the role of chairman in no more than one JSE listed company if possible.

3.1.10 Audit committee

Every company should establish an audit committee to assist the board in discharging its duties relating to the safeguarding of assets, the operation of adequate systems, control processes and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards.

PIC expects the following with regard to membership of the committee:

(i) The committee should have at least three members appointed by the board.
(ii) The committee should consist of independent non-executive directors. Executive management will only attend meetings by invitation.
(iii) The external auditors of the company must be able to hold discussions with the audit committee without any member of the company executive being present.
(iv) The chairperson of the committee, to be appointed by the board, should be an independent, non-executive director who is not the chairman of the board.
(v) The board shall have the power at any time to remove any members from the committee and fill any vacancies created by such removal.
(vi) The company secretary shall be the secretary of the committee.

3.1.11 Remuneration committee

Every company should establish a formal and transparent procedure for developing a policy on executive remuneration and for determining the remuneration packages of individual directors, within agreed terms of reference, to avoid potential conflicts of interest.

PIC expects the following:

(i) The remuneration committee should have at least three members appointed by the board.
(ii) All members should be non-executive directors, and the majority should be independent.
(iii) The chairperson of the committee, to be appointed by the board, shall be an independent, non-executive director. This may also be the chairman of the board.
(iv) The committee should meet as often as necessary, but at least once each year.

3.1.12 Nominations committee

Unless the company is small, every company should establish a nominations committee with a clear mandate and whose authority is well accepted to make recommendations to the board on all new board appointments.

PIC expects the following:

(i) The nominations committee should have at least three members. All members should be non-executive directors, and the majority should be independent.
(ii) The committee should reflect the demographics of the country in terms of gender and race.
(iii) The chairperson of the committee should be the chairperson of the board, provided he or she is an independent non-executive director, failing which an independent, non-executive director should be appointed.
(iv) The committee should meet as often as necessary, but at least once a year.
(v) The committee should review the balance, diversity and effectiveness of the board, and identify skills that may be needed as well as individuals who could provide such skills.
(vi) The appraisal of the board and its directors (by the nominations committee or as a self-evaluation) should be conducted at least annually.
(vii) There should be a formal mechanism that allows shareholders to nominate candidates for the board.

3.1.13 Selection and development process

Shareholders are responsible ultimately for electing or removing board members, and it is in their interest that the board is properly constituted. In practice, the board plays a major role in selecting its own members, and should accordingly plan for its own continuity and succession. The process should be driven by the nominations committee, for consideration of the board as a whole. PIC would also expect that:

(i) Continuity is vital. However, there should be a process of retiring by rotation. At least one third of non-executive board members should retire by rotation at the company's annual general meeting. The non-executive directors to retire must be those who have been longest in office since their last appointment, but in the case of persons who became directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot. board members so retiring may be re-elected to the board.
(ii) Incoming directors should be subject to a formal induction process.
(iii) New directors with limited board experience should receive assistance in terms of development and education. Directors in general should receive further briefings from time to time on relevant new laws as well as ongoing commercial risks.
(iv) The board, through the nominations committee or similar board committees, should regularly review its required mix of skills and experience and other qualities such as demographics and diversity in order to assess the effectiveness of the board. This should be by means of a self-evaluation of the board as a whole, its committees and contribution of each individual director. The evaluations should be conducted at least annually.

3.2 Board issues put to vote

The philosophy guiding these resolutions relates to issues of directors who are up for election or re-election. The following will be used as criteria when evaluating resolutions:

3.2.1 Election of directors

(a) PIC will consider a vote in favour of the appointment of the nominated directors if the following conditions are adhered to:
   - (i) Every director is put individually for election.
   - (ii) All non-executive directors are put up for re-election regularly.
   - (iii) The process allows for a staggered rotation of directors.
   - (iv) Directors are put forward only after the nominations committee has conducted and confirmed a thorough background investigation.
   - (v) All directors put forward for election are introduced with a sufficient detailed CV in the notice to the AGM.

(b) Provided the requirements under paragraph (a) are met, PIC will consider voting in favour of re-electing a director only if the director has performed satisfactorily in the past. In evaluating the performance, PIC will consider the following:
   - (i) The financial performance of the company during the director's tenure on the board.
   - (ii) The company's record as a good corporate citizen during the director's tenure on the board.
   - (iii) The director's attendance records at board meetings.
   - (iv) The director's record in terms of ethical conduct, conflict of interest and exercise of independence.
   - (v) The director's willingness to assume additional responsibility on one of the board committees.
   - (vi) The propriety of the director on one or more of the board committees (in terms of role and suitability).
   - (vii) The director's record on one or more of the board committees, in terms of:
     - (a) The attendance records.
     - (b) The committee performing on par with the expected standard as set out in the document.
     - (c) Corporate governance failures that emanate from that committee or relate to an area or function under the auspices of that committee.
   - (viii) PIC will also take into account the number of boards on which a director serves when considering voting in favour of re-appointing the director.

(c) Provided the requirements under paragraph (a) are met, PIC will vote in favour of appointing a new director if the following conditions are met:
   - (a) The candidate has appropriate skills that complement rather than duplicate the existing skill set on the board.
   - (b) The candidate is of appropriate calibre in terms of skill, knowledge, objectivity and experience to exercise judgement independent of management.

