

# APPLICATION OF THE KING IV™ PRINCIPLES

- Ethical culture
- Good performance
- Effective control
- Legitimacy

## LEADERSHIP, ETHICS AND CORPORATE CITIZENSHIP

Principle	Application
<p><b>Leadership</b> Principle 1</p> <p>The Board should lead ethically and effectively</p>	<p>The Board leads the organisation in accordance with principles based on transparency, accountability, integrity and ethical leadership. A Corporate Governance Manual which includes the board-approved Board Charter, Code of Business Conduct and Ethics ("the Code"), Directors' Code of Conduct, committee terms of reference and established policies and practices demonstrate a sound framework for effective leadership premised on an ethical foundation.</p> <p>The company operates within a board-approved Code which supports a commitment to fair dealing, honesty and integrity in the conduct of its business.</p> <p>The company has established an ethics management program which comprises systems and processes such as the whistle-blowing service, ethics reporting and auditing which include trends, root cause analyses and reporting on financial impact of ethics violations.</p> <p>The effective control of the Board is evidenced through the governance framework that includes detailed reporting by board committees, an authorities framework that highlights levels of decision-making within the company, and a robust combined assurance system.</p>
<p><b>Organisational Ethics</b> Principle 2</p> <p>The Board should govern the ethics of the organisation in a way that supports the establishment of an ethical culture</p>	<p>The Board sets the tone of ethical leadership and has delegated to management the responsibility to execute and implement the Code and through the Audit Committee and Risk, SHE, Social and Ethics Committee, exercises ongoing oversight of the effective management of the ethics program, to ensure that an ethical culture is embedded in the organisation.</p> <p>The key elements of the Code include the company's policy on human rights, principles of ethical business practice, conflict of interest which includes a gifts policy and managing relationships with stakeholders (including a supplier code of conduct), anti-competitive behavior, whistle-blowing mechanisms, an independently monitored reporting line at all operations across geographic locations, the company's stance against the intimidation/victimisation of whistle-blowers, anti-corruption, amongst others.</p> <p>Tongaat Hulett's ethics program elements include leadership commitment, governance structures, corporate citizenship direction and focus, codes and policies and effective reporting mechanisms.</p> <p>The Code is available on the website and is referenced in employee and supplier contracts.</p>
<p><b>Responsible corporate citizenship</b> Principle 3</p> <p>The Board should ensure that the organisation is and is seen to be a responsible corporate citizen</p>	<p>Tongaat Hulett's responsible corporate citizenship is premised on a broader context and is informed by various initiatives, including the United National Global Compact, UN Sustainable Development Goals (SDGs), the Global Reporting Initiative (GRI) Standards, the National Development Plan (South Africa), the Broad-based Black Economic Empowerment Act's Code of Good Practices, King Code on Corporate Governance (King IV™) and stakeholder feedback.</p> <p>Tongaat Hulett's core values, strategy and conduct are congruent with it being a responsible and ethical corporate citizen, and these include sustainable development; human rights; impact on communities in which the company conducts its operations; protection of the environment; fair labour practices; fair and responsible remuneration; employee well-being and development; public health and employee well-being.</p> <p>The Board, through the Risk, SHE, Social and Ethics Committee oversees and monitors the company's performance and activities relating to its status and role as an ethical, responsible corporate citizen, measured against set performance targets and in line with the company's strategic goal of "value creation for all stakeholders through an all-inclusive approach to growth and development".</p> <p>Tongaat Hulett's medium term sustainability strategy consists of 12 key parameters that cut across human, natural and social capital. They also require development of a wide range of internal capabilities, all of which build the organisation's resilience and ability to respond to the challenges and uncertainties inherent in today's operational environment. These include compliance, safety, efficiency, ethics and human rights, governance, adapting to a changing regulatory context, a skilled and diverse workforce, and partnership with key stakeholders. The company is in its ninth year of the strategy and continues to evolve and learn in response to feedback from the wide range of partners involved.</p>

## STRATEGY, PERFORMANCE AND REPORTING

Principle	Application
<p><b>Strategy and performance</b> Principle 4</p> <p>The Board should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process</p>	<p>The Board Charter outlines the Board's responsibility for organisational performance by steering and setting the direction for the realisation of the organisations core purpose and values through its strategy.</p> <p>The Board constructively deliberates the formulated strategy once a year, taking into account various elements such as risks, opportunities, timelines and parameters and approves the company's strategy at each September Board meeting.</p> <p>The delegation of authority document delegates to management the responsibility to implement and executive approved policies and operational plans.</p>
<p><b>Reporting</b> Principle 5</p> <p>The Board should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short, medium and long-term prospects</p>	<p>The Board endorses the principles of transparency and accountability in its Charter as well as the Code of Business Conduct. This sets the tone of how the company reports in terms of its strategy, business performance, future prospects and outlook.</p> <p>The Board, through the Audit and Compliance Committee ensures the integrity of external reports and that necessary controls are in place by ensuring that various external assurance providers provide assurance of various key elements of the integrated report. Reporting frameworks and materiality are in place.</p> <p>The integrated annual report is the company's primary communication tool to all stakeholders of the company as it provides an overview of the company's financial and non-financial performance for the reporting period, with comparative data where applicable. In addition, corporate governance disclosures, integrated reports and annual financial statements amongst others, are published on the company's website.</p>

