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NAMPAK LIMITED

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Annual General Meeting
16th February 2022
Financial Year End: 30th September 2021

Proxies voted
Labour Research Services
The Ditikeni Trust

The Integrated Annual Report (Report) states that the company strategy is to 1) Reduce Risk by way of Strengthening Capital Structure and Simplification; and 2) Grow Profits by way of Optimisation and Innovation and Growth. We are not convinced that this is in fact a proper strategy – the strategy must inform stakeholders how the company intends to achieve those very broad objectives.

Nampak has been through a difficult time; this has not been helped by the lack of a clear strategy and has been compounded by the lack of continuity at board and management level – of the NEDs only the Chairman has served for any length of time and a new CEO was appointed last year. We are pleased that there were no further changes this year.

The auditors have served for 53 years and compulsory audit firm rotation becomes effective next year – the audit committee are only now starting the process of selecting a new audit firm. This is perhaps a result of the turmoil at board level over the past few years.

The company employs 4 252 employees a drop from last year's 4 455. Of that, 3 063 employees are in South Africa against last year's 3 139 employees, a drop in SA employees of 2.5% compared to last year's 7.3% drop and the previous year's 2.3% drop in employees. A disturbing trend for a country with chronic unemployment.

The Report is laid in portrait format rather than the landscape format of a computer screen, it makes frequent use of double page spreads which cannot possibly be read on an average computer screen let alone a laptop screen. There are no hyperlinks and navigating the report in electronic format is far from easy. A poor show.

	Resolution	Rationale	Vote	Outcome of AGM
1	Presentation of Annual Financial Statements (AFSs)	It is not a legal requirement to present the AFSs for adoption by the shareholders, however we consider it best practice so to do. It is therefore, disappointing that the company has not done so. The auditor's report that the AFSs fairly present the financial position and the results of the company and the group.		
2	Presentation of Social and Ethics report	The Social and Ethics Committee Report is fairly brief It notes *Employment equity remains a key focus area*, and reporting on this is a major part of the report, the company is justifiably pleased that it has achieved level 2 status. We note that management is all white, and the Report states *structured process to accelerate transformation in the group's management control position is underway*. The Report briefly covers CSI (Corporate Social Investment), Eterprise Development, Health and Safety, Ethics, Consumer and Customer Relations and the Environment. It is pleasing that these are all covered albeit briefly and in particular that Nampak takes customers and consumers seriously. The Report does provide a link to the company website and the Sustainability Report which deals in depth with the Environmental practices. That report does provide the total energy use and water consumption for 3 years. It does note the global problem of plastic pollution and highlights some of the efforts the company is undertaking to reduce this particularly in R&D. Figures of anti-bribery and theft reports are provided for 3 years including reports received, investigations, hearings and dismissals. There is extensive information around the details which make up the company's BEE scorecard. A detailed report is provided of the environmental impact including scope 1, 2 and 3 GHGs (Green House Gas emissions) and we are pleased to note *Nampak is reviewing its strategic objective in respect of renewable energy utilisation*, particularly given that the company notes its major source of GHGs is electricity consumption.		

	Resolution	Rationale	Vote	Outcome of AGM
	Ordinary Resolution			
3	Election of retiring directors	We noted in the introduction to our 2021 voting record: "The stability of the board remains seriously problematic, the Chair states *all directors have fewer than 18 months of service (except the chairman and chief financial officer)*. The only two non-executives with more than a years' service (other than the Chair) left during the year as did the CEO." Stability of the board and the executive team is a major concern. It is not ideal that the Independent Chairman has 12 years' service, we question the independence of any director after 9 years' service. The company has not appointed a Lead Independent Director as required given that the Chairman cannot be considered independent. The Report states *The board reconfirmed the independence of Mr Surgey* [the Chairman]*, who has been in office for more than nine years. His experience, knowledge and independent judgment continue to benefit the company*. It is most unlikely that the board would not consider Mr Surgey independent given his position and tenure however, we take a stricter view and as such would like to see the appointment of a Lead Independent Director. Diversity of the board is good but both executive directors are white men, and all the executive team are white and 75% are men. Skills are a concern with a high concentration of accountants – this is the position with many SA companies and has been for a long time and is not improving. Stability of the board is seriously problematic. Average tenure remains well below 2 years if the Chairman, with his very long tenure, is excluded.		