(c) The candidate displays qualities of energy, enterprise, commitment and leadership.
(d) The candidate is fit and proper for the role, and does not have a reputation of poor integrity or unethical conduct.
(e) The candidate is able to bring the necessary dedication to the position in terms of time and commitment.
(f) Where applicable, PIC will consider the performance of the candidate on another board, if this was previously evaluated by PIC.
(g) PIC will vote against the re-appointment of a chairperson whose role has not been separated from that of CEO, or who is not considered to be independent.
(h) The board should ascertain whether potential new directors are fit and proper and are not disqualified from being directors. Prior to their appointment, their backgrounds should be investigated along the lines of the approach required for listed companies by the JSE or under the Banks Act, as appropriate.
(i) In voting on individual directors, PIC will also consider the overall composition of the board, in terms of executive and non-executive directors, dependent and independent directors, and overall diversity (as outlined in the vote on the annual financial statements). It will favour candidates that contribute to the diversity of the board, in terms of skills, background, experience, and gender and race.
(j) PIC will also take into account the number of boards on which a director serves when considering voting in favour of appointing the director

3.2.3 Indemnification

To mitigate risk for PIC, we are in favour of the company committing funds to indemnify any person employed by the company against liabilities incurred when defending any proceedings against him/her. With the increased awareness of director personal liability, clauses have arisen in company articles that commit company funds for such indemnification.

Furthermore company employees and officers are indemnified against action that they take on behalf of the company that may result in loss or damage, which has not been caused through negligence or dishonesty.

This is a complex area as most people would be reluctant to accept a position with a company should they attract such liabilities. Director fees would also be very high if they had to pay their own indemnity insurance.

The wording of such clauses needs to be very clearly understood, as there is often a fine line between losses that are a result of "errors in judgement" and losses that are due to gross negligence, which may arise from failure to conduct proper due diligence, or implement control systems.

In general PIC will be cautious when considering changes to the articles that bind the company to indemnification of directors, other company officers, and employees of the company's auditors. PIC would asses whether an indemnification statement in the articles of the company is appropriate, or whether the company should commit to the payment of indemnity insurance for its directors. An advantage of insurance by a third party relative to balance sheet insurance, is that premiums will be determined by the third party's' assessment of governance risks. This is in the interests of the shareholders as it provides a financial incentive for the company to improve governance and risk management. PIC will, therefore, review proposals to introduce indemnification into the Articles of Association on a case-by-case basis.

3.3 Risk management

Corporate governance can, in part, be viewed as a company's strategic response to the need to assume prudent risk, appropriately mitigated, in exchange for measurable rewards. This is one of the primary functions of the board of directors. The board must decide the company's appetite or tolerance for risk. The board is responsible for the total process of risk management, which includes a related system of internal controls. Management is accountable to the board for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities of the company.

Internal controls are the most fundamental tool used to mitigate and control risk within the day-to-day operation of the business. Other variables, such as political, technological and legislative factors cannot be managed through internal processes and require forward thinking, flexibility and scenario planning.

As an outsider, it is not always possible to evaluate the strength and effectiveness of a company's risk management process, at least not until there is a significant and public failure, or the performance of the company's suggest that the board has not properly identified and addressed the risks confronting the business.

The factor should nevertheless be considered as part of the overall corporate governance assessment. PIC would therefore look for the following external evidence of a proper risk management process:

3.3.1 A risk management committee that assists the board in identifying the significant risks facing the company and in reviewing the risk management process.

3.3.2 An internal audit function that provides independent assurance in relation to management assertions surrounding the effectiveness of risk management and internal control.

3.3.3 Where appropriate (in terms of the industry), a compliance function that provides assurance on the compliance with applicable laws, regulations and supervisory requirements.

To provide assurance that the board has addressed this issue in accordance with good governance principles, the risk management should incorporate mechanisms to deliver the following:
(a) A demonstrable system of risk identification;
(b) A commitment by management to the process;
(c) A demonstrable system of risk mitigation activities;
(d) A system of documented risk communications;
(e) A system of documenting the cost of non-compliance and losses;
(f) A documented system of internal control and risk management;
(g) An alignment of assurance efforts to the risk profile; and
(h) A register of key risks that could affect shareholder and relevant stakeholder issues.

To this end, the annual report should:
(a) State that the board is responsible for risk management and the system of internal control, including the establishment and communication of risk tolerance and risk and control strategies and policies in the company and for reviewing the system of risk management and internal controls for effectiveness;
(b) Report that there is an ongoing process for identifying, evaluating and managing the significant business risks faced by the company, and for reviewing the system of risk management and internal controls for effectiveness;
(c) Report that there is an adequate and effective system of internal control;
(d) Disclosure of the process to review the system of internal control;
(e) Disclosure if no internal audit function has been established, and provide valid reasons for this;
(f) Explain how the directors are assured of effective internal controls, processes and systems;
(g) Report that there are documented and tested processes in place to allow critical functions to continue in the event of a disastrous incident;
(h) Identify joint ventures and associates not covered by the risk review;
(i) Provide other information necessary to allow users to understand the company's risk management processes; and
(j) Disclosure and explanations where it cannot make above disclosures.

4. Shareholder treatment

The equitable treatment of shareholders, in particular minority shareholders, is one of the foundations of corporate governance. This principle should manifest in two ways – indirectly, through the structures and practices established within the company to safeguard shareholders' interest; and directly, in the way the company enfranchises shareholders, so that they may vote in an informed manner and according to interest.

4.1 Voting rights

4.1.1 PIC is opposed to dual equity capitalisation structures with preferential voting rights.

4.1.2 PIC prefers that share repurchases, affecting both high and low voting shares, be proposed on a pro-rata basis.

4.1.3 High voting class shares may not be used to vote on proposals that will dilute low voting class shares. Where preferential voting rights are embedded in the structure, any shareholder resolution that affects the interest of all shareholders should be passed upon the requisite majority being achieved in all (voting) classes of shares.

4.1.4 PIC is fundamentally opposed to pyramid structures. These are control mechanisms that effectively multiply the voting power of the controlling shareholder at the top of the pyramid structure. This violates the basic principle of "one share, one vote".

4.2 Conduct relating to shareholder meetings

4.2.1 Shareholders are encouraged by the board to attend the AGM.

4.2.2 Accessible shareholder meetings

(i) The meeting should be held during normal business hours;
(ii) The meeting should preferably be held in a metropolitan centre; and
(iii) The meeting should be held on an appropriate date that is not on a South African public holiday or religious holiday period nor the day before or after such an event.