## GOVERNING STRUCTURES AND DELEGATION

Principle	Application
<p><b>Primary role and responsibilities of the Board</b> Principle 6</p> <p>The Board should serve as the focal point and custodian of corporate governance in the organisation</p>	<p>An appropriate governance framework, with the Board Charter, necessary policies and terms of reference, is in place and approved by the Board to ensure that its roles, responsibilities, membership requirements and procedural conduct are documented in a charter that is regularly reviewed to guide its effective functioning.</p> <p>The Board exercises its leadership role by steering the organisation and setting its strategic direction; approving policy and planning that gives effect to the direction provided; overseeing and monitoring implementation and execution by management and ensuring accountability for organisational performance by means of amongst other reporting and disclosure.</p> <p>The corporate governance report that is included in the integrated annual report makes all the required disclosures in terms of the Board, its Committees, and roles and responsibilities, as appropriate.</p> <p>The Board Charter and the Committee terms of reference outline appropriate protocol to be followed in instances where independent external professional advice is sought. The Board Charter and terms of reference of the relevant Committees are summarised in the integrated annual report.</p>
<p><b>Composition of the Board</b> Principle 7</p> <p>The Board should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively</p>	<p>The Board Charter, as well as the terms of reference of the Nomination Committee, set out the Board's responsibility for its composition, effective functioning, skills requirements, diversity policy at Board level, amongst other key elements.</p> <p>In accordance with the requirements of the King IV™, and as stipulated in the Charter, the Tongaat Hulett Board comprises a majority of independent non-executive directors. A rigorous review of the independence and performance of directors serving more than nine years is undertaken by the Board.</p> <p>As disclosed in the integrated annual report, there are seven (7) independent non-executive directors on the Board, two (2) executive directors - a CEO and CFO, and two (2) non-executive directors who are not considered independent by virtue of their participation in the company's BEE equity participation structure.</p> <p>Through the Nomination Committee, the Board that Board appointments are rigorous, fair, and open processes and adequately consider a balance of appropriate skills, knowledge, experience, diversity and independence.</p> <p>Tongaat Hulett fully complies with the JSE Listings Requirements paragraph 3.84 with regard to balance of power and authority; appointment of CEO and Chairman process; Policy on the promotion of gender and race diversity of the Board, and disclosing CVs of each director standing for election or re-election in the integrated annual report.</p> <p>The Tongaat Hulett MOI covers the staggered rotation of the Board. New skills and expertise are introduced to the Board regularly, while at the same time retaining valuable knowledge skills and maintaining continuity. The Board has an appropriate mix in this regard.</p> <p>Details of the composition of the Board are covered in the Corporate Governance report in the integrated annual report.</p>

