

# CORPORATE GOVERNANCE

## APPROACH TO EFFECTIVE GOVERNANCE

The board of directors (the Board) continues with its ongoing commitment to the highest standards of ethical and effective governance, resulting in sustainable organisational performance that creates long-term value for all stakeholders. The Board has adopted and applies the principles of the King IV™ Report on Corporate Governance for South Africa ("King IV™"), and fully endorses and cultivates the characteristics of integrity, competence, responsibility, accountability, fairness and transparency, as outlined in Principle 1 of King IV™.

The Board embraces the King IV™ outcomes of an ethical culture, effective control, good performance and legitimacy. The Tongaat Hulett King IV™ application disclosure is available at [www.tongaathulett.com](http://www.tongaathulett.com) and includes detail of how each of the sixteen (16) principles have been applied and embedded into business practice. The company's approach to corporate governance continues to reflect that governance is regarded by the Board as being more than a mere compliance exercise that measures basic compliance with King IV™, but rather confirms that best practice principles are effectively applied and embedded by the company in its daily activities, resulting in short and long-term value creation for all stakeholders. During the year, comprehensive work was done to update the Tongaat Hulett Corporate Governance Manual and Framework, to align the Board charter, committee terms of reference, codes of best practice and policies to King IV™.

This corporate governance report has been aligned to King IV™, the Companies Act 2008, the Listings Requirements of the JSE Limited (JSE), and other pertinent statutes and regulatory requirements guiding the Board's and company's conduct for the period under review. As the custodian and focal point of corporate governance as required in Principle 6 of King IV™, the Board presents this corporate governance report to all stakeholders.

### Board and committee composition

Board of Directors		Board Committees			
Name	Year Appointed	Audit and Compliance	Remuneration	Nomination	Risk, SHE, Social and Ethics
<b>Non-Executive Directors</b>					
CB Sibisi (Chairman)	2007		Member	Chairman	
SM Beesley*	2014	Member			Member
F Jakoet*	2008	Member			Member
J John (LID)**	2007	Chairman			
RP Kupara*	2009	Member			
TN Mgoduso	2010				Member
N Mjoli-Mncube*	2008		Member	Member	Chairman
SG Pretorius*	2011		Chairman	Member	
TA Salomão*	2015				
<b>Executive Directors</b>					
PH Staude (CEO)	1997				Member
MH Munro	2003				Member

\* Independent non-executive directors

\*\* Lead independent director

## BOARD OF DIRECTORS

### BOARD COMPOSITION

Tongaathulett has a unitary Board structure, which at 31 March 2018 comprised nine non-executive and two executive directors, drawn from a broad spectrum of the business community. As per Principle 7 of King IV™, collectively, the directors possess a wide array of skills, knowledge, diversity and experience, and bring independent judgement to Board deliberations and decisions, with no one individual or group having unfettered powers of decision-making. The Board acknowledges that its demographic diversity (including race, gender, historically disadvantaged groups, age, regional diversity and nationality) promotes the consideration of various perspectives and thus enhances robust, balanced and effective discussions at the top tier of the organisation. The Board is sufficiently gender diverse, with five (5) out of eleven (11) directors on the Board being women, and has formally adopted a gender policy in accordance with the JSE Listings Requirements. The Board is also sufficiently race diverse, with seven (7) out of eleven (11) directors on the Board, being a majority of directors, representing previously disadvantaged groups. Given the importance that the Board places on gender and race diversity as evidenced in its current composition, the Tongaat Hulett Board is satisfied with how it applies the JSE Listings Requirements in this regard and is not contemplating any diversity targets at this stage. Furthermore, the Board is satisfied that its composition reflects the appropriate mix of knowledge, skills, experience, diversity and independence. The roles of the Non-Executive Chairman, CB Sibisi, and the Chief Executive Officer, PH Staude, are separate with a clear division of responsibilities.

The Chairman is not considered fully independent by virtue of his involvement in the company's BEE equity participation structure. Ms. J John, who is an independent non-executive director is the Lead Independent Director in situations where the Chairman is not independent.

### BOARD CHARTER AND DELEGATED AUTHORITIES

The Board has an approved charter and an annual work plan that outline matters identified and reserved for its consideration. The charter records the Board's objective to provide responsible business leadership with due regard to the interests of shareholders and other stakeholders, while reflecting a demonstrable concern for sustainability as a business opportunity that guides strategy formulation. It includes the Board's responsibility to:

- lead the company ethically and effectively;
- govern the ethics of the company in a way that supports the establishment of an ethical culture;
- ensure that the company is and is seen to be a responsible corporate citizen by having regard to not only the financial aspects of the business of the company but also the impact that business operations have on the environment and society within which it operates;
- appreciate that the company's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process;
- govern risk and information technology in a way that support the organisation in setting and achieving its strategic objectives;
- serve as the focal point and custodian of corporate governance in the company;
- comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively;
- ensure that its arrangements for delegation within its own structures promote independent judgment, and assist with the balance of power and the effective discharge of its duties;
- ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness;
- ensure that the appointment of, and delegation to management contribute to role clarity and the effective exercise of authority and responsibilities;
- govern compliance with applicable laws and adopted non-binding rules, codes and standards in a way that supports the organisation being an ethical and a good corporate citizen;
- ensure that the organisation remunerates fairly, responsibly and transparently, to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term;

- ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports; and
- in the execution of its governance role and responsibilities, the Board ensures that it adopts a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.

The Board has mandated the following four committees, each with approved formal terms of reference, to support it in the execution of its governance responsibilities.