4.2.3 Timely and transparent shareholder communication

(i) PIC expects at least 21 days clear notice of any shareholder meeting;
(ii) The notice of any shareholder meeting should state, in clear understandable language, the purpose and effect of every resolution to be voted on; and
(iii) If directors are to be appointed or re-elected, the notice should include a sufficiently detailed CV for each director, motivating his/her nomination, by reference to past performance, contribution, or relevant skills. It should also include the number of directorships the person holds.

4.2.4 **Proxy voting**

4.2.4.1 Rights of proxy holders

Proxy holders should be entitled to attend, speak and vote at shareholder meetings and initiate or join a demand that voting should be done by poll rather than a show of hand.

4.2.4.2 Voting by poll

PIC is fundamentally opposed to a vote by show of hands on any resolution.

4.2.4.3 Votes regarding "other business"

PIC would consider voting against any resolution that is not properly motivated and explained. As a matter of principle, this will include any resolution that is merely described as "other business".

4.2.5 **Voting of treasury shares**

The board should not be given the proxy over treasury shares. These shares should be **excluded** from the voting process, to ensure that the board is seen to act independently, and that share buy-backs are done in the interest of shareholders, not those of executive management. This includes treasury shares warehoused in independent companies or subsidiaries.

4.2.6 New share issues

New share issues can have implications in terms of potential dilution and board control and should therefore be subject to shareholder approval.

4.2.7 Executive incentive schemes

South Africa has not yet developed a legislation similar to that of the United Kingdom that requires companies to submit remuneration policies to a shareholder vote. King II advocates transparency and accountability, but does not establish a defining system for either to take place. It is, however, PIC's view that all long-term incentive plans and executive share and share option schemes should require prior approval by shareholders to prevent abuse, and potential dilution.

4.2.8 Shareholder lawsuits

While this is not necessarily an indication of weak or poor governance, it would be preferable if there had not been a shareholder lawsuit against the company recently. Any such action by shareholders will be monitored by PIC to ascertain whether the legal result of the action might point to lack of adequate corporate governance.

4.3 Fair reporting

4.3.1 The company should comply with all applicable accounting standards;

4.3.2 The company should comply with all applicable statutory reporting requirements. This includes non-financial information in its annual report on social, economic and environmental issues;

4.3.3 The company should apply substance over form;

4.3.4 The management commentary should be balanced and provide a fair overview of both the positive and negative aspects of the company's performance;

4.3.5 The company should make an informed and objective outlook statement; and

4.3.6 The company should communicate any changes to the perceived outlook as soon as this becomes evident.

4.4 Fair dissemination of information

4.4.1 Interim and preliminary year-end results should be published on SENS as soon as possible after the end of the financial year, and definitely within the time limit imposed by the JSE listing requirements.

4.4.2 The company should maintain a closed period, during which time it does not discuss the current trading period with the market or other interested parties (other than through a SENS trading update). This period should start one month prior to the end of the financial period and last until the results have been published.

4.5 Voting on repurchase of shares

Share repurchases have been legal in South Africa only since 1999. Before then, companies were forbidden to hold their own shares. PIC is principally in favour of this amendment, provided share repurchases are done judiciously, and with the interest of all shareholders in mind. PIC will therefore, as a rule, support a resolution giving directors the authority to repurchase the company's shares, provided:

(i) It does not impair the tradability of the shares to the extent that it impacts negatively on the rating of the share;
(ii) It does not impair the free float of the shares to the extent that it lowers the share's weighting in the FTSE/JSE Free Float Index;
(iii) That in instances of a mandatory repurchase of shares, it will be applied equally across all classes of voting shares;
(iv) Different voting class shares are allowed only to vote on the repurchase of that class of shares;
(v) The repurchase will not impact on the control structure of the group, and is applied across minority and controlling shareholders on a pro-rata basis;
(vii) The board may not claim the proxy vote rights relating to treasury shares;
(vii) The repurchase does not impact negatively on the capital structure of the business;
(viii) The repurchase does not increase the financial risk in the company to unacceptable levels;
(ix) The repurchase does not create liquidity or growth constraints for the company;
(x) The directors have not repeatedly failed to add value to shareholders through their repurchase strategy; and
(xi) The shares are not allocated to a share option or incentive scheme, which does not have the approval of PIC or a majority of shareholders in a general meeting.

4.6 Providing the directors the authority to issue shares for cash

This request is of similar importance to the resolution proposing to place unissued shares under the control of directors. Such an authority, if exercised, could potentially dilute existing shareholders, in terms of the value of their investment as well as their voting rights. PIC would only be in favour of providing such authority in instances where it is operationally sound. The JSE listing requirements, in any event, prohibit share issues for cash in excess of 15% of the current shares in issue.

PIC may, however, on a case-by-case basis, consider a vote in favour of such a resolution, but only if:

(i) The directors motivate a clear case in advance of the shareholders meeting on the need for the issuance of shares; or
(ii) The shares are required for BEE deals.

4.7 Placing unissued shares under the control of directors

Risk is an integral and necessary element of the investment process, but most investors still prefer the minimum risk for any given rate of return. Strong corporate governance plays a part in this, as it lowers the risk of mismanagement and let the investor focus on exogenous factors. It would make little sense then to subvert this process, and willingly assume unnecessary risk, by granting directors unfettered discretion to issue new shares that may potentially dilute the value for existing shareholders.

PIC is opposed in principle to any such proposed resolution, and would instead recommend a fully motivated special resolution at the time the directors wish to issue new shares. PIC may, however, on a case-by-case basis, consider a vote in favour of such a resolution for example if the resolution confirms, as required by the JSE listings requirements, that no issue of shares is contemplated at the time of the proposed resolution, and that no issue will be made that could effectively transfer the control of the company without prior approval of shareholders in a general meeting.

