

# CORPORATE GOVERNANCE

Tongaat Hulett has a long-standing commitment to sound and effective corporate governance practices and ethical leadership in all its business activities, and recognises the inextricable link between effective governance and sustainable organisational performance.

Tongaat Hulett applies the principles as contained in The King Report on Governance for South Africa and the King Code on Governance Principles 2009 (King III), and the recommendations relevant to its business.

Throughout the current year, as part of its ongoing commitment to achieve corporate discipline, sustainability and good corporate citizenship, Tongaat Hulett completely re-evaluated its compliance with corporate governance principles and implemented relevant changes and improvements, including the review of the effectiveness of the Board's governance structures and the company's Corporate Governance Manual. This was done to align Tongaat Hulett's already well-established practices with its codified policies and procedures. This resulted in some key changes being made to the committees of the Board and various elements of the Corporate Governance Manual, which include the Board Charter, Terms of Reference of Board committees and the company's Code of Business Conduct and Ethics, being updated in line with King III recommendations and terminology.

The Corporate Governance Manual, which includes the company's established policies and practices on matters such as safety, health and environment, the solidarity with surrounding communities on socio-economic development initiatives and programmes on successful rural living, broad based black economic empowerment transactions and a commitment to employment equity, together reflect and reinforce the governance framework upon which Tongaat Hulett's sustainable business is anchored.

This corporate governance report depicts Tongaat Hulett's commitment to effective corporate governance and adherence to King III, the Companies Act, the related Listings Requirements of the JSE Limited (JSE) and other pertinent statutes and regulatory requirements guiding the Board's conduct throughout the period under review.

## BOARD OF DIRECTORS

The Board has an approved Charter which forms part of the Corporate Governance Manual and records the Board's continued objective to provide responsible business leadership with due regard to the interests of

shareholders and other stakeholders, whilst reflecting a demonstrable concern for sustainability as a business opportunity that guides strategy formulation. The various communities and the environment within which the company operates have continued to benefit from this insight. The Board Charter regulates and addresses inter alia, the role of the Board as the custodian of corporate governance, the fiduciary duties and responsibilities of the Board and individual directors toward the company, the approval of strategy and policies, the governance of risk management and succession planning.

Tongaat Hulett has a unitary Board structure, which at 31 March 2011 comprised ten non-executive and three executive directors, drawn from a broad spectrum of the business community. The directors represent a wide range of skills, knowledge and experience, and bring independent judgment to Board deliberations and decisions, with no one individual or group having unfettered powers of decision-making. A full list of the directors with brief biographies is given on pages 53 to 55 of the integrated annual report.

The roles of the independent Non-Executive Chairman, J B Magwaza, and the Chief Executive Officer, P H Staude, are separate with a clear division of responsibilities.

The Board has delegated to the Chief Executive Officer and other senior management authority to run the day-to-day affairs of the company. In addition to written Board resolutions, levels of authority and materiality delegated to management are approved by the Board and are clearly recorded in the Authorities Framework contained in the Corporate Governance Manual, which is utilised by all operations within Tongaat Hulett.

In accordance with the company's articles of association, directors are subject to retirement 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 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, at which they will be required to retire and offer themselves for re-election.

At the next AGM, B G Dunlop, F Jakoet, N Mjoli-Mncube and M H Munro will retire by rotation and seek re-election as directors. R H J Stevens will retire, having reached the mandatory retirement age.

There are no term contracts of service between any of the directors and the company or any of its operations.

On appointment, new directors have the benefit of induction activities aimed at broadening their understanding of the company and markets within which it operates. The Company Secretary ensures that directors receive accurate, timely and clear information. The Chief Executive Officer provides directors with appropriate information on business performance and strategic objectives. This, together with business reports of prior Board and committee meetings, and discussions with heads of operations, provides directors with sufficient background of 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.

The formal self-evaluation processes 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 annually, are an important element of the Board's activities to review and improve its performance continually. During the period under review, this evaluation process included assessing the independence of non-executive directors as envisaged in the King III code. Of the ten non-executive directors, eight are considered independent, whilst two are not considered independent by virtue of their participation in the company's black economic empowerment equity structure. In arriving at this conclusion, consideration is given amongst 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 judgment 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. The outcome of the Board evaluation process has been positive and an ongoing element of this process and succession planning is the assessment of skills mix, knowledge, expertise and the value added to the Board for the benefit of the business. The assessment of the independence of directors serving on the Board for a period longer than nine years will also be addressed.