- Audit and Compliance
- Nomination
- Remuneration
- Risk, SHE, Social and Ethics

The Board has further delegated the authority to run the day-to-day affairs of the company to the Chief Executive Officer and other senior executives, as required by Principle 10 of King IV™. Levels of authority and materiality delegated to management are approved by the Board and clearly recorded in the Authorities Framework contained in the Corporate Governance Manual that is utilised by all operations within Tongaat Hulett. The Board is satisfied that it has discharged its responsibilities in accordance with its charter.

### BOARD CHANGES AND ROTATION AT AGM

In accordance with the company's memorandum of incorporation (MOI), directors are required to retire either by rotation at intervals of three years, or at the close of business of the next annual general meeting (AGM) after a director attains the age of seventy (70) years. Directors retiring by rotation who avail themselves may be re-elected at the AGM at which they retire. New directors may only hold office until the next AGM, where they will be required to retire and offer themselves for election. Retiring at the next AGM (on 8 August 2018) by rotation are MH Munro, TA Salomão and CB Sibisi, who being eligible and available, will seek re-election as directors. The MOI states that a director who has reached the mandatory retirement age of seventy (70) is required to retire at the AGM and may be re-elected by shareholders for a specific term as determined by shareholders in a specific ordinary resolution. This applies to the Chairman of the Remuneration Committee, SG Pretorius, who turned seventy (70) in 2018, and whose services, experience, knowledge, skills and wisdom the company wishes to retain for a further period of up to two (2) years. The Nomination Committee has assessed each of the retiring directors and the Board unanimously recommends their re-election. There were no new appointments to the Board during the period under review. There are no term contracts of service between any of the directors and the company or any of its operations.

### BOARD INDUCTION AND DEVELOPMENT

On appointment, new directors have the benefit of induction activities aimed at broadening their understanding of the company and the markets within which it operates. The Company Secretary ensures that directors receive accurate, timely and clear information. The Chief Executive Officer and key executives hold

## Board and committee meeting attendance for the year ended 31 March 2018

Director	Board		Audit and Compliance		Remuneration		Nomination		Risk, SHE, Social and Ethics	
	A	B	A	B	A	B	A	B	A	B
CB Sibisi (Chairman)	5	5			2	2	1	1		
PH Staude (CEO)	5	5							2	2
SM Beesley	5	5	3	3					2	2
F Jakoet	5	5	3	3					2	2
J John	5	5	3	3						
RP Kupara	5	4	3	3						
TN Mgoduso	5	4							2	2
N Mjoli-Mncube	5	5			2	2	1	1	2	2
MH Munro	5	5							2	2
SG Pretorius	5	5			2	2	1	1		
TA Salomão	5	4								

A: Indicates the number of meetings held during the year while the director was a member of the Board and/or committee.  
B: Indicates the number of meetings attended during the year while the director was a member of the Board and/or committee.

detailed discussions with new directors on business performance, strategic objectives and key themes. This, together with business reports of prior Board and committee meetings, discussions with heads of operations accompanied by site visits of the mills, agriculture and development sites, provides new directors with sufficient exposure to the company's operating dynamics. Directors are also encouraged to update their skills, knowledge and experience through participation in relevant programmes as deemed appropriate from time to time.

#### BOARD EVALUATION

The Board endorses the requirements of Principle 9 of King IV™ that requires the Board to ensure that the evaluation of its own performance and that of its committees, its chair and individual members should support continued improvement in its performance and effectiveness. The formal self-evaluation process of the Board and its committees, the assessment of the Chairman's performance by the Board and the assessment of the performance of individual directors by the Chairman, which are conducted at least every two (2) years, are an integral element of the Board's activities to review and improve its performance continually. This evaluation process also includes assessing the independence of non-executive directors as envisaged in King IV™. Of the nine non-executive directors, seven (7) are considered independent, while two (2) are not considered independent by virtue of their involvement in the company's black economic empowerment equity participation structure. In arriving at the conclusion of independence, the requirements of the Companies Act and King IV™ on independence are taken into account and consideration is given, among others, to whether the individual non-executive directors are sufficiently independent of the company so as to effectively carry out their responsibilities as directors, that they are independent in judgement and character, and that there are no instances of conflicts of interest in the form of contracts, relationships, share options, length of service or related party disclosures that could appear to affect independence. Four (4) of the directors, CB Sibisi, J John, F Jakoet and N Mjoli-Mncube have been with the company for a period longer than nine (9) years. In addition, CB Sibisi is not independent by virtue of his participation in the company's black economic empowerment equity participation structure. The

directors have been assessed by the Board in accordance with the requirements of King IV™ and were confirmed to be independent.

The Board has decided to conduct the next formal, externally facilitated evaluation process for the performance of the Board, its committees, the Chairman and members as a whole in 2018/19 and an overview of the results and remedial action taken, if applicable, will be disclosed accordingly. The Board is satisfied that its evaluation processes improve its performance and effectiveness.

The Board meets at least five (5) times a year, with special or additional meetings convened as circumstances dictate. Comprehensive documentation is prepared and distributed in advance of each meeting, with an opportunity to propose additional matters for discussion at meetings. Independent professional advice is available to directors in appropriate circumstances at the company's expense.

#### EVALUATION OF COMPANY SECRETARY

All directors have access to relevant information and to the advice and services of the Company Secretary, MAC Mahlari, who holds BA and LLB qualifications, and has over ten (10) years' experience as a Company Secretary. She was appointed in December 2009. After assessing the Company Secretary as required by the JSE Listings Requirements, the Board concluded that Ms. Mahlari is suitably qualified, competent and meets the appropriate experience requirements to carry out the functions of Company Secretary of a public listed company. Ms. Mahlari is not a director of the company, nor does she enjoy any related or inter-related relationship with any of the directors or executives of the company that could give rise to a conflict of interest. The recommended best practices stipulated in King IV™, under Principle 10, on the arrangements for the provision of professional corporate governance services have been adequately provided to the Board.