4.8 Voting to ratify dividends and related issues

Dividends form a critical part of the investment performance and PIC is therefore principally in favour of annual cash returns to investors. The following considerations will, however, apply:

4.8.1 Ordinary dividends

4.8.1.1. Dividend policy

PIC prefers boards which:

(i) adopt a steady, consistent and transparent dividend policy; and

(ii) do not consistently retain more cash than necessary to satisfy growth requirements.

4.8.1.2 Cash resources

PIC will consider voting against the dividend if this will place undue strain on the cash resources and liquidity of the company, or leaves inadequate cash reserves to meet future growth requirements.

4.8.1.3 Capital structure

PIC will consider voting against the dividend if this changes the capital structure of the company to such an extent that it could impair the value of the investment.

4.9 Special dividends

PIC is strongly in favour of special dividends that return excess cash to shareholders, provided this does not impair the company's cash resources and capital structure as described above.

4.10 Capitalisation issues ("paying" dividends in shares)

PIC will consider voting in favour of a capitalisation provided the company offers a cash dividend as an alternative.

4.11 Share splits and consolidations

These should be evaluated on a case-by-case basis. PIC will typically not vote against such a resolution provided it is properly motivated, the share split does not turn the share into a "penny stock" (a share value of less than R2 per share) and the consolidation does not impair trade and liquidity in the share.

4.12 Odd lot offers

These should be considered on a case-by-case basis. PIC is principally in favour of odd-lot offers that clean up the share register and reduce the company's administrative costs, provided the offer:

(i) Is made at a fair market price;
(ii) Is not timed to take advantage of a temporary setback in the share price; and
(iii) Does not result in a change in control or significant influence.

4.13 Voting on share option schemes

PIC will consider voting in favour of an option scheme, provided the terms of the scheme are fully disclosed beforehand, and the following conditions are met:

4.13.1 Non-executive directors are excluded from the scheme so as not to impair their independence and objectivity;

4.13.2 The vesting period should stretch over a number of years;

4.13.3 Options may not be repriced unless barring a capital reduction;

4.13.4 Options are not issued at a discount;

4.13.5 The option awards are based on performance targets. These targets must meet the following requirements;

(i) It must be transparent and unambiguous;
(ii) Approved by the remuneration committee as well as shareholders;
(iii) Demanding (Not easy to meet);
(iv) Multifaceted, ie does not focus on one metric only, such as earnings per share;
(v) Encourage operational excellence linked to targets; and
(vi) Include significant objectives, such as corporate governance and corporate citizenship.

4.13.6 Participants of the scheme forfeit all options that have not vested if they leave the company, unless this is due to ill health, retirement, retrenchment or death;

4.13.7 Only persons employed by the company qualify for options;

4.13.8 The trustees of the option scheme are independent. PIC will evaluate independence on the same basis as for non-executive directors;

4.13.9 The scheme stipulates the terms of the loans made to employees;

4.13.10 The scheme is not abused for control purposes;

4.13.11 The rules of the scheme should expressly prohibit trade in the options, or the use of other derivative structures, before the options vest, as this would defeat the purpose of the scheme and create a conflict of interest between participants and shareholders;

4.13.12 The scheme is as broad-based as possible, in the interest of social transformation;

4.13.13 The cost of the option is expensed in accordance with the applicable accounting standards; and

4.13.14 The scheme does not significantly dilute the value for existing shareholders.

4.14 Changes to the articles of association

In general PIC will support resolutions to change the articles of association when the reasons for such changes are properly formulated.

4.15 Corporate actions

Only significant corporate actions are put forward for shareholder approval. When this happens, PIC will vote in terms of its governance principles as outlined in this document. It is appropriate, however, that PIC considers the impact of all corporate actions, large or small, as they provide a measure of management's competence and judgement. This evidence should be taken into account in the overall assessment of the board's financial performance, and therefore in the vote on the re-appointment of directors as well as on the financial statements.

Significant transactions need to be evaluated on a case-by-case basis. Mainly these will relate to acquisitions, disposals, unbundling of assets and mergers, and black economic empowerment (BEE) deals. The concept of BEE is particular to South Africa, and is premised on the country's legacy of economic, social and political imbalances. These deals therefore require special consideration, which are outlined separately below. For other corporate actions, PIC would, *inter alia*, consider the following factors:

4.15.1 The terms, effect, consequences and motivation of the transaction should be disclosed in appropriate detail and communicated beforehand, to allow shareholders to make an informed decision.

4.15.2 The transaction must be in the interest of long-term wealth creation;

4.15.3 PIC is opposed to transactions that focus on short-term earnings enhancement (for example through the use of highly rated paper or accounting adjustments) but detract from the overall quality of the business over the long-term;

4.15.4 In the case of acquisitions, the transaction should create positive rather than negative synergies. Acquisitions should create positive benefits such as economies of scale, a broader skills base and enhancing the combined revenue base;

4.15.5 PIC may oppose transactions that impact negatively on the company's financial and business risk profile. PIC is not opposed to the use of debt, provided this does not increase the company's financial risk above acceptable levels. The transaction should also not undermine the overall quality of the assets, by reducing earnings visibility, or introducing excessive cyclicality and operational gearing into the mix;

4.15.6 PIC will consider voting against proposals if management has repeatedly failed to add value to both shareholders and stakeholders through its previous corporate actions; and

4.15.7 PIC will oppose transactions that excessively dilute existing shareholders' rights.

Black economic empowerment transactions attempt to "redress the imbalances of the past by seeking to substantially and equitably transfer and confer the ownership of the country's financial and economic resources to the majority of its citizens" (BEE Commission Report 2001). The objective and challenge facing corporate South Africa is to affect this transfer as equitably as possible. Due to the mentioned economic imbalances of the past, many of these details require innovative and unconventional funding mechanisms. The principles of corporate governance still apply, however, with the understanding that the focus, in this instance, is on sustainability and long-term wealth creation rather than short-terms considerations.

