21st Century Executive Pay Barometer

Detailing the period from January 2018 – June 2018

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sustainable remuneration in a changing world

Introduction

This is the 12th edition of the Executive Pay Barometer.

The wave of optimism which surrounded the South African economy at the beginning of 2018 has slowly dissipated as the harsh reality of poor economic data has affected the economy.

The economy has entered a recession after reporting **two consecutive quarters of negative economic growth** (Q1 -2.6% and -0.7% in Q2). This contributed in part to the Rand's recent depreciation and has placed increasing pressure on consumer spending.

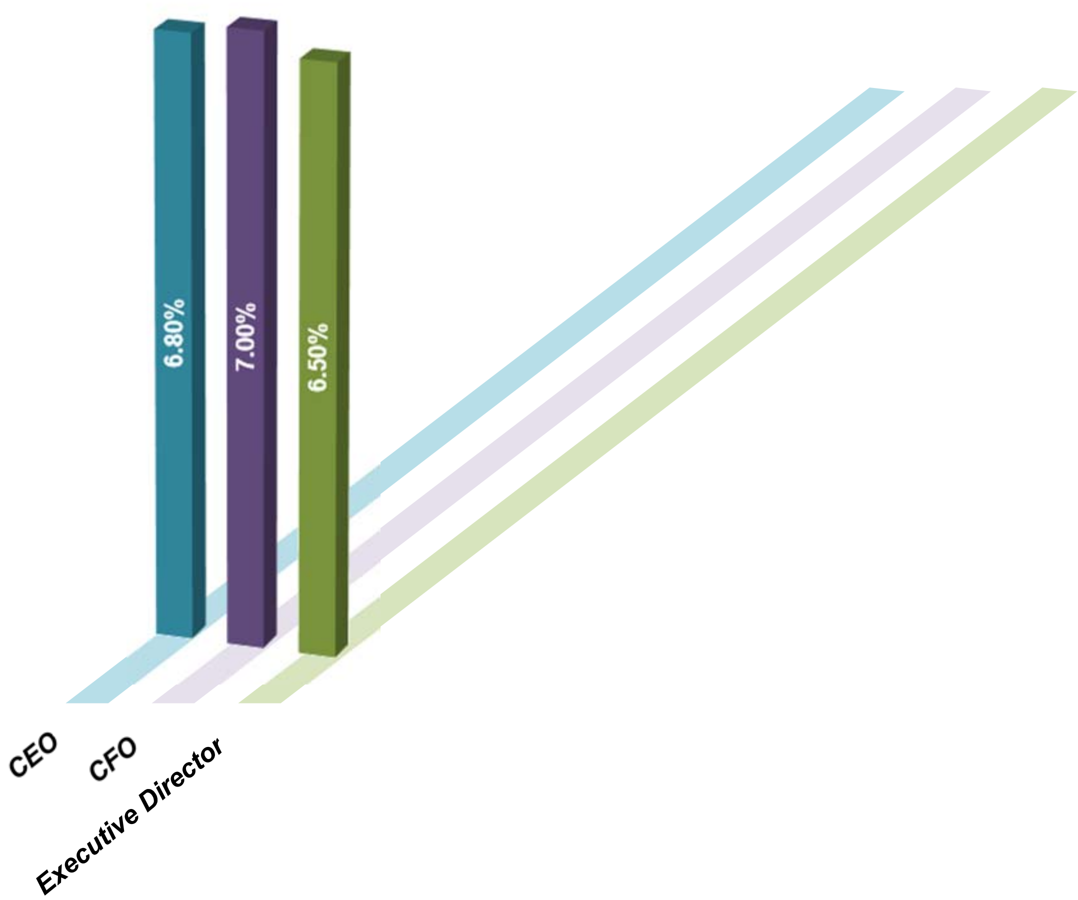
Since the previous Barometer (March 2018), the **unemployment rate has deteriorated further** to 27.2%. Compared to Q3 2017, the **number of discouraged workers has increased** approximately 17% which indicates that citizens of working age are viewing the labour economy in a more negative light than they did previously..

The barometer uses publically available financial data (from listed companies' financial and remuneration reports for the most recent 6 month period) to report on:

- Executive annual ***increases***
- Executive ***variable pay ratios to total guaranteed pay***:
  - Short-term incentives
  - Long-term incentives
- ***Prevalence*** of ***types of share schemes***
- Executive remuneration components ***by company size***
- Executive remuneration components ***by industry***
- ***Wage gap*** analysis by company ***size and industry***

Annual Total Guaranteed Package Increases (TGP)