#### BOARD COMMITTEE STRUCTURES AND RESPONSIBILITY

In compliance with Principle 8, the Board has ensured that its arrangements for delegation within its own structures promote independent judgment, and assist with balance of power and

the effective discharge of its duties. The Board has reserved certain matters for its exclusive mandate (as set out above) and has approved and delegated authority for specific matters to various committees, all of which have formal terms of reference. Through transparency, disclosure, review and regular reporting by the committees, the Board is able to receive assurance that, inter alia, key risk and opportunity areas, operational, financial and non-financial aspects relevant to the company's various businesses are monitored. The formal terms of reference and the delegated authority regarding each Board committee are set out in the Corporate Governance Manual, and are summarised below.

### REMUNERATION COMMITTEE

The Remuneration Committee, which meets at least twice a year, is chaired by an independent non-executive director and comprises only non-executive directors. The current members are SG Pretorius (Chairman), CB Sibisi and N Mjoli-Mncube. PH Staude, as CEO, and relevant HR Executives, attend by invitation and MAC Mahlari is the secretary. The record of attendance is contained above.

The report of the Remuneration Committee, which outlines in detail the company's remuneration policy and implementation report as required by Principle 14 of King IV™ commences on page 76. The report also contains a summary of the responsibilities of the committee, as well as its key activities and focus areas for the period under review.

### NOMINATION COMMITTEE

The Nomination Committee, which comprises only non-executive directors, meets as needed, and as required by the JSE Listings Requirements, is chaired by the Chairman of the Board. Its current members are CB Sibisi (Chairman), N Mjoli-Mncube and SG Pretorius. PH Staude, as CEO, attends by invitation and MAC Mahlari is the secretary. The committee's terms of reference are summarised as follows:

- Ensures that for Board appointments, a rigorous, fair and open nomination and appointment process is followed to provide a balance of appropriate skills, knowledge and experience in the boardroom and support strong corporate performance.
- Makes recommendations to the Board on the size, composition and demographics of the Board, particularly in relation to the balance between executive, non-executive and independent directors.
- Ensures that there is a diversity of experience, gender, race and backgrounds to create a cohesive, balanced and effective Board.
- Ensures that there is a diversity policy at Board level that covers gender and race diversity, among others, as required by the JSE Listings Requirements.
- Gives consideration to succession planning, and ensures that processes and plans are in place for orderly succession and for appointments to the Board and senior management.

During the period under review, one meeting was held where the Nomination Committee discussed the directors who would retire by rotation at the next AGM, and recommended the re-election of MH Munro, TA Salomão and CB Sibisi to the Board and AGM. The MOI states that a director who has reached the mandatory retirement age of seventy (70) is required to retire at the AGM and may be re-elected by shareholders for a specific term as determined by shareholders in a specific ordinary resolution.

This applies to the Chairman of the Remuneration Committee, SG Pretorius, who turned seventy (70) in 2018, and whose services, experience, knowledge, skills and wisdom the company wishes to retain for a further period of up to two (2) years.

The committee also recommended the election of the Audit and Compliance Committee until the next AGM, comprising of J John, SM Beesley, F Jakoet and RP Kupara. The Nomination Committee considered this in detail and made the appropriate recommendation to the Board. In making the recommendations to the Board and ultimately the AGM, the Nomination Committee considered the current skills set of the Board as a collective, the relevant experience and expertise, the rotating directors, ensuring that the current skills set was sufficient to increase the Board's effectiveness. In addition to skills and experience, the Nomination Committee also considered other demographic aspects of the Board, including nationality, race and gender. There were no external advisers or invitees to this meeting. The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

The committee also considered the JSE Listings Requirements in so far as they relate to race diversity. The committee considered and recommended for Board approval, a Diversity Policy at Board level that encompasses all forms of diversity, including in particular, race and gender diversity.

### AUDIT AND COMPLIANCE COMMITTEE

The Audit and Compliance Committee is constituted as a statutory committee in respect of its duties prescribed by the Companies Act, and as a committee of the Board in respect of all additional duties assigned to it by the Board. The members of the committee were elected by the shareholders at the last AGM and include three non-executive directors of the Board, all of whom are independent and possess the necessary skills, knowledge and expertise to direct the committee constructively in the execution of its responsibilities. The current members are J John (Chairman), SM Beesley, F Jakoet and RP Kupara. The CEO, PH Staude, the CFO, MH Munro, the Head of Internal Audit, DK Young and representatives of the internal and external auditors attend by invitation. The Company Secretary, MAC Mahlari, is the secretary for this committee. The committee meets at least three times (3) a year. The statutory report of the Audit and Compliance Committee is on page 100, and forms part of the annual financial statements.

The Audit and Compliance Committee's terms of reference were aligned with King IV™, approved by the Board, and include the following objectives and responsibilities:

- Assists the Board in discharging its duties relating to the safeguarding of assets, the operation of adequate systems and controls, the assessment of going concern status, ensuring that pertinent compliance and relevant risk management processes are in place, reviewing the work performed by the external auditors and the internal audit function, and to review interim financial information and annual financial statements which are provided to shareholders and other key stakeholders.
- The committee provides a forum through which the external and internal auditors report to the Board. It is responsible for the appointment and review of internal and independent external auditors, the maintenance of a professional relationship with them, reviewing accounting principles, policies and practices adopted in the preparation of public financial information and examining documentation relating to the interim and annual financial statements.