	Resolution	Rationale	Vote	Outcome of AGM
3.1	Re-election of SP Ridley	Mr Ridley, 66, has been a director for 2 years. He is the former CFO of Standard Bank Group and continues to serve on the boards of a number of Standard Bank Group companies including as chairman of Standard Advisory Limited London and serves on a number of Liberty Group companies. He is suitably skilled and experience but we do have a grave concern regarding the number of his commitments. However, our overriding concern with the Nampak board is continuity and we therefore overlook his level of commitments and support his reappointment.	FOR	FOR 99.9%
3.2	Re-election of LJ Sennelo	Ms Sennelo, 44, has been a director for 2 years. She is a CA and as with Mr Ridley we have a concern regarding her level of commitments. She is a director of 4 listed companies and Managing Director of her own advisory services company. We very reluctantly overlook her level of commitments.	FOR	FOR 97.7%
4	Appointment of external auditors	Deloitte & Touche were auditors of the company for 53 years, this is unacceptable. The fact that the company is only now commencing the process of appointing new auditors when the regulations require that new auditors be appointed by 2023 is at best tardy. We do not support the reappointment of the auditors given their extremely long tenure.	AGAINST	FOR 93.7%
5	Appointment of members of the audit and risk committee	As noted above, we consider the failure of this committee to consider the appointment of new auditors before the final deadline of 2023 as tardy. The auditors must be seen to be independent and this committee has not addressed this. We are inclined to vote against the chairman of the audit committee given this tardiness but all members of this committee, as with the board, have very short service.		
5.1	Appointment of N Khan as a member of the audit and risk committee	Ms Khan, 52, is suitably skilled and experienced to serve on this committee. She has been a director for 1 year and her attendance record was impeccable. She is a director of 3 other listed companies so we do have some concern regarding her level of commitments.	FOR	FOR 97.5%

	Resolution	Rationale	Vote	Outcome of AGM
5.2	Appointment of KW Mzondeki as a member of the audit and risk committee	Ms Mzondeki, 54, is suitably skilled and experienced and she has been a director for 2 years. Her attendance record was impeccable. No other directorships are listed under her profile but we found she is a director of 3 other listed companies – Telkom, Aveng and Balwin Properties.	FOR	FOR 99.9%
5.3	Appointment of SP Ridley as a member of the audit and risk committee	Mr Ridley, 65, is well qualified to sit on this committee. We have considered his suitability to serve on the board under 3.1 above.	FOR	FOR 92.3%
5.4	Appointment of LJ Sennelo as a member of the audit and risk committee	Ms Seenelo, 44, is suitably qualified to sit on this committee. We have considered her suitability to serve on the board under 3.2 above and concluded that we are not happy with her level of commitments but given the instability of this board we supported her continued appointment.	FOR	FOR 92.2%
	Non-binding advisory votes			
6	Endorse on an advisory basis the Company's remuneration policy	The Remuneration Committee (Remco) comprises 3 independent directors, one of whom is the Chairman of the board. However, the board Chair does not chair this committee. The CEO and Group HR Executive *were invited to attend meetings as and when required,* which is as it should be. Remco notes that it is *pleasing to note that the market capitalisation is almost four times what it was at the commencement of the financial year*. This is somewhat misleading as the share price at the beginning of the financial year was at the end of the lockdown. Compared to the share price at the beginning of the previous financial year (ie 1 Oct 2020), the share price is reduced by 57%. Shareholders were not overwhelmingly enthusiastic about the remuneration reports at the last AGM with over 10% voting against the resolutions. Remuneration consists of Total Guaranteed Pay, Short Term Incentive (STI), and Long Term Incentive (LTI). However, in the case of the CEO, CFO and other senior executives, the STI and LTI are replaced by the EIP (Executive Incentive Plan).	AGAINST	AGAINST 28.7%

	Resolution	Rationale	Vote	Outcome of AGM
		Total Guaranteed Pay is benchmarked using salary surveys and is set at median pay. We are told that *Various professional advisers* are used but advisors are not named and their brief is not provided. Executive pay is benchmarked by PWC. The EIP is calculated: Total Guaranteed Pay x On-target Percentage x Balanced Scorecard Modifier. On-target percentages for executives in 2022 are: CEO 190% (2021 215%); CFO 170% (2021 191%); and Group executives 155% (2021 174%). This target is not subject to performance, that is left to the balanced scorecard modifier. The balanced scorecard modifier has a maximum stretch value of 150%. A real and commendable effort has been made to link the scorecard modifier to the company strategy. We note above that we consider the company strategy to be largely an objective rather than a strategy. Metrics which apply are: - Profitability Measures - EBITDA for banking covenant purposes, and HEPS; - Funding measures - Covenant ratio compliance, and debt reduction - aligned to lender agreements; - Operational/functional measures - Capital structure optimisation, Divisional/functional initiatives, and Improved operational efficiency and reduced spoilage; - ESG measures - Safety metrics, and Environmental metrics. Again, we note that these are very broad and non-specific. EIP's are awarded 50% in cash on award and 50% in Nampak shares which shall vest in two equal tranches in year 2 and year 3, and are forfeitable. Vested shares are subject to a further 2 year holding period if the executive has not reached their required minimum shareholding level. Minimum shareholding requirements as a percentage of Total Guaranteed Pay are 200% for the CEO and 150% for other executive directors.		