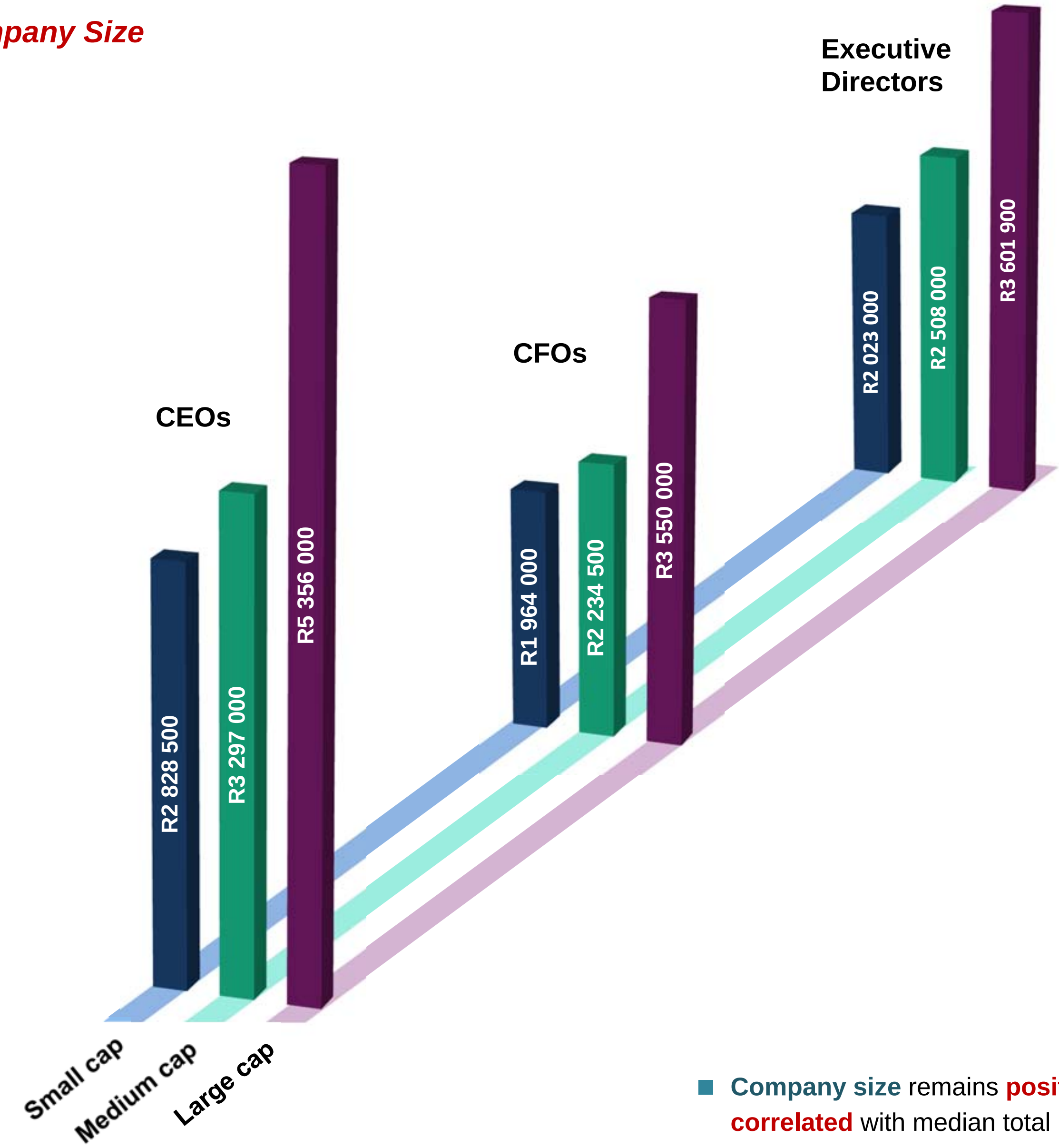
Across all Company Sizes and Industries



- ***CFO's*** had the **largest annual increase** compared to September 2017.
- ***CEO's*** and ***Executive Directors*** received a **median increase** of 6.8% and 6.5% respectively.

Total Guaranteed Package (TGP) **(median)**

By Company Size



- **Company size** remains **positively correlated** with median total guaranteed pay ***across all kinds of executives.***
- ***CEO's*** remain the **highest paid** in terms of total guaranteed package, followed by ***Executive Directors*** and ***CFOs.***

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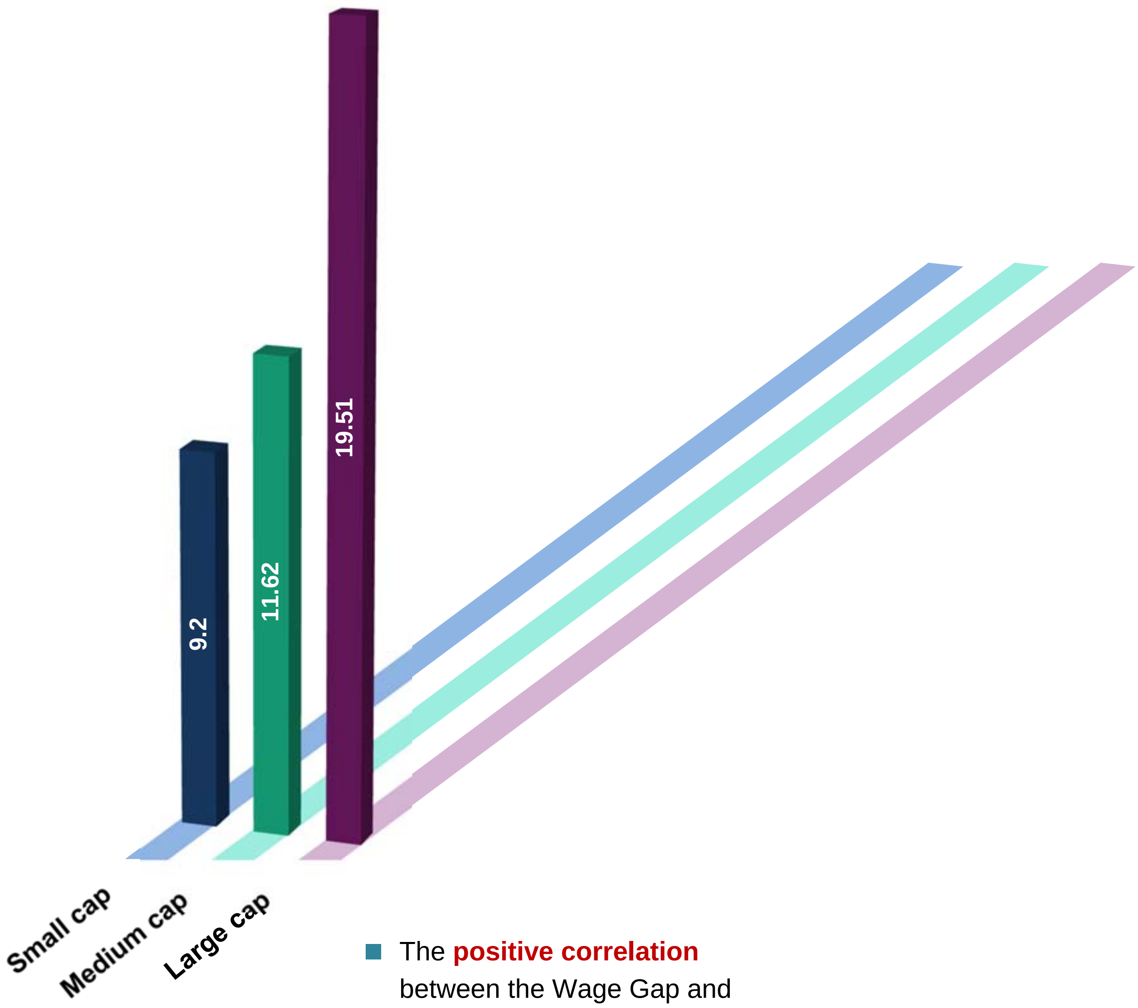
Wage Gap *(Total Guaranteed Pay - between A, B and C band workers and CEOs)*