4.16 BEE deals – Transparency

There should be full and detailed disclosure of all the relevant terms of the deal to make an assessment on the fairness of the transaction. The disclosure should include:

(a) The price paid;
(b) The percentage of the business sold;
(c) Dilution of current shareholder value;
(d) Allocation of shareholdings to the BEE partners and broad-based participants;
(e) The funding structure (if applicable);
(f) The term of the funding period (if applicable);
(g) The financial commitment of all the relevant parties;
(h) Any lock-in periods; and
(i) Any disposal restrictions.

4.16.1 The BEE partner(s) should be clearly identified, profiling not only the investment company, but also the persons involved in that company.

4.16.2 A copy of an independent auditor's report should be presented, detailing the financial effects of the transaction.

4.16.3 A copy of the fair and reasonable statement of an independent financial advisor should be presented.

4.16.4 All parties to the deal should make available their:
(i) Memorandum and articles of association; and
(ii) Audited financial statements.

4.17 BEE deals – Equity

4.17.1 The transaction should create a meaningful long-term BEE share in the company. This will be evaluated on a case-by-case basis.

4.17.2 The market price should be fair and reasonable.

4.17.3 If the BEE is supported by a self-funding structure, this should be based on realistic and achievable returns, to provide maximum assurance that the ownership transfer is successful and permanent, and does not cause undue financial hardship on the empowerment partners.

4.17.4 The transaction and the funding structure should be resilient to changing market conditions.

4.17.5 The transaction should be as broad-based as possible and the allocation of ownership should be equitable.

4.17.6 PIC is in favour of the inclusion of the company's previously disadvantaged staff members in the transaction.

4.17.7 The deal should act as an incentive to retain, attract and motivate key black staff.

4.17.8 The transaction should impart full shareholder rights to the holders of the empowerment stake from the time of inception.

4.17.9 The terms of the agreement should limit the probability of the sale of any empowerment holding to another party not deemed to be an empowerment candidate after the transaction date. This is especially relevant when shares have been acquired at a discount.

4.17.10 The BEE partner(s) must remain classified as BEE entities during the term of the agreement.

4.18 BEE deals – The empowerment partner should:

4.18.1 Be entitled to board representation.

4.18.2 The BEE partner should be able to add value to the transaction in terms of skill and revenue generation, and not merely act as a front company or a conduit for public sector contracts.

4.18.3 The BEE group(s) should be able to partner the company in business transactions.

4.19 BEE deals – Integrity

The transfer of ownership should preferably not be subject to any suspensive conditions that may undo the transaction at a later stage.

4.20 BEE deals – Compliance

The transaction should be in compliance with the relevant industry charter and the BEE codes of good practice published by the Department of Trade and Industry.

5. Audit issues

5.1 Audit Committee

Refer to section 3.1.10

5.2 Voting on the re-appointment of auditors

Auditors play a vital role in the efficient allocation of capital. They express an independent opinion, specifically addressed to members (shareholders) on whether the financial statements fairly present, in all material respects, the financial position of the company at a certain date and the results of its operations and cash flows for the period under review.

The audit opinion provides the basis for an informed evaluation of the company's financial position and prospects, and greatly reduces the risk to the investor. From a corporate governance perspective, there are three positive elements: firstly, auditors act in the interest of shareholders and the opinion is addressed to members, rather than management; secondly, the opinion is expressed by a suitably qualified party, after following prescribed audit standards; and thirdly, the auditor is not in the employ of management and provides an external, objective assessment. These benefits will only be realised, however, if the auditor is truly independent, and has the skills and resources necessary to deal with the size and complexity of the audit.

A number of factors can undermine the independence of the auditor. Firstly, auditors are paid by the company, not shareholders. This customer-client relationship creates an element of dependency. Secondly, the audit partner typically develops a friendly relationship with management, which is likely to undermine independence over time. Thirdly, the audit firm often competes for and performs non-audit work. This creates additional pressure not to offend the client, and may also impair objectivity when the non-audit work falls within the scope of the audit.

In voting on the appointment, or re-appointment of auditors, PIC will therefore consider the following:

5.2.1 Reasonable fees

PIC will consider voting against the re-appointment if the fees paid to the auditors are not reasonable relative to the size and complexity of the audit.

The fees paid for audit services should be a fair compensation for the hours worked and the seniority of the audit staff. If the fees are too low, it may cast doubt on the quality of the audit. If the fees are too high, this may suggest an inefficient audit process or impaired independence. For the purpose of this evaluation, the fee can be compared to the prior year's audit fee and against the audit fees of similar companies (in terms of size, location and complexity). The PIC will also look to the audit committee for assurance that the audit fees are reasonable.

5.2.2 Excessive non-audit services

PIC prefers disclosure of non-audit services and would expect confirmation from the audit committee that they have monitored and approved these costs.

5.2.3 Evidence of past audit failure

PIC will consider voting against the re-appointment, if the audit firm was responsible for an audit failure in the company's history.

PIC considers an audit to have failed where the auditor expressed an incorrect opinion on the annual financial statements, or where the opinion had an inadequate basis in terms of the work done, or failed to detect a material irregularity.

5.2.4 Audit independence

PIC will consider voting against the appointment or re-appointment, if it is aware of any other information, situation or relationship that reasonably places the auditor's independence into question.

5.2.5 Social transformation

PIC will consider voting against the appointment or re-appointment, if the audit firm does not show the necessary commitment towards social transformation.

5.2.6 Regular evaluation

PIC might vote against the re-appointment of both the external auditors as well as the members of the audit committee, if the said committee does not annually review and comment positively on the performance of the auditors.