	Resolution	Rationale	Vote	Outcome of AGM
		A once-off downwards vesting modifier may be applied, at the discretion of the committee, at the first vesting date (year 2) where an erosion of value of the earnings of the core business has occurred. Malus and Clawback provisions apply. We do appreciate the very real attempt to link executive pay to the company's strategic objectives and the simplification of the system. However, we are left with no real understanding of the metrics which are not sufficiently detailed and there is no indication of the targets or how targets are set. This is a crucial short-coming of the policy report and consequently we oppose the report. We are pleased that ESG now forms part of the remuneration but no proper details are disclosed of this target.		
7	Endorse on an advisory basis the implementation report of the Company's remuneration policy	Guaranteed Package increases for executives in 2020 were 4.1% and for 2021 0%. A scorecard is provided of the EIP metrics and whether these were or were not achieved. The metrics are as noted above very broad and the achievement or otherwise merely notes achieved or not. We could draw no meaningful conclusion from this information as it is too broad. A graphic is provided showing the Guaranteed pay and EIP cash award and shares vested but figures are not provided and we could not ascertain from the graphic what the cash award or Guaranteed pay amounts were. In contrast to that lack of detail, the vesting criteria and targets are clearly disclosed. We are concerned that a very low percentage (24%) of shares vested. From the single figure total remuneration table we were able to determine that the EIP as percentage of Guaranteed pay for the CEO was 247%, and for the CFO was 216%. Of that 50% is awarded as cash and the balance deferred as shares.	AGAINST	AGAINST 27.8%

	Resolution	Rationale	Vote	Outcome of AGM
		We were not able to ascertain how the EIP as a percentage of Guaranteed Pay is determined. Information was in places satisfactory and as it should be but other information was at best scanty and specifically the determination of the modifier was not adequately disclosed.		
	Special Resolutions			
8	SPECIAL RESOLUTION 1 Approval of non-executive directors' (NEDs') remuneration	We commend the company for the clear and concise disclosure of NED remuneration. It is clearly disclosed by director and by committee, and is easily agreed to the last AGM resolution. Directors' fees are very modest and only board are fees are increased by 4.5%, all other fees remain the same. Fees are made up of basic directors' fees, committee fees, board and committee attendance fees. We favour the payment of an attendance fee. The Chairman is paid a flat fee which is as it should be. Our only concern is that the fees may be too modest to attract the calibre of director needed.	FOR	FOR 99.4%
9.1	SPECIAL RESOLUTION 2 Financial assistance in terms of section 45 of the Companies Act	Nampak's resolutions around financial assistance are a significant improvement of those which we generally see at company AGMs, however as noted under 9.1 and 9.3 we still have some reservations. This resolution empowers the company to provide finance to any share scheme or Black Empowerment Scheme for employees, other than directors, of the company or any of its subsidiaries in terms of such share scheme or Black Empowerment Scheme. We are concerned that this resolution is not limited to existing schemes but allows for assistance to future schemes.	AGAINST	FOR 99.9%
9.2	SPECIAL RESOLUTION 3 Financial assistance in terms of section 45 of the Companies Act to directors or prescribed officers of the Company	This resolution provides for financial assistance to directors or prescribed officers of the company in terms of existing share schemes only. We are satisfied that the resolution is clear and properly limits the provision of such finance.	FOR	FOR 95.9%

	Resolution	Rationale	Vote	Outcome of AGM
9.3	SPECIAL RESOLUTION 4 Financial assistance in terms of section 44 of the Companies Act	This resolution appears to be largely a repeat of special resolution 9.1 above, the loans under the 2 resolutions are limited to: 9.1 … *share schemes … or in connection with a black economic empowerment transaction …* 9.3 … *existing share schemes or a black economic empowerment transaction …* As with 9.1, it is not clear that we are authorising loans to existing schemes or for an unspecified scheme/s.	AGAINST	FOR 96.0%
10	SPECIAL RESOLUTION 5 General authority to repurchase Company shares	We do not support a general and non-specific authority to repurchase shares by the company or any of its subsidiaries as provided for in this resolution. This does not seem to be in line with the company strategy of reducing debt. We consider such authorities are generally prejudicial to minority interests.	AGAINST	FOR 96.1%
11	SPECIAL RESOLUTION 6 Company acquiring the Company's shares from a director or prescribed officer	This resolution follows on from Special Resolution 5 above (although it refers to Special Resolution 4 this must be an error), and we oppose for the reasons outlined under Special Resolution 5.	AGAINST	FOR 97.7%

OUTCOME OF THE AGM

Attendance at the meeting was poor with only 67% of shares voted in person or by proxy, a drop from last years' 72% and a significant drop from the 2020 AGM when 91% of shares were voted.

Neither of the Remuneration Advisory Resolutions received the required 75% support and thus the company is required to consult shareholders. We deplore Nampak's response to this – shareholders may submit written responses; we do not consider this a consultation.

We are startled at the 94% support for the auditors after 53 years in office and given the fact that institutional investor guidelines state that such investors will oppose the auditors serving more than 10 years in office. At the 2021 AGM 25% of shareholders opposed the auditors and at the 2020 AGM 31% opposed the auditors reappointment.