By Company Size



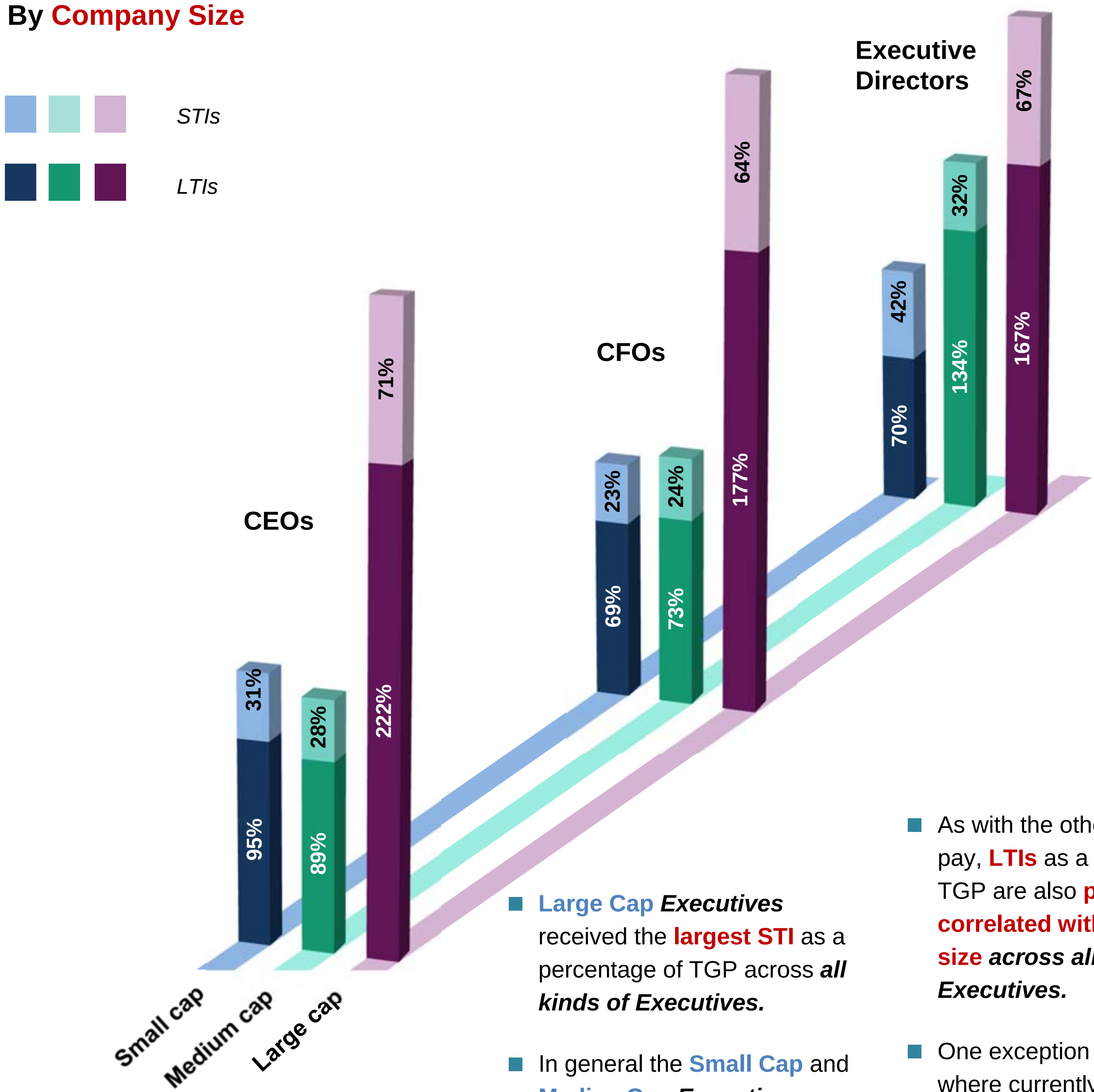
- The **positive correlation** between the Wage Gap and company size persists. A large contributor to this is that **larger organisations** will have a ***CEO*** with a higher job grade than that of **smaller organisations**. The larger salary attached to the higher job grade contributes to this positive correlation between company size and the wage gap.