- In addition, it reviews procedures and policies of internal control, including internal financial controls and internal audit reports. The adequacy and capability of Tongaat Hulett's external and internal audit functions are also subject to continuous review. The committee further considers the independence and objectivity of external auditors.
- Management is focused on continuous improvements to systems of internal control. An external quality assurance review of the internal audit function was performed in 2018, which concluded that the Tongaat Hulett internal audit function "generally conforms" to the standards recommended by the Institute of Internal Auditors, which is the highest rating in terms of the standards of the Institute of Internal Auditors. The status of "generally conforms" continues to be applicable for a period of five (5) years from the date of validation in terms of the standards of the Institute of Internal Auditors.
- The external and internal auditors have unrestricted access to members of the Audit and Compliance Committee and its Chairman at all times, ensuring that their independence is in no way impaired. Both the internal and external auditors have the opportunity of addressing the committee and its Chairman at each of the meetings without management being present. The Audit and Compliance Committee determines the purpose, authority and responsibility of the internal audit function in an Internal Audit Charter, which was recently updated in line with King IV™ and approved by the committee and the Board.
- The charter sets out the terms of reference of Tongaat Hulett's internal audit function, its reporting line to the Chairman of the committee, the working relationship with the Head of Internal Audit and the fact that the internal auditors have unrestricted company wide access to all functions, records, property and personnel. The committee also reviews the scope and coverage of the internal audit function. While the internal audit function has been outsourced to a professional firm of registered accountants and auditors, coordinated by the Head of Internal Audit, the company's independent external auditors do not assist in the performance of any internal audit assignments.
- The nature and extent of all non-audit services provided by the independent external auditors are approved and reviewed by the committee, to ensure compliance with the company's policy on non-audit services.
- The committee is also responsible for ensuring that the combined assurance model espoused in King IV™ is applied to provide a coordinated approach to all assurance activities. Tongaat Hulett has adopted a Combined Assurance Strategy and Plan that provides a framework for the various assurance providers to provide assurance to the Board, through the Audit and Compliance and Risk, SHE, Social and Ethics Committees, that all significant risks facing the company are adequately managed and that assurance activities are integrated and coordinated in the most efficient and proficient manner. The Combined Assurance Strategy and Plan is discussed further in the Risk Management Process section of the integrated annual report.
- In line with Principle 12 of King IV™, the Board assumes responsibility for the governance of technology and information by setting direction for how technology and information should be approached and addressed in the company, and has delegated to the Audit and Compliance Committee the function of ensuring that technology and information are governed in a way that supports the organisation setting and achieving its strategic objectives, by amongst others, ensuring that direction is set for how technology and information should be approached and addressed in the organisation; and that management is delegated the responsibility of implementing and executing effective technology and information management. The company has an IT policy and charter that encapsulates current company ERP and Unified Communications developments and practices in line with recent technology upgrades. During the period under review, focus was on the recent migration of the organisation onto an integrated common platform and common business processes, resulting in standardised business processes and reporting across the organisation; the creation of common data management standards to support key business objectives; standardised platform and systems architecture to reduce support costs, leverage scale and reduce system downtime, and risks; and increased process efficiencies. Future areas of focus include a project that is currently underway to align the organisational structure across Tongaat Hulett with the new systems and business process architecture.
- The committee's focus on regulatory compliance, in line with Principle 13 of King IV™, is ongoing in line with the regular updates to the regulatory environment. The framework of high priority laws and regulations applicable to Tongaat Hulett's operations has continued to be refined during the year with the aim of strengthening the culture of legal awareness and compliance. The Board approved an updated compliance policy in 2018, which confirms and firmly entrenches Tongaat Hulett's commitment to compliance, through the combined efforts of various role players, to implement controls and processes to manage regulatory compliance across all operations. During the period under review, key areas of focus included ongoing assessment and review of legal, regulatory and corporate governance requirements and risks, and the identification of appropriate processes and interventions to enhance compliance with applicable legislation. No material infractions or fines have come to management's attention during the period under review that indicates non-compliance with pertinent legislation and codes of good practice.
- In order to ensure optimal performance and delivery of its mandate, the committee conducted an assessment of its performance during the previous reporting period, considering such factors as its composition and authority, the execution of its roles and responsibilities, its working relationship with both internal and external auditors and its statutory obligations towards the company and its shareholders. The outcome of the assessment process was positive, reflecting that the committee meets best practice, and is functioning effectively and efficiently. In 2018/19, the company will conduct an externally facilitated performance assessment, and an overview of the results and remedial action taken, will be reported accordingly.

Each major operational area has its own audit and compliance meeting processes which subscribe to the same company audit philosophies and reports and feeds into the Tongaat Hulett Audit and Compliance Committee.

#### **RISK, SAFETY, HEALTH, ENVIRONMENT (SHE), SOCIAL AND ETHICS COMMITTEE**

The committee is constituted as a statutory committee in respect of its obligations prescribed by the Companies Act, and as a committee of the Board in respect of all additional duties assigned to it by the Board.

The committee, comprising non-executive and executive directors, is chaired by an independent non-executive director, and meets at least twice a year. Its current members are N Mjoli-Mncube (Chairman), PH Staude (CEO), F Jakoet, TN Mgoduso, SM Beesley and MH Munro (in his capacity as Chief Risk Officer). Various heads of operations and senior managers (responsible for SHE, broader sustainability aspects, SED, stakeholder engagement and ethics, amongst others) attend this meeting by invitation. MAC Mahlari is the secretary. The chairman of the committee reports to the Board on all matters discussed by the committee within its mandate as well as providing minutes of all its activities and decisions taken.

