

# CORPORATE GOVERNANCE

## APPROACH TO EFFECTIVE GOVERNANCE

The Board of Directors (the Board) recognises the inextricable link between effective governance, sustainable organisational performance and creating long-term value for all stakeholders. The Board is therefore committed to transparency, accountability, integrity and ethical leadership.

Tongaat Hulett continues to apply the principles of 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. Tongaat Hulett's King III compliance register is available at [www.tongaathulett.com](http://www.tongaathulett.com). It includes detail of how each principle has been applied and is reviewed on a regular basis to ensure that the disclosures are current and remain relevant. The company's approach to corporate governance continues to reflect that governance is regarded by the Board not as a mere compliance exercise that measures basic compliance with King III, but rather confirms that best practice principles are effectively utilised and embedded by the company in its day to day activities.

This corporate governance report has been aligned to King III, the Companies Act, the Listings Requirements of the JSE Limited (JSE), including full compliance with paragraph 3.84 of the JSE requirements (available at [www.tongaathulett.com](http://www.tongaathulett.com)), and other pertinent statutes and regulatory requirements guiding the Board's and company's conduct for the period under review.

## BOARD OF DIRECTORS

### BOARD COMPOSITION

Tongaat Hulett has a unitary Board structure, which at 31 March 2016 comprised nine non-executive and two executive directors, drawn from a broad spectrum of the business community. Collectively, the directors possess a wide array of skills, knowledge 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, historically disadvantaged groups, age 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 also sufficiently gender diverse, with five out of eleven directors on the Board being women. 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. Jenitha 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. It records the Board's objective to provide responsible business

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
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					

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. It includes the Board's responsibility to amongst others, approve strategy, business plans and budgets, provide effective leadership based on an ethical foundation, oversee governance of risk and information technology, ensure succession planning, approve annual results and review of significant policies and governance frameworks. The charter also highlights the role of the Board as the custodian of corporate governance, and addresses the fiduciary duties and responsibilities of the board and directors.

The Board has mandated the following four committees, (their roles and responsibilities are summarized below) each with a Board approved 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. 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, which is utilised by all operations within Tongaat Hulett.

#### **BOARD CHANGES AND ROTATION AT AGM**

During the period under review, the Board appointed Tomaz Salomão as an independent non-executive director on 25 May 2015, to further enhance the skills on the Board. He was also formally elected as director by the shareholders at the AGM held in July 2015.

In accordance with the company's memorandum of incorporation, 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 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 election.

Retiring at the next AGM by rotation are J John, RP Kupara and N Mjoli-Mncube, who being eligible and available, will seek re-election as directors. The Nomination Committee has assessed each of the retiring directors and the Board unanimously recommends their re-election.

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 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 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.

#### **BOARD EVALUATION**

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 annually, are an integral 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 King III. Of the nine non-executive directors, seven are considered independent, whilst two 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 III on independence are taken into account and 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 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. None of the independent non-executive directors have been directors of the company for more than nine years. The outcome of the Board evaluation process for the period under review has been positive.

The Board meets at least five times a year, with special or additional meetings convened as circumstances dictate. Comprehensive Board 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 was appointed in December 2009. Ms Mahlari holds a BA and LLB, has over 10 years' experience as a Company Secretary and has worked in various private commercial law practices. After assessing the Company Secretary in accordance with the JSE Listings Requirements, the Board concluded that Ms Mahlari is suitably qualified, competent and meets the appropriate requirements in terms of experience to carry out the functions of Company Secretary of a public listed company. Furthermore, the Board is satisfied that Ms Mahlari maintains an arm's length relationship with the Board of directors. She 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.

## Board and committee composition and attendance for the year ended 31 March 2016

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			3	3	2	2		
PH Staude (CEO)	5	5							2	2
SM Beesley	5	5							2	2
F Jakoet	5	5	3	3					2	2
J John	5	4	3	3						
RP Kupara	5	5	3	3						
TN Mgoduso	5	4							2	2
N Mjoli-Mncube	5	4			3	3	2	2	2	2
MH Munro	5	5							2	2
SG Pretorius	5	5			3	3	2	2		
TA Salomão <sup>1</sup>	3	3								

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.  
1: Appointed to the Board on 25 May 2015

## 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 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 committee are set out in the Corporate Governance Manual, and are summarised as set out 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 C Mokoena as the HR Executive, attend by invitation and MAC Mahlari is the secretary. An additional meeting of the committee was arranged, bringing the number of meetings held during the period under review to three. The record of attendance is contained above. The report of the Remuneration Committee commences on page 71.

### 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.
- 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, the Nomination committee discussed the directors who would retire by rotation at the next AGM, and recommended the re-election of these directors, namely J John, RP Kupara and N Mjoli-Mncube to the Board and AGM. 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. In making the recommendations to the Board and ultimately the AGM (where applicable), the Nomination committee considered the current skills set on the Board as a collective, the relevant experience and expertise of 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, given that the company operates in six SADC countries. The Committee also approved the policy on the promotion of gender diversity at board level.



## 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), F Jakoet and RP Kupara. SM Beesley has been nominated as a new member of the committee with effect from July 2016. The Chief Executive Officer, PH Staude, the Chief Financial Officer, MH Munro, the Head of Internal Audit, D K 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 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 following objectives and responsibilities:

- Assist 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 2013, 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 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 is in line with King III 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, co-ordinated 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 III is applied to provide a co-ordinated 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 co-ordinated 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.
- The committee's focus on regulatory compliance 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 compliance policy 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 legal, regulatory and corporate governance requirements and risks, and identifies 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.