<p><b>Committees of the Board</b> Principle 8</p> <p>The Board should ensure 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</p>	<p>The Board has formalised its delegation process to Committees and management through the Board Charter, terms of reference of Committees, and the Delegation of Authority framework. The Committees are: the Remuneration Committee, Nomination Committee, the Audit and Compliance Committee and the Risk, SHE, Social and Ethics Committee.</p> <p>The Board considers the allocation of roles and responsibilities in the comprehensive terms of reference, with the Nomination Committee and Board applying their mind on the composition of the various committees. Each Committees has appropriate knowledge, skills and experience to execute its duties as can be seen in the various CVs of the members of the various committees.</p> <p>The company has an Audit and Compliance Committee 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 additional duties assigned by the Board. As such, the while the members of this committee are nominated by the Nomination Committee and the Board, they are formally elected by shareholders at every AGM. Members of this Committee are all independent.</p> <p>The company complies with paragraph 3.84 of the JSE Listing Requirements with regard to the constitution and roles and responsibilities of the Audit Committee, the Remuneration Committee and the Social and Ethics Committee. A summary of the various terms of reference and details of how the Committees executed their responsibilities are contained the Corporate Governance report.</p>
<p><b>Evaluations of the performance of the Board</b> Principle 9</p> <p>The Board should ensure that the evaluation of its own performance and that of its committees, its chair and individual members, support continued improvement in its performance and effectiveness</p>	<p>The formal self-evaluation process of the Board and its committees, the assessment of the Chairman by the board, and the assessment of the performance of individual directors by the Chairman are an integral element of the Board evaluation process to review, and improve its performance annually.</p> <p>The lead independent director annually assess the performance of the Chairman, and if unavailable, an independent non-executive director conducts the assessment.</p> <p>During the financial year 2017/18, the evaluation process confirmed that the Board and Committees were working comprehensively and productively as a unit, and that all executed well on their mandate, duties and responsibilities and effectiveness given the size and complexity of the business.</p> <p>The Board has concurred that the next evaluation process will be facilitated externally and the summarised conclusion of this process will be disclosed in the integrated annual report.</p>
<p><b>Appointment and delegation to management</b> Principle 10</p> <p>The Board should ensure that the appointment of, and evaluation of, and delegation to management contribute to role clarity and the effective exercise of authority and responsibilities.</p>	<p>The role and function of the CEO is stipulated in the Board Charter. The performance review of the CEO is conducted by the Remuneration Committee in accordance with set criteria and performance indicators. The CEO is accountable to the Board for the successful implementation of the strategy and overall management and performance of the company.</p> <p>The CEO is accountable and reports to the Board and its various Committees as appropriate.</p> <p>The CEO attends Committee meetings by invitation, and is a member of the Risk, SHE, Social and Ethics Committee as required by the Companies Act and King IV<sup>™</sup>.</p> <p>Specific matters and responsibilities have been assigned to the CEO in accordance with the Delegation of Authority Framework.</p> <p>The Board has appointed a suitably qualified Company Secretary, who holds BA and LLB degrees and has been in the role with the company for nine years. The Company Secretary was duly appointed in terms of the Companies Act and is not a director of the company. The Board annually considers the competence of the Company Secretary.</p>

## GOVERNANCE FUNCTIONAL AREAS

Principle	Application
<p><b>Risk governance</b> Principle 11</p> <p>The Board should govern risk in a way that supports the organisation in setting and achieving its strategic objectives</p>	<p>The Board has direct responsibility for the governance of risk and approves the company's risk policy that gives effect to its set direction on risk. In addition, it approves the terms of reference of the Risk, SHE, Social and Ethics Committee that has been delegated with the responsibility to monitor risk governance.</p> <p>The Board has 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.</p> <p>The risk policy and processes confirm the Board's commitment to effective risk management in pursuit of strategic objectives, with risk management practices being embedded in critical business activities and day to day key decision making.</p> <p>The Board exercises ongoing oversight of risk management, with regular reports presented at both the Risk Committee and the Board, outlining the company's assessment of risk and opportunities emanating from the triple context in which the company operates.</p> <p>A detailed assessment on opportunities presented by risks with potentially negative effects is presented to the Risk Committee, the Board, and included in the CEO's review from time to time.</p> <p>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.</p> <p>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.</p> <p>Relevant and appropriate disclosures are made in the integrated annual report, in the statutory report of the Risk, SHE, Social and Ethics Committee, and in the corporate governance report.</p>
<p><b>Technology and information governance</b> Principle 12</p> <p>The Board should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives</p>	<p>The Board has direct responsibility for the governance of technology and information, and approves the company's policy and charter that gives effect to its set direction on technology and information governance. In addition, it approves the terms of reference of the Audit Committee that has been delegated with the responsibility to monitor technology and information governance.</p> <p>The Board approves the policy and charter, which delegate to management the responsibility to implement and execute effective technology and information management, in accordance with King IV™ terminology and to ensure that it encapsulates current company ERP and Unified Communications developments and practices in line with recent technology upgrades.</p> <p>The recent migration of the organisation onto an integrated common platform and common business processes is resulting in standardised business processes and reporting across the organisation; created 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.</p> <p>The company has strong business resilience arrangements and processes in place, with BCP and disaster recovery and testing processes in place.</p> <p>Information security and data protection policies are in place to ensure ethical and responsible use of technology and information, in compliance with applicable laws covering the collection and use of data of employees, suppliers and customers amongst others.</p> <p>Internal and external auditors perform assessments as part of their audit on technology and information management and related controls, with reports to the Audit Committee. All technology solutions impacting financial reporting are part of the audit scope.</p>
<p><b>Compliance governance</b> Principle 13</p> <p>The Board should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen</p>	<p>The Board Charter and Compliance Policy highlight the responsibility of the Board for the governance of compliance with applicable laws, non-binding rules, Codes of good governance and standards.</p> <p>Legal compliance systems are in place and monitored and improved regularly to mitigate the risk of non-compliance with laws. The Compliance Policy highlights the delegation of the responsibility for implementation and execution of effective compliance to management.</p> <p>The company adheres to non-binding codes and complies with applicable standards that impact financial statements, all of which are discussed by the Audit Committee.</p> <p>Key legislation and regulations have been identified as key legal compliance risk areas and receive ongoing management focus, with regular updates to the Board.</p> <p>Internal audit provides the required assurance on the effectiveness of compliance management on an annual basis.</p> <p>Compliance with environmental regulations is discussed at every meeting of the SHE Committee, with a report provided to the Board.</p>