5.2.7 Resignation of auditors

PIC might vote against the re-appointment of the audit committee members if their report does not fully explain the reasons behind the resignation of the auditors.

PIC will consider the reasons behind the resignation before voting on any other resolution.

5.2.8 Auditor rotation

PIC is in favour of rotating the company auditors at least every five years. The audit manager and audit partner should rotate more frequently.

5.2.9 Voting on the remuneration of auditors

The auditors' remuneration is subject to the contractual relationship between the company and the audit firm. The onus is on the company to challenge the audit fee, on the basis that the auditors did not perform in line with expectation, or that their fees are out of line with the scope of the work. Shareholders have no right to approve or decline the auditors' remuneration, and the resolution, if proposed, is only symbolic in nature.

PIC can vote against the re-appointment of the auditors, if it is not satisfied with their independence and competence. As a matter of principle, PIC should then automatically also vote against the remuneration of the auditors in such circumstances.

It would be a source of concern to PIC if:

(i) The company does not separately disclose the fees for audit and non-audit services; and

(ii) The use of non-audit services is not described (including the nature of those services and the amount paid in respect of each of those services rendered), and explaining or justifying. Ideally, this will be confirmed by the audit committee.

5.3 Information disclosure

The onus is on the external auditors to ensure that the company has fulfilled all applicable disclosure requirements in terms of the relevant accounting standards, the Companies Act and the JSE listing requirements. PIC relies on the auditors' opinion that these disclosure requirements have been met in all material respects.

The auditor's opinion, however, only covers the company's financial performance and is specifically addressed to the "members" (ie shareholders) of the particular company. Apart from material irregularities, the auditors do not comment on corporate governance, and they certainly do not express an opinion on the "triple bottom line" which embraces the economic, environmental and social aspects of the company's performance. It therefore falls upon shareholders and external observers to evaluate this disclosure.

Public disclosure of non-financial information should be governed by the principles of reliability, relevance, clarity, comparability, timeless and verifiability, in line with the GRI (Global Reporting Initiative) sustainability whether companies meet these disclosure criteria in their non-financial and "triple bottom line" reporting. PIC disclosure expectations are outlined in the different subsections. The process should include a separate corporate governance review in the annual report. Also refer to section on corporate citizenship.

6. Remuneration issues

6.1 Approval of directors' compensation

The conflict of interest between shareholders and management is never more pronounced and more open to public scrutiny than when it comes to directors' compensation. It is an emotional subject, with social and ethical overtones, reflecting management's true regard for the principles of fair and proper governance. Shareholders are entitled to expect that remuneration will be sufficient to attract and retain directors needed to run the company successfully and that the remuneration of executive directors should be linked to corporate and individual performance. Furthermore to this, income inequality remains a key challenge facing South Africa as it remains one of the most unequal societies in the world. Remuneration committees should be sensitive to the wider scene within a company, including pay and employment conditions across all levels of employment.

Appropriately designed compensation structures can serve to align the interests of shareholders, directors and management, providing rewards to all parties from long-term enhancement of shareholder value. On a broad level PIC believes that compensation policies should:

- build long term shareholder value;
- attract qualified management without being excessive;
- reward success;
- correlate compensation to enhanced value within a specified time period; and
- correlate executive pay increases with that of other workers in the same organisation.

PIC is not opposed to fair, even generous executive remuneration, provided that this based on transparent and previously approved performance metrics, which are aligned with the interests of long-term investors. At the same time it is important that these metrics distinguish between the impact of macro-economic factors and individual performance. For example, executives should not be excessively rewarded or penalised for an exogenous factor such as a major move in the currency. They should, however, be rewarded or penalised for their hedging policy. PIC also believes that all performance incentives should be capped. For this reason PIC is principally opposed to share option schemes as, apart from their other shortcomings, they offer unlimited upside, but without the commensurate downside risk faced by shareholders. South Africa has not yet introduced legislation similar to the United Kingdom that requires companies to submit remuneration policies of directors to vote. However, signals may be sent to the board that there has been poor disclosure, or that there is a clear misalignment of interests between executives and shareholders. Shareholders do have the right to vote on the introduction and amendment of share option schemes, and other share based payment schemes. Furthermore they have to grant approval for the allocation of shares to these schemes, or alternatively they would have to approve share buy-backs, which are used to increase treasury shares, which in turn have been used to issue shares to scheme beneficiaries. In voting on directors' remuneration, PIC will therefore consider the following:

6.2 Determination of remuneration levels

All aspects of directors' remuneration should be determined by an independent and properly constituted remuneration committee. Membership of this committee should be made up wholly of independent non-executive directors. Shareholders should be informed annually about the principles and structure of a company's executive payment system. Companies must strike a balance between compensation packages that are required to attract and retain qualified executives, on the one hand, and showing moderation and restraint on the other. The board through its remuneration committee is best qualified to judge the appropriate salary levels, but the shareholders are entitled to information that will enable them to judge whether the remuneration is appropriate and whether the structure of remuneration packages will align the directors' interests with their own. Remuneration levels are often set with the help of comparisons with other companies and remuneration surveys. PIC urges caution in the use of these comparisons. There is a danger that the uncritical use of comparisons will lead to an upward ratchet in remuneration with no corresponding improvement in corporate performance. PIC will consider holding the members of the remuneration accountable for excessive or inappropriate directors' remuneration. This could also be a factor in voting for the re-appointment of the directors serving in the remuneration committee.