- The Wage gap has been calculated by dividing the ***CEO Total Guaranteed Package (TGP)*** by the ***median of the A, B and C-band workers (general staff) Total Guaranteed Package (TGP).***

Short-Term Incentives (STIs) and Long-Term Incentives (LTIs)

As a percentage of Total Guaranteed Pay (TGP)

By Company Size



- **Large Cap *Executives*** received the **largest STI** as a percentage of TGP across ***all kinds of Executives.***
- In general the **Small Cap** and **Median Cap *Executives*** earned **significantly less STI** as a percentage of TGP than their **Large Cap** peers.
- **STI** percentages **are currently quite low** compared to typical design principles as a result of the subdued economy.
- As with the other elements of pay, **LTIs** as a percentage of TGP are also **positively correlated with company size *across all kinds of Executives.***
- One exception does exist, where currently **Medium Cap** CEOs received a **smaller median LTI percentage** than **Small Cap** CEOs.
- ***CEOs*** in **Large Cap** companies earned the **highest LTI** percentage followed by ***CFOs*** and ***Executive Directors***.

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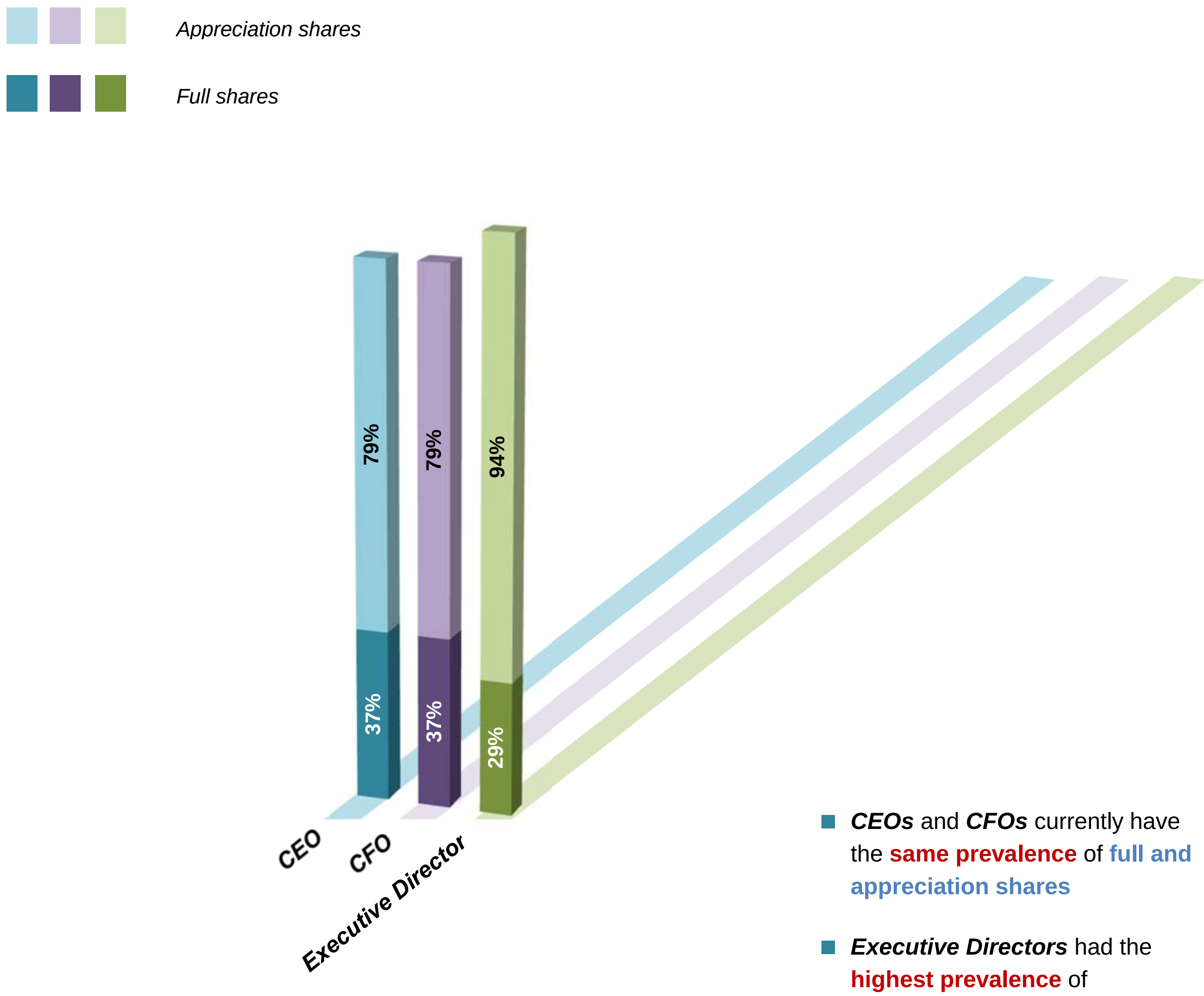
Prevalence of share schemes issued