## CORPORATE GOVERNANCE continued

- In order to ensure optimal performance and delivery of its mandate, the committee conducted an assessment of its performance for the period, considering such factors as its composition and authority, the execution of its role and responsibilities, its working relationship with both internal and external audit and its statutory obligations towards the company and its shareholders. The outcome of the assessment process has been positive, reflecting that the committee meets best practice, and is functioning effectively and efficiently.

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 statutory report of the Audit and Compliance Committee is on page 92, and forms part of the annual financial statements.



### **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, socio-economic development, 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 an active and socially committed corporate citizen;
- 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 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 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;
- ensuring that there is meaningful engagement with the company's identified stakeholders.

During the period under review, 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 Risk, SHE, Social and Ethics Committee presents its report to the shareholders as required by the Companies Act and recommended by King III, illustrating how it discharged its statutory responsibilities and acted in accordance with its terms of reference for the period to 31 March 2016:**

#### **1. Statutory duties**

##### ***Social and economic development***

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 ten principles are receiving due and appropriate attention by the company on an ongoing basis. During the period under review, the committee monitored the socio-economic development initiatives 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 Socio-Economic Development Policy, which entrenches the philosophy of constructively contributing towards building and enhancing the quality of life of the communities in the Southern African regions where it operates. A full report of Tongaat Hulett's focus on, and contribution to, social and economic development, 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.

The company is committed to economic sustainability and continues to assess its business approach to empowerment and preferential procurement, taking into account employment equity, skills development and broad-based black economic empowerment within the Southern African



context. In South Africa, the company annually conducts a B-BBEE audit assessment and in its most recent audit, the company was categorised as a level three contributor. More information in this regard is contained in the sustainability report.

### ***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. The committee also assessed the company's proactive stakeholder engagement interface and other processes in place which 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 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 safety, health and environment targets and objectives, and considered various reports relating to SHE risks and opportunities that could potentially face the company. Safety, health and environment practices continue to receive key management focus, with the CEO continuing to provide leadership and direction on strategic implementation of SHE initiatives, not only within the company, but extending the various SHE programmes to include contractors, service providers and where applicable, surrounding communities. 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.

### ***Consumer relationships, product labelling and communication***

Tongaat Hulett continues to adhere to consumer protection laws across all countries of operation. Appropriate systems and processes are in place to ensure successful consumer relationships, such as suitable terms of sale agreements, responsible marketing practices and material that comply with applicable requirements, packaging and labeling practices that reflect pertinent product information in compliance with labelling regulations, as well as the commercial conduct of the

company to ensure compliance with these laws. Monitoring of these key issues continues at the various operations and instances of potential non-compliance will be addressed by the Audit and Compliance committee. Through the establishment of customer care lines, operations are able to monitor customer relationships and any potential complaints that may arise.

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

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

### ***Ethics***

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. The Code of Business Conduct and Ethics (discussed in more detail below under ethics management and governance), 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 been approved by the Board. The committee confirms that for the period under review, it discharged its duties and responsibilities in accordance with these terms of reference. The summary of the role of the committee is as articulated on page 66 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 and SHE objectives by ensuring, amongst others, that the company has implemented effective policies and plans for risk management, safety, health and environment 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 safety, health and environment were comprehensive and adequately facilitated. Whilst 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 inextricable 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 Organisation for Economic Cooperation and Development (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, amongst others.

The company has implemented employment equity 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 amongst others. The Human Resources Executive drives these processes under the leadership of the CEO and reports to the Remuneration Committee and the Board.

### 5. Sustainability reporting

The committee reviewed and accepted the detailed sustainability report contained in this integrated report, 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 socio-economic development (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. Attendance

The committee had two meetings during the period under review. The record of attendance is contained on page 64.



## ETHICS MANAGEMENT AND GOVERNANCE

### CODE OF BUSINESS CONDUCT AND ETHICS

The company operates within a formal Code of Business Conduct and Ethics, which has 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 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 on 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 day to day 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.

### 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 behavior or non-compliance with the Code. The independent whistle-blowing service, which is anonymous, is operational in South Africa, Zimbabwe, Botswana, Mozambique, Swaziland and Namibia. Continuous training and awareness are important aspects of a successful ethics management programme. To this end, each centre has recently 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.

During the period under review, fifty eight tip-offs were reported through the whistle-blowing service across the business. Information relating to a significant fraudulent activity was reported in detail to the Audit and Compliance Committee meeting and appropriate steps including disciplinary action have been taken.

## 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 wide 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 an executive level. Risks and mitigating actions are given relevant visibility at various appropriate forums throughout the organisation.

Tongaat 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 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.

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 "advanced" 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, Social and Ethics Committees and the Board on the effectiveness of its risk management processes.

For the period under review, 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.

## 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



## CORPORATE GOVERNANCE continued

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

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.

## RELATIONSHIP WITH STAKEHOLDERS

The Chief Executive Officer, Chief Financial Officer 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, the United Kingdom and the United States of America, in addition to its participation in selected national and international 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.

For more detail on the company's engagement with stakeholders, please refer to the sustainability section of this integrated report.