6.3 Full disclosure of total remuneration

Transparency is particularly important when it comes to directors' remuneration, as this area is especially open to abuse. PIC expectations are as follows:

(i) Companies should provide full disclosure of director remuneration (executive as well as non-executive) on an individual basis, giving details of earnings, share options (including options repriced or issued at a discount), restraint payments, severance packages, and all other benefits received;

(ii) The disclosure should also cover all benefits received from the holding company, subsidiary companies, or from any other enterprise on which the director sits as representative of the company;

(iii) The principle of full disclosure by directors, on an individual basis, should also apply to all share schemes and any other incentives schemes proposed by management;

(v) There should be different vesting periods for options of executive directors and non-executive directors so that there is not an alignment of interest between these two groups;

(iv) There should be full disclosure of an executive director's fixed-term contract. The company should usually not enter into a fixed-term contract with executive directors, including the Chief Executive Officer, for longer than three to five years;

(vii) Details should be provided of 'golden hand shakes' written into service contracts in the event of a merger or take over; and

(viii) There should be full comparative disclosure.

6.4 Composition of remuneration

(a) A substantial portion of the remuneration of executive directors should be based on performance;

(b) This should be designed in such way as to be an incentive for executives to perform at the highest operational standards, in order to align their interest with those of shareholders; and

(c) A substantial amount of the remuneration should be in shares, with vesting in later periods, to ensure the interest of directors is aligned with those of shareholders.

6.5 Remuneration of non-executive directors

Should be paid primarily in cash. It may be considered beneficial to further align the interest of non-executive directors with those of shareholders. In this case, payment should be made in shares, rather than share options, with vesting periods extending some period into the future. It is, however, strongly recommended that non-executive directors should not participate in share option schemes in case their independence might be undesirably compromised.

6.6 Remuneration level

6.6.1 Executive directors

6.6.1.1 The amount should be sufficient to attract, retain and motivate executives of the quality required by the board;

6.6.1.2 The amount should, in part, reflect both the short and long-term performance of the business, not only in isolation, both also relative to a peer group of companies facing similar economic conditions; and

6.6.1.3 The remuneration committee should be sensitive to the gap between executive remuneration and the average wage or salary per employee.

6.6.2 Non-executive directors

6.6.2.1 The fees paid should be fair compensation for time spent in preparation, in travel and attending board and committee meetings. The time invested is expected to increase as the size and complexity of the company increases;

6.6.2.2 The fees of individual directors should reflect attendance levels, as well as participation on board committees; and

6.6.2.3 The fee should reflect the remuneration rate earned by the directors in their normal professional capacity.

6.7 Performance fees

6.7.1 PIC is in principle in favour of performance fees and would prefer the following:

6.7.1.1 Shareholders have approved share compensation plans;

6.7.1.2 The performance fee is capped at a transparent multiple of base salary which will be evaluated on a case-by-case basis and comparisons with other companies in a similar industry;

6.7.1.3 The fees do not relate to performance that is typically expected of directors in the management of the business and in looking after the interest of shareholders;

6.7.1.4 The fees do not relate to the execution of a particular transaction such as an asset disposal or acquisition;

6.7.1.5 The performance targets are challenging and fully disclosed beforehand; and

6.7.1.6 A substantial part of the performance fees is paid in shares, which do not vest in less than three years, to prevent directors focusing on short-term performance targets at the expense of long-term wealth creation.

6.8 Share option schemes

PIC would consider voting against proposed share option schemes (or further allocations) as these do not fairly align the interest of directors with shareholders.

(i) Share option holders do not carry the same downside risk faced by a shareholder in the company;

(ii) Share option holders do not necessarily have the same time horizon as long-term shareholders, and may therefore sacrifice long-term wealth creation in favour of short-term price performance; and

(iii) Share option schemes dilute the value of existing shares.

7. Reporting, transformation and other issues

PIC is a firm believer in the concept of "sustainability". The concept of "sustainability" is derived from the term "sustainable", which has been defined as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" in the Report of the World Commission on Environment and Development (1987).

In a corporate context, "sustainability" implies that the company must balance its requirements of short-term competitiveness and financial gain, with the need for long-term viability and prosperity, encompassing not only the company, but also the environment and society in which it operates.

Proper corporate citizenship requires that companies internalise this concept of "sustainability". To succeed in this, they have to become aware, not only of the economic, social and environmental impact of their actions, but also of the needs of all stakeholders – shareholder, customers, employees, business partners, governments, local communities and the public.

PIC strives to be a good corporate citizen, and by extension, it expects the same for its investments. It expects companies to be sensitive and responsive to the economic, social and environmental challenges facing this country. This can be expressed in many ways – searching for ways to minimise pollution and environmental damage, providing for rehabilitation costs, optimising the use of all resources, investing in the local community, creating employment, funding training, or supporting healthcare, education and feeding schemes. It can also find expression in economic empowerment initiatives, and the company's employment and procurement policies.

While many companies have adopted the concept of the "triple bottom line" it is not really feasible to assess from the outside whether these values are merely stated for the benefit of the corporate image or whether they are truly lived by the company. The following factors may, however, provide some evidence in this regard:

7.1 Sustainability reporting

Every company should report at least annually, on the nature and the extent of its social, transformation, ethical, safety, health and environmental management policies and practices. The board of directors should, in determining what is relevant for disclosure, take into account the environment in which the company operates. For South Africa, the board should disclose:

(i) Whether it has adopted an appropriate HIV/Aids strategy plan and policies to address and manage the potential impact of HIV/Aids on the company;

(ii) Whether it has developed formal procurement policies that take into account the advancement of historically disadvantaged individuals; and

(iii) Whether it has developed and implemented a definite set of standards and practices in the company based on a clearly articulated code of ethics.

In disclosure there should be clarity on:

(i) The nature of the disclosing entity (eg a group of companies, or one business unit only)

(ii) The scope of issues subject to disclosure;

(iii) The period under review;

(iv) The performance expectations (ie as an integral aspect of the "going-concern" concept); and

(v) The extent to which items disclosed is directly attributable to the disclosing entity's own action or inaction.

Public disclosure of non-financial information should be governed by the principles of reliability, relevance, clarity, comparability, timeliness and verifiability in line with the Global Reporting Initiative Sustainable Reporting Guidelines on Economic, Environmental and Social Performance.