**Primary responsibilities and objectives of the committee include:**

- monitoring the social and economic development activities of the company;
- ensuring that the company is and is seen to be a responsible corporate citizen, in line with Principle 3 of King IV™;
- ensuring that there are processes in place to monitor consumer relationships and general compliance with consumer protection laws;
- monitoring the company's standing relative to the United Nations Global Compact principles, the Organisation for Economic Cooperation and Development (OECD) recommendations regarding combating corruption and the International Labour Organisation Protocol on decent working conditions for employees, and the company's contribution towards the education and development of employees;
- ensuring that the company has implemented effective policies and plans for employee and public safety, health and environment that enhance the company's ability to achieve its strategic objectives, including the impact of the company's activities and products on the environment and society;
- monitoring the social performance and ethical governance and practices of the company;
- overseeing on behalf of the Board the total process of risk management and governance, including amongst others reviewing the implementation of the risk management strategy and policies by means of risk management systems and processes; and
- ensuring that there is meaningful engagement with the company's identified stakeholders.

The detailed report on measures taken to monitor corporate citizenship and how the company performed on its various projects relating to corporate citizenship is contained in the sustainability section of this integrated report.

During the previous reporting period, the committee carried out a self-evaluation of its performance. The results of the self-evaluation process reflected that the committee was satisfied with how it executed its responsibilities and fulfilled its mandate. The next performance evaluation will be facilitated externally by a service provider, and an overview of the results and remedial action taken, will be reported accordingly.

**The Risk, SHE, Social and Ethics Committee presents its report to the shareholders as required by the Companies Act and recommended by King IV™, illustrating how it discharged its statutory responsibilities and acted in accordance with its terms of reference for the period to 31 March 2018:**

**1. Statutory duties**

***Social and economic development (SED)***

Tongaat Hulett's strategic goal is described as "value creation for all stakeholders through an all-inclusive approach to growth and development". It is within this context that the company's SED initiatives are utilised to partner with government and society in various operational areas, to create shared value, particularly in communities most impacted by business activities.

The company's key SED focus elements are in the area of, among others, healthcare - with communities in the rural areas benefiting most; food security projects; education initiatives as well as sports, arts and culture. During the period under review, the committee monitored the SED initiatives and contributions undertaken by the company, within the business objective of contributing to the creation of successful rural communities. This is in line with the company's SED policy, which confirms the philosophy of constructively contributing towards building and enhancing the quality of life of the communities in the Southern African regions where the company operates.

The strategic importance of the company's SED contribution and examples of recent achievements, particularly within the context of its relationship with private farmers, surrounding communities across all areas of operation and the link to the business' various stakeholder relationships, can be found in the sustainability elements section of the integrated report, as well as in the CEO's review.

The company is committed to economic sustainability and continues to assess its business approach to responsible strategic sourcing, empowerment and preferential procurement, taking into account employment equity, skills development and broad-based black economic empowerment (B-BBEE) within the Southern African context. The company is committed to meeting B-BBEE requirements in South Africa, and annually conducts a B-BBEE audit assessment through AQRate, an accredited institution. Further details on the company's B-BBEE rating, scorecard performance and certificate are discussed in the sustainability report, available on the website.

Tongaat Hulett is a signatory to and participant of the United Nations Global Compact, a corporate citizen initiative espousing principles in the areas of human rights, labour, environment and anti-corruption. The company continues to adhere to the ten principles articulated in the Global Compact to promote sustainable development and good corporate citizenship through a set of values based on universally accepted principles. The committee is satisfied that the ten principles are receiving due and appropriate attention by the company on an ongoing basis.

***Good corporate citizenship***

During the period under review, the committee monitored the company's standing and commitment in terms of being a responsible corporate citizen. This included the committee reviewing in great detail the company's stakeholder value creation framework which is linked to the strategic objectives of the company. The framework covers inter alia, the company's

objective to assist with the development of small-scale private farmers, partnering with key stakeholders to progress renewable energy initiatives and creating successful rural communities within Tongaat Hulett's cane catchment area.

The committee also assessed the company's proactive stakeholder engagement interface and other processes in place that ensure that the appropriate communication strategy for each stakeholder grouping is identified and successfully implemented, thereby contributing to the maintenance and development of strong and effective stakeholder relationships.

Tongaat Hulett continues to be regarded as a responsible corporate citizen by demonstrating its commitment to philanthropic and empowerment initiatives and the committee is satisfied that this element continues to receive appropriate attention.

A full report of the stakeholder relationships, various initiatives led by the company and the positive impact on stakeholder engagement can be found under the social and relationship capital element of the sustainability report.

### ***Safety, health and environment (SHE)***

During the period under review, the committee performed its responsibility of overseeing the performance of the company against its set SHE targets and objectives, and considered various reports relating to SHE risks and opportunities that face the company.

The committee reviewed in detail all the fatality reports presented before it, whether work, non-work related, or third party. SHE initiatives and risk management protocols continue to receive key focus, with the CEO continuing to provide leadership and direction on strategic implementation of these initiatives not only within the company but extending the various programmes to include contractors, service providers and where applicable, surrounding communities.

The committee reviewed health management programmes including HIV/AIDS and TB management as well as malaria, noting that the company's performance monitoring and measurement criteria are aligned with the World Health Organisation's approach. The committee commended the company's implementation of SANS 16001 that would ensure a systematic integrated approach to managing NCDs. In line with the company's health strategic plan, three (3) pilot sites, including one in Zimbabwe, completed the Wellness and Disease Management System - SANS 16001 audit and were all recommended for certification. The company's comprehensive safety programmes, employee and community focused health initiatives and environmental stewardship are covered in detail in the social capital and natural capital elements of the sustainability report.