The Board meets at least five 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. All directors have access to relevant information and to the advice and services of the Company Secretary, M A C Mahlari. Independent professional advice is available to directors in appropriate circumstances at the company's expense.

The attendance record of directors for the period under review is reflected in the table below.

#### Attendance of directors at Board meetings for the year ended 31 March 2011

Director	Board	
	A	B
JB Magwaza (Chairman)	5	5
P H Staude (CEO)	5	5
B G Dunlop	5	5
F Jakoet	5	5
J John	5	4
R P Kupara	5	5
T V Maphai <sup>1</sup>	4	1
M Mia	5	5
TN Mgoduso	5	4
N Mjoli-Mncube	5	4
M H Munro	5	5
A A Maleiane	5	5
T H Nyasulu <sup>2</sup>	1	1
C B Sibisi	5	5
R J H Stevens	5	4

A: Indicates the number of meetings held during the year while the director was a member of the Board

B: Indicates the number of meetings attended during the year while the director was a member of the Board

1: Resigned from the Board with effect from 8 March 2011

2: Resigned from the Board with effect from 27 July 2010 (AGM)

#### BOARD COMMITTEE STRUCTURES AND RESPONSIBILITY

In accordance with the Board Charter, the Board has reserved certain matters for its exclusive mandate 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 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 committee are set out in the Corporate Governance Manual, and are summarised as set out below.

### *Audit and Compliance Committee*

The Audit and Compliance Committee is constituted as a statutory committee of Tongaat Hulett in respect of its statutory duties in terms of the companies Act, 2008 as amended, and as a committee of the Board in respect of all additional duties assigned to it by the Board. The committee was appointed by the Board and comprises four non-executive directors of the company, all of whom are independent and possess the necessary skills, knowledge and expertise to direct the committee constructively in the execution of its responsibilities.

In accordance with the provisions of the Companies Act 2008 as amended, shareholders will be required to elect members of the Audit and Compliance Committee at the next AGM to be held on 29 July 2011, and annually thereafter. The current members are J John (Chairman), F Jakoet, M Mia and R P Kupara who was appointed to the committee on 10 March 2011. The Chief Executive Officer, P H Staude, the Chief Financial Officer, M H Munro, the Chief Audit Executive M M Jean-Louis and representatives of the internal and external auditors attend by invitation. The Company Secretary, M A C Mahlari, is the secretary for this committee. The committee meets at least three times a year.

The Audit and Compliance Committee's terms of reference, which have been updated in line with King III and the Companies Act and approved by the Board, include the overall objective of the committee to assist the Board to discharge 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 Audit and Compliance Committee has concluded that it will not prepare a summarised integrated report in addition to the complete report as the company's integrated report in its current format is deemed to be adequate, particularly as the process of refining the integrated report continues to evolve.

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 during the previous review cycle, 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 years from the date of validation in terms of the standards of the Institute of Internal Auditors. The review process is due to be completed again in the 2012/13 financial year.

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 the Internal Audit Charter, which has been updated in line with King III terminology 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 Chief Audit Executive 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, co-ordinated by the Chief Audit Executive, 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.

The committee is also responsible for ensuring that the combined assurance model espoused in King III 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 & Compliance and Risk & SHE 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 on page 48 in the Risk Management Process section of the integrated annual report.

The committee's focus on regulatory compliance is ongoing in line with the amendments 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 a compliance policy which confirms and firmly entrenches Tongaat Hulett's commitment, through the combined efforts of various role players, to implement controls and processes to manage regulatory compliance across all operations. Management continuously assesses and reviews statutory and regulatory requirements and risks, and identifies appropriate processes and interventions to enhance compliance with applicable legislation. No material infractions have come to management's attention during period under review that indicate non-compliance with pertinent legislation and codes of good practice.

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

**The Audit and Compliance Committee is pleased to report as follows for the financial year ended 31 March 2011:**

***1. Audit and Compliance Committee Terms of Reference***

The Audit and Compliance Committee has adopted and operates within formal terms of reference that have been approved by the Board of directors. The committee confirms that for the period under review, it discharged its duties and responsibilities in accordance with the terms of reference. The summary of the role of the committee is as recorded on page 44 of the integrated annual report.