Criteria and guidelines for materiality should be developed by each company to assist in reporting consistently. In this respect, regard should be given to international models and guidelines, as well as national statutory definitions.

Companies should make available to a wider range of stakeholders such reports as are made to respective government departments or other supervisory bodies as required by legislation, to the extent that such stakeholders have a legitimate interest in the information contained therein.

7.2 Organisational integrity/Code of ethics

Every company should engage its stakeholders in determining the company's standards of ethical behaviour. It should demonstrate its commitment to organisational integrity by codifying its standards in a code of ethics.

Each company should demonstrate its commitment to its code of ethics by:
(i) Creating systems and procedures to introduce, monitor and enforce its ethical code;
(ii) Assigning high level individuals to oversee compliance to the ethical code;
(iii) Assessing the integrity of new appointees in the selection and promotion procedures;
(iv) Exercising due care in delegating discretionary authority;
(v) Communicating with, and training all employees regarding enterprise values, standards and compliance procedures;
(vi) Providing, monitoring and auditing safe systems for reporting of unethical or risky behaviour;
(vii) Enforcing appropriate discipline with consistency; and
(viii) Responding to offences and preventing re-occurrence.

Disclosure should be made in adherence to the company's code of ethics against the above criteria. The disclosure should include a statement as to the extent the directors believe the ethical standards and the above criteria are being met. If this is considered inadequate there should be further disclosure of how the desired end-state will be achieved.

Companies should strongly consider their dealings with individuals or entities not demonstrating its same level of commitment to organisational integrity.

7.3 Safety, health and environment

Business processes and safety, health and environmental management principles should be integrated.

Environmental corporate governance must reflect current South African law by the application of "Best Practicable Environmental Option" standard (define as that option that has most benefit, or causes the least damage to the environment at a cost acceptable to society).

Corporate governance should reflect a committed effort to reduce workplace accidents, fatalities and occupational health and safety related incidents. There should also be regular measurement against an ongoing improvement objective, which should be disclosed to stakeholders.

7.4 Social transformation

Companies should value diversity of approach, values and contribution which historically disadvantaged individuals bring to the boardroom and should develop mechanisms to positively reinforce the richness of diversity.

Social investment prioritisation and spending, as well as procurement practices, should take due cognisance of the need for black economic empowerment, the need to empower women and the disabled.

Companies should disclose the nature of policies and practices in place to promote equal opportunities for the previously disadvantaged in terms of realising their full potential and reaching executive levels in the company.

The company's policy on investment of corporate funds should be disclosed. In particular, pension funds and institutional investors both in the private and public sectors, should indicate in a statement of investment principles and policies or equivalent document the extent to which they take into account socially responsible investment criteria in their investment decisions.

7.5 Human capital

Companies should disclose the criteria by which they propose to measure human capital development and report accordingly on their performance in terms of such criteria.

Business practice should reflect requirements of human capital development in areas such as the number of staff, with a particular focus on demographics, disability, age, corporate training initiatives, employee development and financial investment committed.

7.6 Financial performance

Corporate governance has been described as a balancing mechanism that attempts, as nearly as possible, to align the interest of individuals, corporation and society. The process therefore emphasises the structures, policies, controls and practices that balance these interests, but as corporation balance the demands of equity, transparency and independence, it is easy to lose sight of the primary motivation of the shareholder, namely the financial performance of his or her investment. Nothing violates a shareholder's interest quite as much as an investment that performs well below its reasonable potential. Corporate governance loses much of its meaning if it is not accompanied by financial performance. The board of directors needs to be held accountable for this most basic of governance failures.

PIC would consider the following as evidence of such failure:

7.6.1 Economic returns

(i) The return on capital employed is not in excess of or equal to the company's weighted average cost of capital over the course of the business cycle;
(ii) The return on equity is not in excess of or equal to the company's cost of equity over the course of the business cycle; and
(iii) Returns that are consistently below the average of the company's peer group.

7.6.2 Earnings growth

(i) Headline earnings that consistently grow slower than the average of its peer group; and
(ii) Headline earnings that do not at least grow in line with inflation over time.

7.6.3 Profitability

(i) Repeated or regular losses; and
(ii) Excessive volatility in earnings that cannot be attributed to macro-economic factors.

7.6.4 Cash-based earnings

Earnings that are not backed up by the commensurate level of free cash flow over time.

7.6.5 Gearing

(i) A financial policy that does not attempt to maximise the return on equity over time;
(ii) Gearing levels that are inappropriate for the nature of the business;
(iii) Gearing levels that threaten to impair the company's value permanently; and
(iv) Gearing levels that increase financial risk to such an extent that it detracts from the value of the investment.

7.6.6 Dividends

(i) An inconsistent dividend policy; and
(ii) A dividend policy that does not balance the interest of shareholders (in terms of a return) against the cash requirements of the business to meet obligations and fund expansion.

7.6.7 Exceptional losses

Regular exceptional losses, write-downs or asset impairments.

7.6.8 Acquisitions

(a) Regular exceptional losses, write-downs or asset impairments; and
(b) Repeatedly acquire companies that do not perform or detract from existing business.

7.6.9 Share issues

Repeatedly issuing new shares that dilute the value of existing shares.

7.6.10 Market Performance

Consistent underperformance against relevant benchmarks, in terms of earnings growth, dividend growth or price performance.

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COMPANY INFORMATION

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FAIS registration number:	FSP 19777
Shareholder:	Government of Republic of South Africa
Country of incorporation:	Republic of South Africa
Directors:	Mr Jabu Moleketi, MP (Chairman) Ms Albertinah Kekana (Chief Operating Officer) Mr Brian Molefe (Chief Executive Officer) Ms Ntombifuthi Mtoba Mr Veli Ntombela Mr Ignatius Sehoole Mr Zakhele Sithole Mr Jan Strydom Mr Younaid Waja
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