### ***Zero tolerance on child labour, forced and compulsory labour***

The committee confirms that as a signatory to the Universal Declaration of Human Rights, the company is committed to supporting freedom of association and collective bargaining at its various operations.

The company also has a zero tolerance approach to child labour and inhumane treatment of employees, including any form of forced labour or physical punishment of employees.

The company commits to respect internationally recognised

human rights expressed in the International Bill of Human Rights and by the International Labour Organisation. This includes a commitment to avoid causing or contributing towards adverse human rights impacts through business activities, and seeking to prevent or mitigate adverse human rights impacts that are directly linked to Tongaat Hulett operations, products or services by business relationships.

Tongaat Hulett confirms its commitment to ongoing transparent engagement with stakeholders in response to specific human rights concerns that may be raised from time to time. Reporting in accordance with the Global Reporting Initiative's (GRI) Standards is covered in the company's integrated annual report.

### ***Ethics governance***

As a responsible and ethical corporate citizen, the company entrenches a culture of organisational integrity that supports an ethical corporate environment. The company is fully committed to ethical business practices and abides by a policy of fair dealing, honesty and integrity in the conduct of its business. During the year under review, the Code of Business Conduct and Ethics (discussed in more detail under ethics management and governance), was reviewed and updated. The Code embodies the strategic ethical mindset of the organisation and highlights key principles and values.

### **2. Terms of reference**

The committee has adopted and operates within formal terms of reference that have recently been reviewed during the period under review and approved by the Board. The committee confirms that for the period, it discharged its duties and responsibilities in accordance with these updated terms of reference. The summary of the role of the committee is articulated on page 71 of this integrated annual report.

### **3. Duties assigned by the Board**

During the period under review, the committee fulfilled its responsibilities assigned to it by the Board in accordance with its terms of reference. The committee assisted the Board to fulfill its risk governance role and SHE objectives by ensuring, among others, that the company has implemented effective policies and plans for risk and opportunity management, and SHE that enhance the company's ability to achieve its strategic objectives. The committee also ensured that disclosures and communication between the Board and the Audit and Compliance Committee regarding risk management processes and activities pertaining to SHE, were comprehensive and adequately facilitated. While the committee had specific duties relating to risk governance, the role of the Audit and Compliance Committee was retained in terms of some aspects of risk management, including financial reporting risks, internal financial controls and fraud and IT risks relating to financial reporting.

### **4. Relationship with other Board committees**

The committee acknowledges the link between certain of its responsibilities with those of other committees of the Board. Some of these include the relationship with the Audit and Compliance Committee, which retains the responsibility for risk management as it relates to financial reporting risks, internal financial controls and fraud and IT risks relating to financial reporting.

Further, the company's standing on the recommendations espoused in the OECD regarding the prevention of corruption are reviewed and covered by the Audit and Compliance Committee which ensures that the company has adopted effective systems of internal control, has an independent external auditor, operates within an approved code of ethics, and has implemented whistle-blowing processes that support the non-victimisation of whistle-blowers, among others.

The company complies with the Employment Equity Act and has implemented appropriate policies that are based on the principle of creating equal opportunity for all within a diverse workforce with a substantial number of members of designated groups at all levels; supported by appropriate performance and talent management processes and activities, set recruitment targets, clear development and training programmes, and coaching and mentoring programmes among others. The human resources team drives these processes under the leadership of the CEO and reports to the Remuneration Committee, which reviews, assesses and endorses appropriate Employment Equity (EE) goals and targets. A detailed report on the company's human resources approach, including the company's efforts in accelerating employee transformation, appears in the sustainability elements of this integrated report.

## 5. Sustainability reporting

The committee reviewed and accepted the detailed sustainability report, available online on the company's website, noting the various themes of the report including social performance (social and relationship capital), environmental stewardship (natural capital) and human capital, manufactured capital and intellectual capital, as articulated in the International Integrated Reporting Framework. The committee reviewed the sustainability report as part of its role of assisting the Board to achieve better performance on sustainability matters, including the company's contribution to the development of communities in which its activities are predominantly conducted, sponsorships and SED programmes, relationships with key stakeholders, and the impact of the company's activities on the environment, employee health and public safety. As detailed above, the Audit and Compliance Committee has considered the sustainability and governance information as disclosed in the company's integrated annual report to ensure its reliability and consistency with the annual financial statements. Various reports of the external assurance service providers to ensure that the information is reliable and consistent with the financial results and other operational information at the disposal of the committee, were also considered. The independence of the external assurance service provider for the sustainability report was also assessed and confirmed.

## 6. Effectiveness of committee and attendance

The committee had two meetings during the period under review as required by its terms of reference. The evaluation of the committee was conducted in 2017 and the Board is satisfied with the leadership provided by the committee Chairman and the diligence of its members. The record of attendance is contained on page 68.

# ETHICS MANAGEMENT AND GOVERNANCE

## CODE OF BUSINESS CONDUCT AND ETHICS

In line with Principle 2 of King IV™, as the highest governing authority in the company, the Board governs the ethics of the company in a way that supports the establishment of an ethical culture. The Board is committed to conducting business ethically, and has delegated to management the responsibility to implement and execute appropriate codes and practices. The company operates within a formal Code of Business Conduct and Ethics (the Code), which was reviewed and updated in 2018, and approved by the Board. The Code was communicated and distributed to all employees across all levels in the company, and to suppliers. The Code is based on a fundamental belief that all business transactions should be legal and conducted beyond reproach in the spirit of honesty and fairness. The company has a zero tolerance approach to theft, fraud, corruption and any violation of the law or unethical business dealing by employees and suppliers. The Code also addresses conflict of interest situations and encourages employees to report any conflict or perceived conflict of interest situation. This may arise due to employees being offered and receiving gifts in return for favours, employees not being independent from business organisations having a contractual relationship or providing goods or services to Tongaat Hulett, and employees' personal investments taking priority over transactions for the company and its clients.