<p><b>Remuneration governance</b> Principle 14</p> <p>The Board should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long-term</p>	<p>Through the Board Charter and the terms of reference of the Remuneration Committee, the Board sets out its responsibility for the governance of remuneration on a company wide basis. The Board also approves the remuneration policy to ensure that the company's practices are fair, responsible and transparent.</p> <p>The terms of reference of the Remuneration Committee highlight the philosophy and policy of the Committee as aligning the performance and fair reward of executives with the company's commercial success and sustainability.</p> <p>The following objectives are included:</p> <ul style="list-style-type: none"> <li>• Attracting, motivating and retaining high calibre talent within market benchmark pay levels.</li> <li>• Fair reward for performance.</li> <li>• Motivating executive to achieve the TH business plan, strategy and budget.</li> <li>• To promote the positive outcome of creating a strong performance orientated environment and alignment between employee and shareholder interests.</li> <li>• To promote an ethical culture and responsible citizenship.</li> </ul> <p>The most recent results of voting on the remuneration policy were disclosed to shareholders via the SENS portal. Going forward, this will be included in the background statement as now required by King IV™.</p> <p>The company will table both the remuneration policy and implementation report for separate votes by shareholders as required by King IV™ and paragraph 3.84(k) of the JSE Listings Requirements at the 2018 AGM, and will appropriately engage where there are dissenting votes of more than 25 percent. This will be reported on as appropriate in the background statement of the subsequent remuneration report included in the integrated annual report.</p> <p>A detailed copy of the remuneration policy and philosophy is contained in the remuneration report, in the integrated annual report.</p>
<p><b>Assurance</b> Principle 15</p> <p>The Board should 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.</p>	<p>The Board has delegated the responsibility of the arrangements for assurance services and functions to the Audit and Compliance Committee. The arrangements serve to achieve the enabling and effective internal control environment, supporting the integrity of information for internal decision-making by management, the Board and its Committees, and the integrity of external reports.</p> <p>The Tongaat Hulett combined assurance plan provides a framework for various assurance providers to work together to provide assurance to the Board that taken as a whole, they support the objective of assurance. Through the Audit Committee and Risk, SHE, Social and Ethics Committee, the Board satisfies itself that the combined assurance model is effective.</p> <p>The Combined Assurance plan and framework of the company consists of various layers of defence, being management and the organisation's specialist functions and subject matter experts; the internal audit function supported by its service provider KPMG; external auditors who provide the necessary assurance on various aspects including the AFS, and other external assurance providers such as those that provide assurance on sustainability elements.</p> <p>Through the Audit Committee, and the Risk, SHE, Social and Ethics Committee, the Board has ensured a robust process for the company's combined assurance matters, and the integrity of the information and reports, as well as the degree to which an effective control environment has been achieved.</p> <p>Through the Audit Committee, the Board has ensured that internal audit has the necessary skills and is adequately resourced to perform its functions given the risks faced by the company. The audit committee reviews the scope and coverage of the internal audit function. The function is outsourced to a professional firm of registered accountants and auditors, headed by the chief audit executive (CAE). The position of CAE is set up to function independently from management and carries the necessary authority. The internal audit charter outlines this.</p> <p>The internal audit charter confirms the requirement to conduct independent quality review of the internal audit function at least every five years, with the most recent review being conducted in January 2018. It was concluded that the function generally conforms to the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors.</p>

## STAKEHOLDER RELATIONSHIPS

Principle	Application
<p><b>Stakeholders</b> Principle 16</p> <p>In the execution of its governance role 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.</p>	<p>The Board is responsible for the governance of stakeholders, and the terms of reference of the Social and Ethics articulate this responsibility.</p> <p>The company has a comprehensive stakeholder engagement framework that is regularly reviewed by the Social and Ethics Committee and there is detailed disclosure in the integrated annual report.</p> <p>Through the Social and Ethics Committee, the Board reviews the company's methodologies for identifying and ranking the individual stakeholders, and at each committee meeting, operations highlight their top stakeholders and risk and mitigation actions. Stakeholder workshops with appropriate registers are maintained to ensure ongoing monitoring of the stakeholder relationships.</p> <p>The Sustainability Element of the integrated annual report covers in detail the company's arrangements for governing and managing stakeholder relations. Key focus areas are highlighted in detail in the report.</p> <p>Proactive engagement with shareholders takes place through the AGM. In addition, the CEO, CFO, Executives and the Investor Relations executive interface regularly with institutional investors on key strategic themes through various presentations and scheduled meetings through the company's investor relations programme.</p>