EXECUTIVE REMUNERATION

The remuneration of executives is determined by taking into consideration market comparisons and an assessment of performance related to the achievement of documented 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
  - made up of cash package and benefits;
- variable pay
  - short-term incentive bonus schemes, which have set maximum levels; and
  - long-term incentives in the form of employee share incentive schemes.

TOTAL REMUNERATION PACKAGE

GUARANTEED PAY

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 and the role/profile of each executive.

Benefits

Membership of an approved company pension fund is compulsory for all senior management, and other benefits include the provision of medical aid, gratuity at retirement, and death and disability insurance, as well as housing and car schemes for qualifying employees in Mozambique, Zimbabwe and Swaziland operations.

VARIABLE PAY

Short-term incentive: annual bonus scheme

The primary purpose of the bonus scheme is to serve as a short-term incentive, which gives executives and senior managers the opportunity to earn an annual bonus based on the financial performance of Tongaat Hulett and the operations, as well as an element related to individual/team performance.

The short-term incentive annual bonus scheme is based on a combination of the achievement of predetermined targets, and an assessment of the individual's overall general performance. These targets include measures of corporate and, where applicable, operational performance, as well as the achievement of individual and, where applicable, team performance, against predetermined objectives related to key business strategies and objectives. The performance targets of the executive and senior management schemes in the 2016/17 year were made up of financial targets (ranging from 55% to 65%) and non-financial targets (ranging from 45% to 35%), which are strategic objectives and team targets. The targets and caps are reviewed annually.

There are various caps for the different levels of executives and employees, currently as follows:

Level of management	Cap as % of cash package
Chief Executive	80%
Executive leadership	65%
Senior management	up to 50%

Note: Zero bonus payments are made on these schemes if headline earnings are below a certain level (2016/17: R740 million). The same principle was applied in 2015/16 and will also be applied in 2017/18.

Financial targets for bonus scheme

All financial targets have an upper limit and a lower limit. If financial results are below the lower limit, zero points will be earned for the element concerned. If financial results exceed the upper limit, the full score related to the relevant element of the bonus will apply.

The financial targets this year comprise:

- Headline earnings
- Return on capital employed (ROCE)
- Cash flow
- Operating profit for operating areas

Refer to table on page 75 for further detail on financial targets.

Long-term incentive: share schemes

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

The various instruments are the Share Appreciation Right Scheme 2005 (SARS), the Long-Term Incentive Plan 2005 (LTIP) and the Deferred Bonus Plan 2005 (DBP) (collectively referred to as "the Plans"). These share schemes were amended at the AGM on 27 July 2010 to ensure compliance with schedule 14 of the JSE Listings Requirements and, where appropriate, the King III Report.

In the SARS, participating employees are awarded the right to receive shares equal to the difference between the exercise price and the grant price, less income tax payable on such difference, once the right has vested. The employee therefore participates in the after-tax share price appreciation in the company. The extent of the vesting of the right is dependent on the achievement of performance conditions over a three-year performance period.

In the LTIP, participating employees are granted conditional awards. These awards are converted into shares, depending on the achievement of performance conditions over a three-year performance period.

In the DBP, participating employees purchase shares in the company with a portion of their after-tax bonus. These pledged shares are held in trust by a third-party administrator for a qualifying three-year period, after which the company awards the employee a number of shares in the company which matches those pledged shares released from trust.