***2. Statutory Duties***

The committee confirms that it performed the following statutory duties as required by the Companies Act and in accordance with its terms of reference:

- Nominated for appointment as external auditor of the company at the AGM, Deloitte and Touche, a registered auditor accredited to appear on the JSE List of Accredited Auditors who, in the opinion of the committee is independent of the company, and Mr Wentzel Moodley as the designated auditor, for the 2011/12 financial year;
- Determined the fees to be paid to the external auditor and agreed to the terms of their engagement and audit plan in consultation with executive management;
- Ensured that the appointment of the external auditor complies with the provisions of the Companies Act and any other legislation relating to the appointment of auditors, including consideration of criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors;
- Determined the nature and extent of any non-audit services that the auditor may provide to the company;
- Pre-approved any proposed agreement with the external auditor for the provision of non-audit services to the company.

The committee did not receive any concerns or complaints relating to the accounting practices and internal audit of the company, the content or auditing of the company's financial statements, the internal financial controls of the company or any other related matter during the period under review.

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

During the period under review, the committee performed its duties and responsibilities assigned to it by the Board in accordance with the terms of reference and specifically reviewed the financial statements and was satisfied that they comply with International Financial Reporting Standards. The committee reviewed the assessment by management of the going-concern statement of the company and concluded to the Board that the company will be a going concern in the foreseeable future. The committee complied with its legal, regulatory and other responsibilities.

***4. Expertise and Experience of Financial Director***

The committee considered the expertise and experience of the Tongaat Hulett financial director in terms of the Listing Requirements of the JSE and has satisfied itself that the financial director's expertise and experience meet the appropriate requirements.

## 5. Internal Audit

- The committee has considered and recommended the internal audit charter for approval by the Board. The work performed by internal audit was in accordance with the internal audit plan for the year ended 31 March 2011 and included the review of general and application computer controls on the systems used for financial reporting purposes. In addition, the committee approved internal audit's coverage and work plan for the financial year commencing 1 April 2011.
- The Chief Audit Executive has direct access to the committee primarily through the Chairman of the committee. During the period under review, the Chief Audit Executive had the opportunity to address the committee without the executive management of the company present.
- Tongaat Hulett's internal audit function, which is supported by its internal audit service provider, KPMG, has as part of its mandate, 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. Based on the results of these reviews, the internal audit function has confirmed to the Audit and Compliance and Risk & SHE Committees and the Board that no evidence came to light that the internal control environment and risk management process for the company was ineffective. In addition, nothing indicated a material weakness in internal financial controls, whether from design, implementation or operation (individually or in combination with other weaknesses).

The Audit and Compliance Committee is of the view, based on the representations made by the internal audit, that the internal financial controls in place for the company were not ineffective during the period under review.

## 6. Sustainability and Governance Reporting

The 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. The committee also considered the various reports of the external assurance service providers.

## 7. Approval of Integrated Annual Report

The committee, taking into account the combined assurance model adopted by Tongaat Hulett,

recommended the integrated annual report for approval by the Board of directors.

## 8. Attendance

The Audit and Compliance Committee had three meetings during the period under review. The record of attendance is contained in the table below.

**Attendance of directors at the Audit and Compliance Committee meetings for the year ended 31 March 2011**

Director	Audit and Compliance Committee	
	A	B
J John (Chairman) Year appointed: 2007	3	3
F Jakoet Year appointed: 2009	3	3
RP Kupara <sup>1</sup> Year appointed: 2011	-	-
M Mia Year appointed: 1998	3	3

A: Indicates the number of meetings held during the year while the director was a member of the committee

B: Indicates the number of meetings attended during the year while the director was a member of the committee

1: Appointed to the Audit and Compliance Committee with effect from 10 March 2011

(The brief biographies of the members are given on pages 53 to 54 of the integrated annual report)

## Risk and Safety, Health & Environment Committee

During 2010, the Board assessed how best to position risk governance and review within the existing structure of Tongaat Hulett's various committees, as part of the Board's ongoing review of its effectiveness and that of its committees. The Board considered the recommendations of King III in this regard, and concluded that although the company's risk management processes are in place and mature, it was more appropriate to assign this responsibility to a Board committee instead of a management committee, as was previously the case, given the added emphasis King III places on Board leadership in dealing with the governance of risk. After due consideration, this responsibility was assigned to a Board committee, and thus the Risk and Safety, Health & Environment (SHE) Committee was formed.



The Risk and SHE Committee assists the Board to fulfill its risk governance and SHE objectives by ensuring, amongst others, that the company has implemented effective policies and plans for risk management and safety, health and environment that enhance the company's ability to achieve its strategic objectives. The committee also ensures that disclosures and communication between the Board and the Audit and Compliance Committee regarding risk management processes and activities pertaining to safety, health and environment are comprehensive and adequately facilitated. Whilst the committee has 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. Other duties of the committee include overseeing the performance of the company against its set safety, health and environment targets and objectives, and considering reports relating to substantive SHE risks and liabilities that could potentially face the company.