## ETHICS MANAGEMENT REPORTING AND OVERSIGHT

The Audit and Compliance Committee assists the Board in overseeing the consistent application of and compliance with the Code through reports compiled by the corporate security manager and reported to the committee by internal audit. Incidents of fraud, corruption or unethical practices that are reported or detected through management controls are formally investigated, followed by formal disciplinary processes. In severe instances, criminal proceedings are instituted. Management is strict in ensuring the implementation of the Code across all operations in a daily context. Compliance by directors, all employees and suppliers to the high moral, ethical and legal standards of the Code is mandatory, and if employees become aware of, or suspect, a contravention of the Code, they are urged to promptly and confidentially report it to the Company Secretary or senior officials at management level.

Key areas of focus during the reporting period included revising and updating the Code to include the CEO's statement highlighting the company's commitment to integrity, ethics and honest behaviour; commitment to ZERO HARM in SHE practices; commitment to respecting human rights and highlighting the importance of whistle-blowing and revitalising awareness on the Tip-Off Anonymous Service. Other enhancements to the Code included highlighting the company's strong stance against intimidation, victimisation, retaliation or harassment of any stakeholders (including all employees, business partners and suppliers) who in good faith raise or report a concern that they reasonably believe is a violation of the Code or ethical behaviour.

## WHISTLE-BLOWING SERVICE

As part of the fraud and corruption prevention approach, Tongaat Hulett has engaged the services of an independent whistle-blowing service provider to report on any unethical and unlawful behaviour or non-compliance with the Code.

The anonymous independent whistle-blowing service is operational in South Africa, Zimbabwe, Botswana, Mozambique, Swaziland and Namibia. Continuous training and awareness are important aspects of a successful ethics management programme. Each centre has been provided with the official Deloitte/Tongaat Hulett Tip-Offs DVD describing the whistle-blowing process, plus stickers and posters which have also been translated into Portuguese for the Mozambique operations.

Measures taken to monitor organisational ethics include ongoing monitoring and reporting of fraudulent activities that are identified through the whistle-blowing service. Detailed reports are discussed at operational audit committee meetings, with significant reports submitted to and discussed in detail by the Audit and Compliance Committee meeting. The detailed reports, submitted by internal audit, highlight the nature of the violation of the Code, the detail of any financial loss if applicable, the root cause of the violation, the disciplinary action taken, and whether any criminal or civil action will be undertaken, as well as any possible recovery. During the period under review, there were no new significant fraudulent activities reported.

### RISK MANAGEMENT PROCESS

Tongaat Hulett's approach to strategic risk management (and its integration with seeking and maximising the connected or related opportunities or the conversion of the risk into opportunity) is aligned with Principle 11 of King IV™ and is continuously evolving. The risk management framework is reviewed continuously and updated when relevant. The framework includes a focus on risk tolerance (ability to withstand or even survive the issue/event) and risk appetite (risk limits desired or risk level willing to be taken), which have been detailed previously and remain applicable.

The risk management process involves identifying, analysing and taking the appropriate action with regard to specific identified scenarios, the aggregation of a number of individual risks, interrelated and interconnected issues, strategic positioning issues, macro issues/global trends, relevant clusters of such topics and a focus on the whole situation. Essentially it is an aggregation of risk data, with a consensus view thereof and the appropriate response. It is particularly aimed at identifying risks that might become extreme/beyond tolerance, as well as risk items, with their potential impact, that are being classified as within tolerance but could be beyond appetite.

The aim of this risk management process is to support and complement the setting and achieving of strategic objectives. The process is embedded and integrated into the business activities of Tongaat Hulett, from strategic and business planning through to day-to-day management.

This integrated approach results in:

- A thorough assessment of risks and opportunities emanating from the positioning and operation of Tongaat Hulett in the full extent of its broader spheres of influence and areas of engagement, leading to the appropriate and proactive strategic positioning and response to the potential risk/opportunity profile. This includes assessing risks (probability together with potential impact) and then focusing on both "mitigation" (reducing the probability and the potential impact) and shifting risks to "possibilities" and "opportunities".
- The resultant business strategy and plans include providing an approach that allows the business to operate under conditions of volatility and to be able to work through and recover from potential "shocks".

The Board has consistently delegated to management the responsibility to implement and execute effective risk and opportunity management. Reporting to and engaging with the Board on these topics is clearly spelled out and integrated into the regular Board reports, Strategic Plans and Budget/Business Plans, together with specific other communication when required. This takes into account the "triple context" (i.e. economic, societal and natural environment contexts) relevant to Tongaat Hulett and the "six capitals".

In analysing the potential impact/consequence, a number of factors (financial; sustainability/environment/human; stakeholder; reputation; governance and compliance; and projects related) are considered. Using the relevant measures it is then determined if it is a high, medium or low impact/consequence (e.g. for a financial measure, a high impact could measure in the hundreds of millions of profit/cash flow). Likewise, in analysing the probability/possibility/likelihood, it is then assessed if it has a high, medium or low likelihood. Given the complex nature of many such strategic topics, one practical option is to complete the aforementioned ratings (impact/consequence and probability/possibility/likelihood) on the basis of a consensus view derived from the aggregated risk data in an executive review of the topic, with a reasonable calibration being important. The holistic rating of the risk issue (i.e. residual risk after mitigating actions and factors) would then classify it as extreme, substantial or tolerable. The assessment needs to take into account the actions and mitigation already underway or requiring to be undertaken.