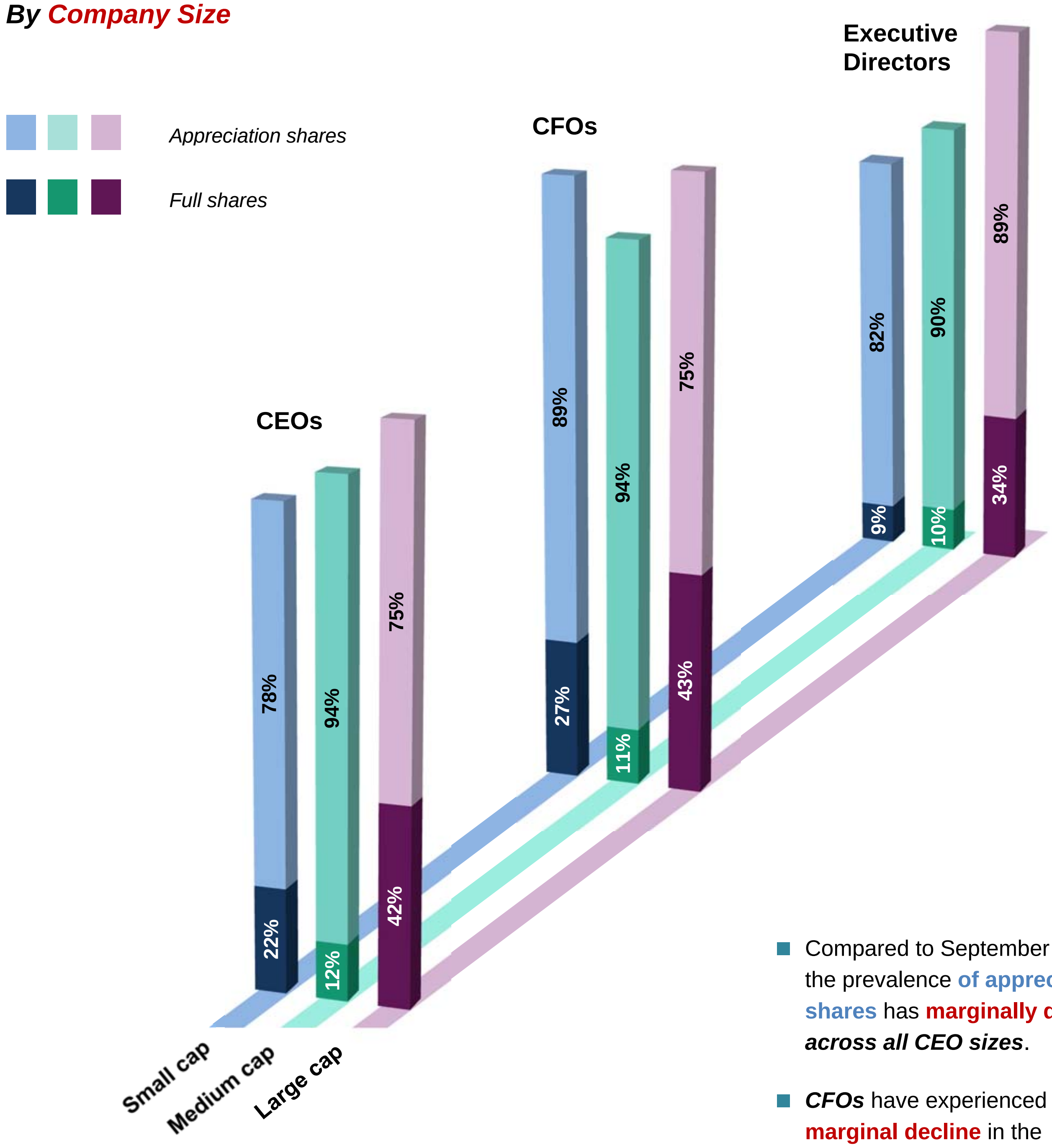
Overall



- ***CEOs*** and ***CFOs*** currently have the **same prevalence** of **full and appreciation shares**
- ***Executive Directors*** had the **highest prevalence** of **appreciation shares** and the **lowest prevalence** of **full shares**.
- The current methodology allows for **both types of share schemes** to be administered to a single incumbent and therefore the **sum of the two percentages can exceed 100%.**

Prevalence of share schemes issued

By Company Size



- Compared to September 2017, the prevalence **of appreciation shares** has **marginally declined *across all CEO sizes***.
- ***CFOs*** have experienced a **marginal decline** in the prevalence of **full share** schemes
- ***Executive Directors*** have had a **slight increase** in the prevalence of **appreciation share** schemes and a **decline** in the prevalence of **full share** schemes.

Executive Remuneration

The various industries that have been analysed in the Executive Pay Barometer have been grouped as follows:

Extractive industries
- Agriculture
- Forestry & paper
- Mining
- Oil and gas

Transformative industries
- Construction & building
- Utilities & energy
- Manufacturing

Distributive services
- Transportation & logistics
- Communication
- Wholesale
- Retail