The Risk and SHE Committee, comprising non-executive and executive directors, is chaired by an independent non-executive director, and meets at least twice a year. Its members are N Mjoli-Mncube (Chairman), P H Staude (CEO), F Jakoet, T Mgoduso, C B Sibisi and M H Munro (in his capacity as Chief Risk Officer). Several members of the executive and other senior managers of the company attend this meeting by invitation. M A C Mahlari is the secretary.

The Risk and SHE Committee had two meetings during the period under review. The record of attendance is contained in the table below.

**Attendance of directors at the Risk and SHE Committee meetings for the year ended 31 March 2011**

Director	Risk & SHE Committee <sup>1</sup>	
	A	B
N Mjoli-Mncube (Chairman)	2	2
P H Staude (CEO)	2	2
F Jakoet	2	2
T Mgoduso <sup>2</sup>	1	1
M H Munro <sup>2</sup>	1	1
C B Sibisi	2	2

A: Indicates the number of meetings held during the year while the director was a member of the committee

B: Indicates the number of meetings attended during the year while the director was a member of the committee

- 1: During the period under review, there was one SHE Committee meeting and one newly constituted Risk & SHE Committee meeting.
- 2: Appointed to the Risk & SHE Committee with effect from 12 November 2010.

**Risk Management Process**

While the Board is ultimately responsible for risk management, company management has designed and implemented a risk management framework and has committed the company to a process of risk management that is aligned to King III and to the company's corporate governance responsibilities. This commitment is reflected in management's continued attention to the importance of effective risk management in ensuring that business objectives and strategies are met and that continued, sustained growth and profitability is achieved. The framework, which incorporates the risk management policy, strategy and plan, aims to ensure that risk management processes are embedded in critical business activities and functions, and that risks are undertaken in an informed manner and pro-actively managed in accordance with the business risk appetite. This includes identifying and taking advantage of opportunities as well as protecting intellectual capital and assets by mitigating adverse impacts of risk.

The risk management review process seeks to achieve the correct balance between the issues that are specific to, and appropriately managed in, an operational area and those issues that are significant enough or cross cutting enough to be considered, and managed in an appropriate way, on a Tongaat Hulett basis. The approach to risk management includes being able to identify, describe and analyse risks at all levels throughout the organisation, with mitigating actions being implemented at the appropriate point of activity. The very significant, high impact risk areas and the related mitigating action plans are monitored at executive level. Risks and mitigating actions are given relevant visibility at various appropriate forums throughout the organisation.

Tonga Hulett has documented its approach towards Information and Communication Technology (ICT) in various documents such as the ICT governance framework (including the company's policy and charter), disaster recovery plans, business continuity plans, acceptable use policy and a record of the approach to the protection and control of ICT documentation. The IT systems and application controls in the multiple computer systems in the various operations are, inter alia, subject to internal audit processes on an ongoing basis, integral to the audit of the overall control environment.

The current business environment is recognised as having many changing and challenging elements,

particularly in the context of the volatile global economy and specific localised dynamics. Most of Tongaat Hulett's business platforms and operational areas are not considered to be in a static, steady state. Consequently, rather than relying purely on periodic reviews, there is a continued and increasing adoption of a project management approach and use of project management skills in various management processes, including risk management. The ongoing, routine risk management processes are thus coupled with change management and specific, task based, project driven risk management initiatives.

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 & Compliance and Risk & SHE Committees, that all significant risks are adequately managed. The plan consists of three layers of defence, 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.

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 "Mature" out of a possible range of "basic – mature – advanced". Consequently, the company's internal audit function has provided independent assurance to the Audit and Compliance and Risk & SHE Committees and the Board on the effectiveness of its risk management processes.

For the period to 31 March 2011, the Tongaat Hulett Board, assisted by the abovementioned committees, is of the view that the internal control environment and the risk management processes in place for the company are effective.

## Remuneration Committee

The Remuneration Committee, which meets at least three times a year, is chaired by an independent non-executive director and comprises only non-executive directors. The current members are M Mia (Chairman), J B Magwaza and N Mjoli-Mncube. P H Staude attends by invitation and M A C Mahlari is the secretary.