An integration of risks and opportunity management, linked to strategy, is covered throughout the CEO's review. 

The Tongaat Hulett internal audit function, which is supported by its internal audit service provider, KPMG, has performed a review of the effectiveness of the company's internal control environment, including its internal financial controls, and the effectiveness of its risk management process. The evaluation of the company's risk management processes included a review undertaken by KPMG. It noted Tongaat Hulett's positioning, for the review period, on the KPMG Risk Maturity Continuum as "integrated", which is the second highest level. The KPMG Risk Maturity Continuum has the levels of "weak-sustainable-mature-integrated-advanced" (order of maturity). Consequently, the company's internal audit function has provided independent assurance to the Audit and Compliance and Risk, SHE, Social and Ethics Committees and the Board on the effectiveness of its risk management processes.

Company-wide systems of internal control exist in all key operations to manage and mitigate risks and a Combined Assurance Strategy and Plan has been implemented to further enhance the co-ordination of assurance activities. Tongaat Hulett's Combined Assurance Plan provides a framework for the various assurance providers to work together to provide assurance to the Board, through the Audit and Compliance and Risk, SHE, Social and Ethics Committees, that all significant risks are adequately managed. The Plan consists of "three layers of defense", being management, functional oversight and independent assurance providers, wherein the assurance on the risk management and related controls for the company is reported.

Appropriate business continuity plans and resources have been identified in order to ensure the implementation of recovery procedures, where potential risks have been identified as having the possibility of constituting a disaster.

For the period under review, the Tongaat Hulett Board, assisted by the above-mentioned committees, is of the view that the internal control environment and the risk management processes in place for the company are effective.

## ACCOUNTABILITY AND INTERNAL CONTROL

The directors are required by the Companies Act to maintain records and prepare financial statements, which fairly present the state of affairs of the company as at the end of the financial year and the results of its operations for that year, in conformity with International Financial Reporting Standards. The financial statements are the responsibility of the directors and it is the responsibility of the independent external auditors to report thereon.

To enable the directors to meet these responsibilities, standards have been set, including the application of the company's Internal Control Framework. Tongaat Hulett Limited's Internal Control Framework is based on the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Integrated Framework, which has emerged as the leading framework that companies and auditors use to evaluate controls.

Systems of internal control are implemented to reduce the risk of error, loss or failure to achieve corporate objectives in a cost effective manner. These controls include the proper delegation of responsibilities within a clearly defined framework of prudent and effective accounting procedures and adequate segregation of duties. They are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring that the company's business practices are conducted in an appropriate manner, which is above reproach.

The company's internal audit function operates independently in all operations to appraise and evaluate the effectiveness of the operational activities and the attendant business risks. Where necessary, recommendations are made for improvements in the systems of internal control and accounting practice based on internal audit plans and reports which take cognisance of relative degrees of risk of each function or aspect of business.

Comprehensive management reporting disciplines are in place, which include the preparation of annual budgets by all operating entities. The operating Boards approve individual operational budgets, while the company budget is reviewed and approved by the Tongaat Hulett Board. Monthly results and the financial status of the operations are reported against budgets and forecasts and compared to the results of the prior year. Profit projections and cash flow forecasts are regularly updated, taking into account various economic scenarios and working capital and borrowing levels are monitored on an ongoing basis.

## THIRD-PARTY MANAGEMENT AND RELATED PARTY TRANSACTIONS

No part of the company's business was managed during the year by any third-party in which any director had an interest.

The company has a process in place whereby the directors and key management have confirmed that, to the best of their knowledge, the information disclosed in Tongaat Hulett Limited's annual financial statements fairly represents their shareholding in the company, both beneficial and indirect, interest in share options of the company and the compensation earned from the company for the financial year. In addition, the directors and key management have confirmed that all interests have been declared.

## INSIDER TRADING

No director, officer or employee may deal either directly or indirectly in the company's shares on the basis of unpublished price-sensitive information regarding its business or affairs. In addition, no director, officer or employee may trade in the company's shares during closed periods. Closed periods are from the end of the interim and annual reporting periods to the announcement of financial and operating results for the respective periods, and while the company is under a cautionary announcement.

## GOING CONCERN ASSERTION

The directors confirm that they are satisfied that the company has adequate strategic, financial and operational resources to continue its business for the foreseeable future. The basis upon which this assessment is made is recorded at the time of approval of the annual financial statements. The Board continues to adopt the going concern basis for preparing the financial statements.

## RELATIONSHIP WITH STAKEHOLDERS

The Board endorses the elements of Principle 16 of King IV™ that states that in the execution of its governance roles and responsibilities, the Board should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time. For more detail on the company's engagement with its wide range of important stakeholders, and key focus areas during the reporting period, please refer to the sustainability section of this integrated report.

The CEO, CFO and the Investor Relations and Communications Executive interface regularly with institutional investors on key strategic themes and the performance of the company, through various presentations and scheduled meetings as per the company's investor relations programme. The current programme includes management conducting roadshows in South Africa, and internationally, in addition to its participation in selected conferences. Through the company's website, a wide range of information is available to all shareholders and other stakeholders, including the integrated annual report, information on investor relations, and updates of the company's activities and its many initiatives to promote stakeholder value creation and sustainability.

Tongaat Hulett remains committed to principles of transparency, and copies of presentations given to the investment community are available on the company's website. The company encourages the attendance of shareholders at AGMs and welcomes fruitful discussions and questions arising from the agenda and any additional issues of interest or concern to the shareholders.