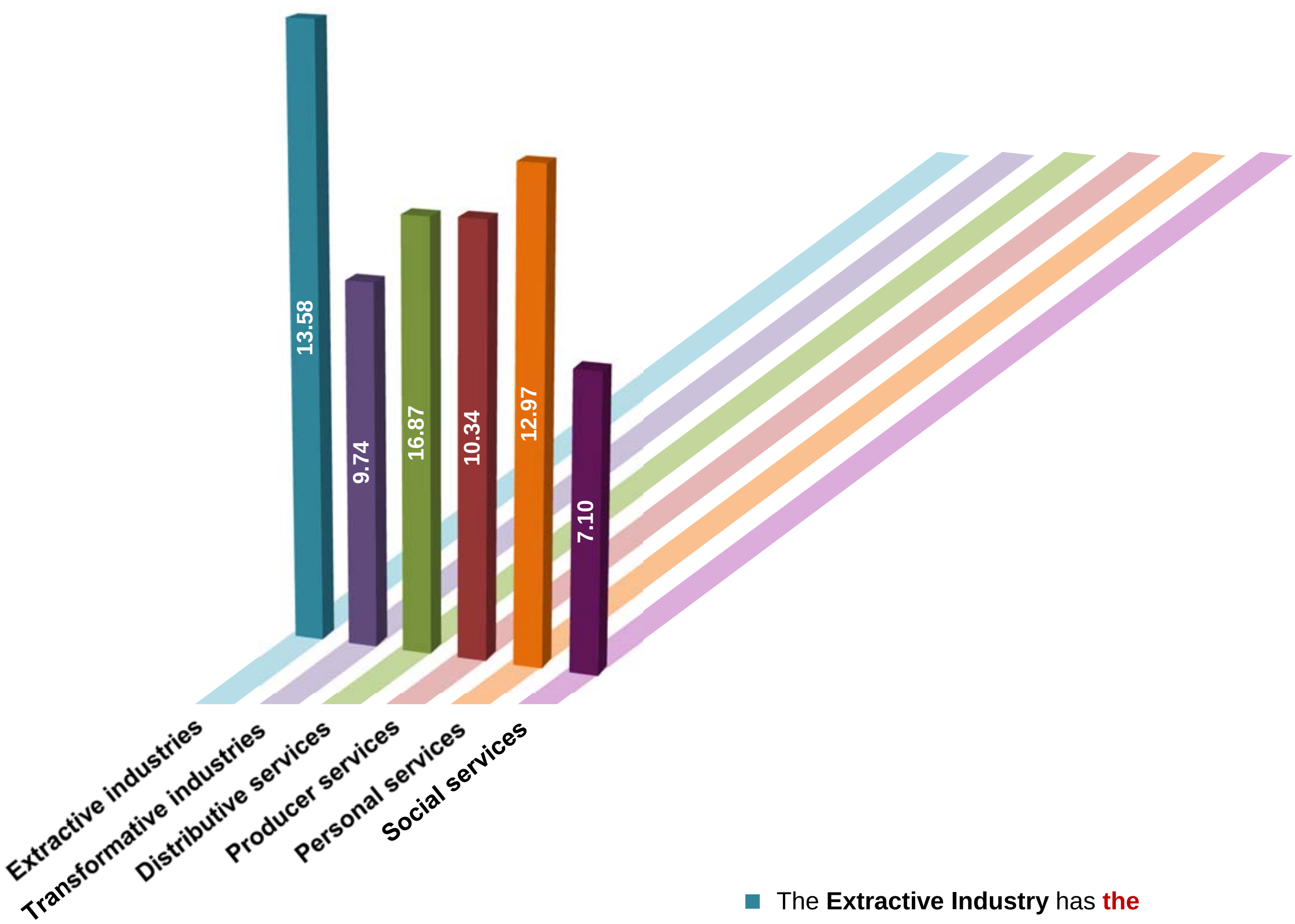
Producer services
- Banking & financial services
- Insurance
- Real estate
- Engineering
- Accounting
- Consulting
- Legal services
- Miscellaneous services

Personal services
- Domestic services
- Hotel
- Eating and drinking
- Repair services
- Laundry
- Barber & beauty services
- Entertainment & leisure
- Media & advertising
- Miscellaneous personal services

Social services
- Medical & health services
- Hospital
- Education
- Welfare & religious services
- Non-profit organisations
- Postal services
- Regulators
- SETA's
- Miscellaneous social services