The reward philosophy, which has been approved by the Board, is formulated to attract, motivate and retain directors, executives and employees needed to manage and run the company successfully. The Remuneration Committee is responsible for considering and making recommendations to the Board on the policy and on the quantum, structure and composition of remuneration packages of executive directors and senior executives. In addition, it reviews general salary increases for management and the operation of the company's management incentive schemes. Rewards are linked to both individual performance and the performance of the company. From time to time, independent external studies and comparisons are used to ensure that compensation is market related. As a general principle, good performers are remunerated in line with the market median, with high achievers and exceptional performers being rewarded towards the market upper quartile.

The Remuneration Committee had two meetings during the period under review. The record of attendance is contained in the table below.

### Attendance of directors at the Remuneration Committee meetings for the year ended 31 March 2011

Director	Remuneration Committee	
	A	B
M Mia (Chairman)	2	2
J B Magwaza	2	2
N Mjoli-Mncube	2	2

A: Indicates the number of meetings held during the year while the director was a member of the committee

B: Indicates the number of meetings attended during the year while the director was a member of the committee

## Nomination Committee

The Nomination Committee, which comprises only non-executive directors, all of whom are independent, is chaired by an independent non-executive director and

meets as required. Its members are M Mia (Chairman), J B Magwaza and N Mjoli-Mncube. P H Staude attends by invitation and M A C Mahlari is the secretary. This committee's terms of reference ensure that, for Board appointments, a rigorous, fair and open nomination and appointment process is established which will provide a balance of appropriate skills, knowledge and experience in the boardroom and support strong corporate performance. The committee 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, ensuring that there is a diversity of experience and backgrounds to create a cohesive and effective Board. The committee also gives consideration to succession planning, and ensures that processes and plans are in place for orderly succession and for appointments to the Board and to senior management.

The Nomination Committee had two meetings during the period under review. The record of attendance is contained in the table below.

**Attendance of directors at the Nomination Committee meetings for the year ended 31 March 2011**

Director	Nomination Committee	
	A	B
M Mia (Chairman)	2	2
J B Magwaza	2	2
N Mjoli-Mncube	2	2

A: Indicates the number of meetings held during the year while the director was a member of the committee

B: Indicates the number of meetings attended during the year while the director was a member of the committee

Appropriate consideration is currently being given by the Board towards the establishment of a Social and Ethics Committee as required by the Companies Act 2008 as amended.

## MANAGEMENT COMMITTEES

### *Executive Management Committee*

The Executive Management Committee consists of senior Tongaat Hulett executives and deliberates on matters of strategy, budget and business planning and the effective operation of the business. It provides leadership on key issues. The committee's focus is on the alignment of activities and initiatives throughout the company's operations.

The current members are P H Staude (Chairman), J D Bhana, R D S Cumbi, M Deighton, N P Dingaan,

B G Dunlop, B R Gumede, C Gwala, M M Jean-Louis, G P N Kruger, G Macpherson, V C Macu, M A C Mahlari, M N Mohale, S D Mtsambiwa, M H Munro, S J Saunders and M Serfontein. The Company Secretary, M A C Mahlari is the secretary of this committee.

### *Employment Equity Committee*

The Employment Equity Committee, chaired by the CEO, consists of senior Tongaat Hulett executives and managers. It monitors and reviews progress throughout the company on all employment equity related matters including implementation of policy and required programmes, whilst ensuring the continued growth and competitiveness of the company in a changing world order.

## 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 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.



Tongaat Hulett's internal audit function, which is supported by its internal audit service provider, KPMG, has as part of its mandate, 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. Based on the results of these reviews, the internal audit function has confirmed to the Audit and Compliance and Risk & SHE committees and the Board that no evidence came to light that the internal control environment, including its internal financial controls and the risk management process for the company were ineffective.

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.

### CODE OF BUSINESS CONDUCT AND ETHICS

The company operates within a Code of Business Conduct and Ethics, which supports its commitment to a policy of fair dealing, honesty and integrity in the conduct of its business. The Code of Business Conduct and Ethics has recently been reviewed and approved by the Board, communicated and distributed to all employees across all levels in the company. The Code is based on a fundamental belief that all business transactions should be legal and conducted beyond reproach in the spirit of honesty, fairness and unquestionable ethics. The company has a zero tolerance approach to any violation of the law or unethical business dealing by any employee. The Code also addresses conflict of interest situations and encourages employees to report on any conflict or perceived conflict of interest situation. This may arise due to employees being offered and receiving gifts in return for favors, 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.

Compliance by directors and all employees 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 must promptly and confidentially report it to the Company Secretary or senior officials at management level. Tongaat Hulett has engaged the services of an independent whistle blowing service provider to provide mechanisms to report on unethical behaviour or non-compliance with the Code. The Audit and Compliance Committee assists the Board in overseeing the consistent application of and compliance with the Code, whilst management ensures its implementation across all operations in a day to day context. Appropriate action is taken in respect of all reported instances of non-compliance with the Code by employees. The Board is giving consideration towards the establishment of a Social and Ethics Committee.

No material infractions of the Code have been reported during the period under review.

### REMUNERATION REPORT

The major principles of the company's remuneration philosophy and policies as described on page 51 and as set out below will form the basis of a non-binding advisory vote at the AGM as set out on page 122. Details of remuneration paid to directors and executive directors' interests in share incentive scheme awards of the company are set out on pages 102 to 103 and 108 to 110 respectively. The remuneration of the three highest paid employees who are not executive directors is also disclosed on page 102.

### EXECUTIVE REMUNERATION

The remuneration of senior management is determined by taking into consideration market comparisons and an assessment of performance related to the achievement of documented measurable performance targets. Strategic and business objectives, which are reviewed periodically, as well as a general assessment of performance, are taken into account. The remuneration structure at senior management level consists of guaranteed pay, variable

pay in the form of incentive bonus schemes and long term incentives in the form of employee share incentive schemes.

### **Basic Salary**

The cash package of senior management is subject to annual review by the Remuneration Committee and the Board and is set with reference to relevant external market data as well as the assessment of individual performance.

### **Incentive Bonus Scheme**

The incentive bonus scheme is based on a combination of the achievement of pre-determined targets, and an assessment of the individual's overall performance. These targets include measures of corporate and, where applicable, operational performance as well as the achievement of individual performance against pre-determined objectives related to key business strategies and requirements.

### **Share Incentive Schemes**

The objective of the share incentive schemes is to strengthen the alignment of shareholder and management interests and assist in the attraction, retention and appropriate reward of management.

The Share Appreciation Right Scheme 2005 (SARS), Long Term Incentive Plan 2005 (LTIP) and Deferred Bonus Plan 2005 (DBP) (collectively referred to as "the Plans") were amended at the AGM on 27 July 2010 to ensure compliance with Schedule 14 of the JSE Listing Requirements and, where appropriate, King III. Under these share incentive schemes, senior management and employees of the company are awarded rights to receive shares in the company based on the value of these awards (after the deduction of employees' tax) when performance conditions have been met, the awards have vested and, in the case of the SARS, when the share appreciation rights have been exercised. The amendment to the LTIP scheme also included the introduction of retention shares that may be awarded on the condition that the employee remains in the service of the company. The purpose of such LTIP awards is to assist with the retention of targeted key and high potential employees.

The accounting charges to the income statement required by IFRS 2 Share-based Payment are accounted

for as equity-settled instruments. The costs associated with the settlement of awards under the share schemes qualify for a tax deduction by the company.

Details of the schemes and awards made from 2005 to 31 March 2011, after approval by the Remuneration Committee and the Board, are detailed in the notes to the annual financial statements. The share incentive scheme in operation prior to 2005 was discontinued in 2005, with the previous awards continuing to run their course and no new awards being made.

Performance conditions governing the vesting of the scheme instruments are related to growth in earnings per share, share price, total shareholder return and return on capital employed, relative to targets that are intended to be challenging but achievable. Targets are linked, where applicable, to the company's medium term business plan, over three year performance periods, with actual grants being set each year considering the job level and cash package of the participating employee, their individual performance, and appropriate benchmarks of the expected combined value of the awards. King III refers to the application of company performance conditions to govern the vesting of awards under the Plans, and precludes the application of retesting. The application of company performance conditions has been applied since the approval of the Plans. New awards thus have relevant performance conditions, do not provide for retesting, and apply the principle of graduated vesting as recommended by King III.

### **Other Benefits**

Membership of an approved company pension fund is compulsory for all senior management and pension and life insurance benefits are provided. Other benefits constitute the provision of medical aid, gratuity at retirement and death and disability insurance.

### **NON-EXECUTIVE DIRECTORS' REMUNERATION**

Non-executive directors receive fees for their services on the company Board and Board committees. Directors' fees are recommended by the Remuneration Committee and considered by the Board, and proposed to the shareholders for approval at each AGM.

As required by the Companies Act 2008 as amended, the remuneration of non-executive directors will be authorized by special resolution at the AGM and is set out on page 121.

### THIRD-PARTY MANAGEMENT

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

### RELATED PARTY TRANSACTIONS

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 in 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.