Wage Gap *(Total Guaranteed Pay - between A, B and C band workers and CEOs)*

By Industry

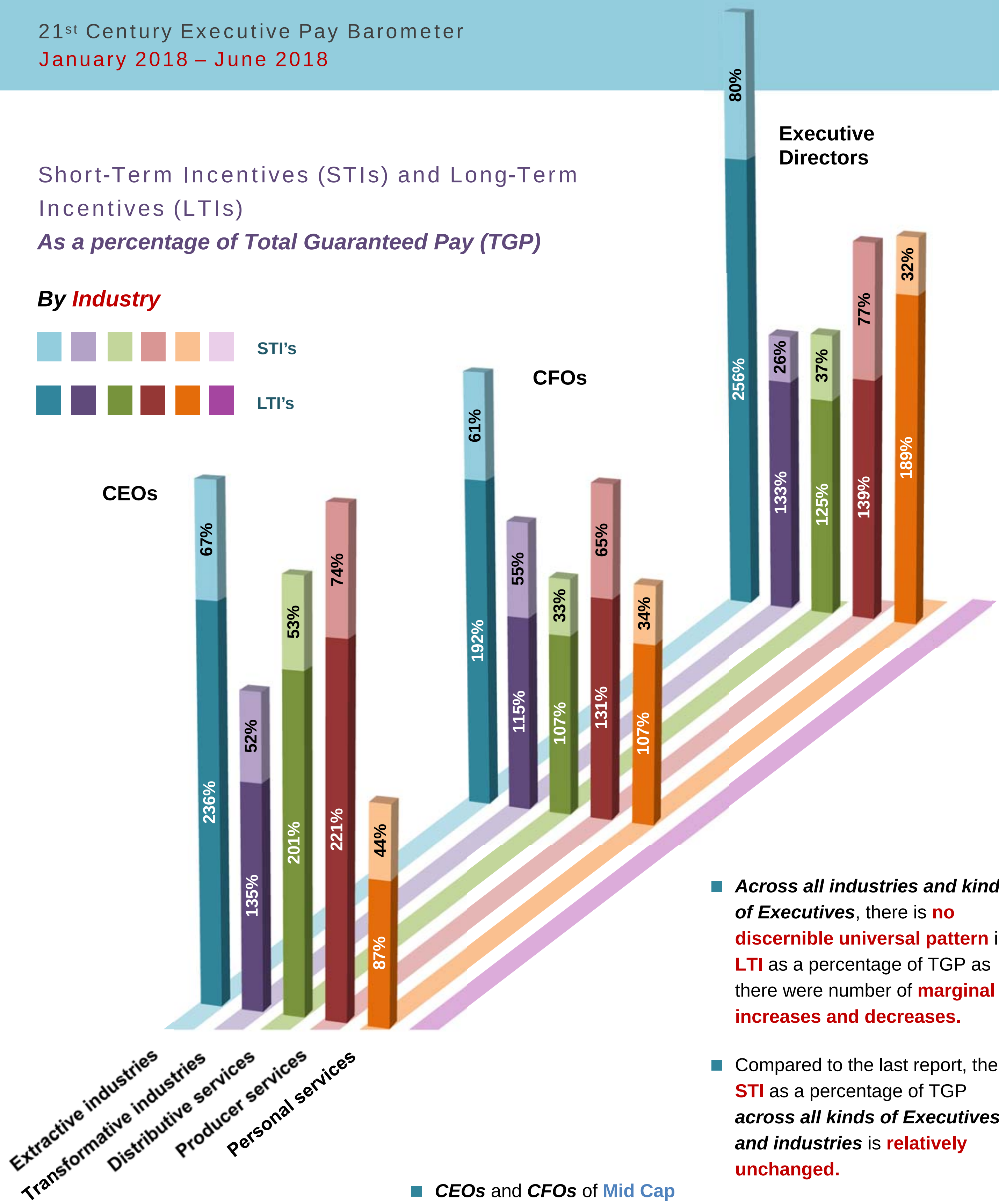


- The **Extractive Industry** has **the largest Wage Gap** followed by the **Personal Services Industry.**
- The nature of the industry influences the Wage Gap as **organisations with lower graded employees** will have a **lower general staff median** than more technical industries.

Short-Term Incentives (STIs) and Long-Term Incentives (LTIs)

As a percentage of Total Guaranteed Pay (TGP)

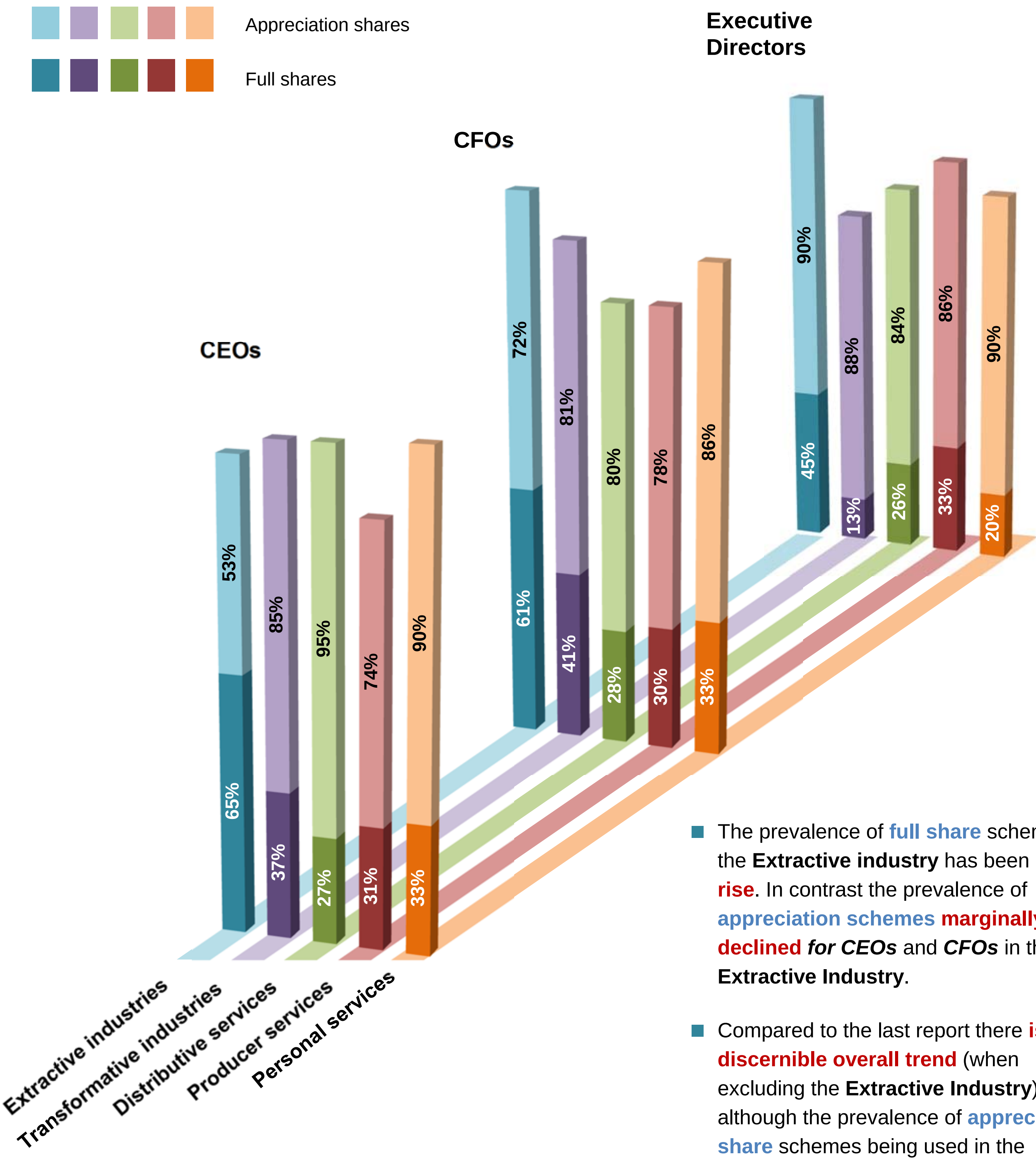
By Industry



- ***CEOs*** and ***CFOs*** of **Mid Cap** and **Large Cap** companies in the **Personal Services Industry** experienced a **decline** in their **LTI** as a percentage of TGP.
- ***Across all industries and kinds of Executives***, there is **no discernible universal pattern** in **LTI** as a percentage of TGP as there were number of **marginal increases and decreases.**
- Compared to the last report, the **STI** as a percentage of TGP ***across all kinds of Executives and industries*** is **relatively unchanged.**
- There have been a few marginal increases and decreases but **no significant overall trend** in **STI** as a percentage of TGP is present.

Prevalence of Share Schemes issued

By Industry

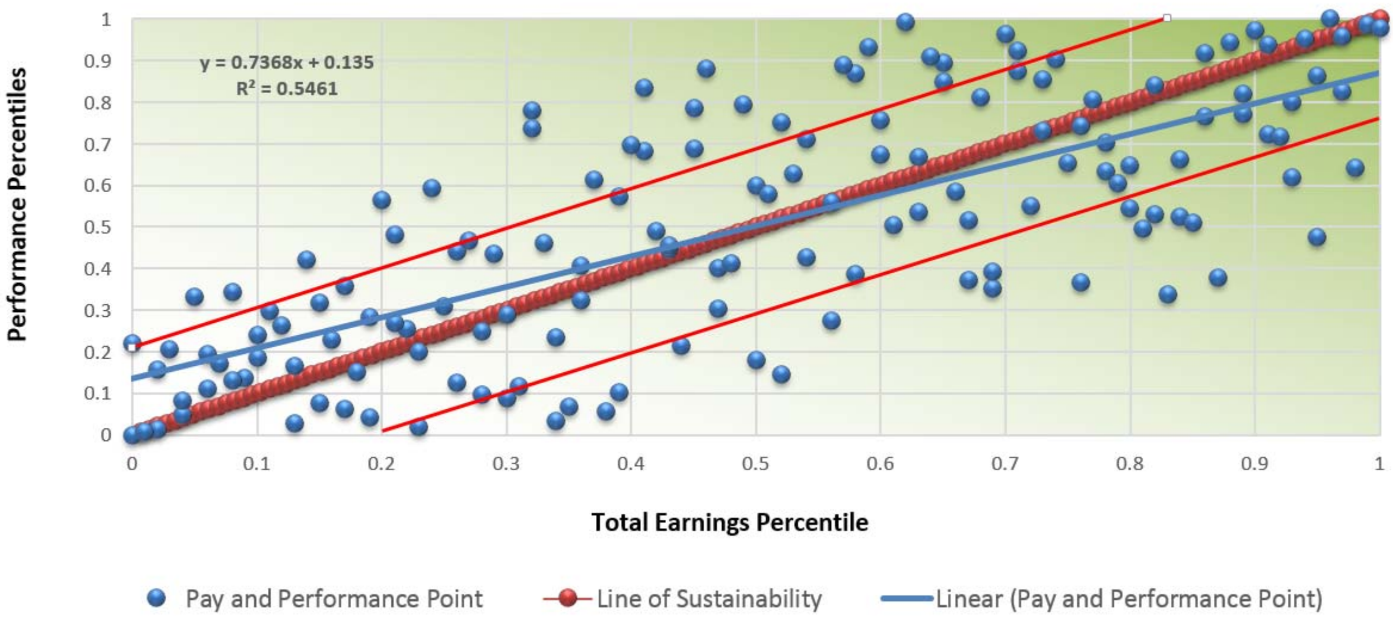


- The prevalence of **full share** schemes in the **Extractive industry** has been **on the rise**. In contrast the prevalence of **appreciation schemes marginally declined *for CEOs*** and ***CFOs*** in the **Extractive Industry**.
- Compared to the last report there **is no discernible overall trend** (when excluding the **Extractive Industry**) although the prevalence of **appreciation share** schemes being used in the **Distributive and Producer Services** industries **marginally increased *across all kinds of Executives.***

Sustainable Remuneration Model

South Africa

The **Sustainable Remuneration Model** measures how executives are remunerated relative to their performance against the triple bottom line: People (Social), Profit (Financial) and Planet (Environmental)



The ***CEO*** of each company is represented by a **single plot point** which is plotted against their **performance percentile** (Y-Axis) and **total earnings percentile** (X-Axis)

The **thick red line** is referred to as the **Line of Sustainability**. This line represents what the scatter plot (Sustainable Remuneration Model) would look ***like if every CEO was remunerated at the same percentile as their performance***.

The **further away** from the line of sustainability a ***CEO*** is, the **less sustainable** is their remuneration.

The **blue line** is the **trend line** for the actual scatter plot.

The **equation** in the top left hand corner of the scatter plot represents the **dimensions of the line**. The slope of this line is 0.7368 which means that for every 0.7368 of a percentile that a CEO improves their performance by; they move up an additional one percentile in the total earnings percentiles *(The SA market trend).*

In other words, **total earnings position increases at a faster rate** than **performance position**.

The **area between the two thin red lines** represents **the target area** within which a company would want to be.

This area indicates that the **performance position** and **total earnings position** are **sufficiently similar** to be on the **correct path towards sustainable remuneration**

Conclusion

- JSE Listed Company's **Executive TGP Increases** were **in line with** **general staff increases** (21st Century Increase Report).
- There have been **discernible variations** ***across the elements of remuneration*** since the last report was released.
- The 2018 edition of the Sustainable Remuneration Model indicates that **the slope of South Africa's trend line is 0.7368.** Better alignment of pay and performance will improve this and move the slope of the line closer to one (perfection).
- The current state of the economy is somewhat weak as we have entered a technical recession, facing **rising unemployment** and **rising inflation** as a result of the Rand's depreciation.

Thank you for your interest in the 21st Century Executive Pay Barometer.

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