Bonus and Share Scheme Performance Condition Targets - Financial and Operational Metrics

Type of Scheme and Performance Condition	Description of Performance Condition	Percentage Actually Achieved for Bonus/ Share Vesting Calculation	
		2016/17	2015/16
Bonuses (Note 1)			
Headline Earnings	Specific target range (Rands) for 25% to 100% vesting and 0% if below the lower end of the target range. [The 2016/17 actual Headline Earnings of R982 million (i.e. a 45% growth in the prior year) exceeded the upper end of the range. The 2015/16 Headline Earnings were below the lower end of the range.]	100%	0%
Return on Capital Employed (ROCE)	Specific target range (Rands) for 25% to 100% vesting and 0% if below the lower end of the target range. [The 2016/17 actual ROCE of 10,5% (i.e. significantly increased from the 7,4% in the prior year) exceeded the upper end of the range. The 2015/16 ROCE was below the lower end of the range.]	100%	0%
Cash Flow	Specific target range (Rands) for 25% to 100% vesting and 0% if below the lower end of the target range. [The 2016/17 actual cash flow before interest of R2,026 billion (i.e. substantially above the R58 million in the prior year) resulted in 95% vesting on the range between upper and lower limits. The 2015/16 cash flow was below the lower end of the range.]	95%	0%
Share Schemes (SARS and LTIPS) (Note 2)			
Total Shareholder Return (TSR) - 25% of LTIP (Note 3)	14 preselected and relevant other listed companies that Tongaat Hulett "competed" against to determine vesting scale based on "position in the field".	10%	73%
Return on Capital Employed (ROCE) - 25% of LTIP	Specific target range (%) for 30% to 100% vesting and 0% if below the lower end of the target range.	0%	0%
Sugar Production Condition - 25% of LTIP	Specific target range (%) for 30% to 100% vesting and 0% if below the lower end of the target range.	0%	32%
Large Land Deals - 25% of LTIP (2015/16: Regulatory Framework for Electricity in South Africa)	Specific target range (Rands) for 30% to 100% vesting and 0% if below the lower end of the target range.	100%	0%
Headline Earnings per Share (HEPS) - SARS	Growth of greater than CPI + 6% over 3 years for 100% vesting and 0% if below the predetermined threshold.	0%	70%
Share Scheme Performance Condition Targets which vest in 2017/18 through to the 2019/20 financial year (Note 4 and Note 5)			
Headline Earnings per Share (HEPS)	Growth of greater than CPI + 6% over 3 years for 100% vesting and 0% if below the predetermined threshold.		
Total Shareholder Return (TSR)	12 to 14 preselected and relevant other listed companies that Tongaat Hulett "competes" against to determine vesting scale based on "position in the field" (Note 3).		
Return on Capital Employed (ROCE)	Specific target range (%) for 30% to 100% vesting and 0% if below the lower end of the target range.		
Sugar Production	Target quantum (annual tons of production) - range.		
Land Transaction Values	Specific range of various targets and values (Rands) for 30% to 100% vesting and 0% if below the lower end of the target range.		

Notes

Note 1: Bonus amounts recorded for each year in this report relate to the performance of that year (while the amount is paid out after the year end and performance measures have been thoroughly assessed). At the executive/senior management level in the 2016/17 year, a range from 55% to 65% of the quantum of the bonus is calculated based on the predetermined financial performance measures (the remaining 45% to 35% being on individual personal performance assessments). This note reflects the performance measures at the consolidated level and for those managers who are based in an operation, then that operation's operating profit and cash flow are also used as measures on a similar basis, with a similar calibration. The weighting (within the portion subject to financial performance conditions) of the various performance conditions for the CEO and CFO was Headline Earnings: 45%; ROCE: 15%; Cash Flow: 40%.

Note 2: In the period to 31 March 2017, the share incentive scheme awards vested in June 2016 and were based on the 2015/16 financial years' results and had the following performance conditions, as detailed in this table: LTIP had 25% dependent on TSR, 25% on sugar production, 25% on large land deals and 25% dependent on ROCE, while the Share Appreciation Rights were all dependent on HEPS growth.

Note 3: For the TSR assessment of the awards that vested in 2016/17 (awarded in 2013), the population of companies that Tongaat Hulett "competed" against included: AECI, Astral Foods, AVI, Bidvest, Clover Industries Limited, Illovo Sugar, Mondi Limited, Nampak, Omnia Holdings Limited, Oceana Group, Pioneer Foods, RCL Foods Limited, Sappi Limited, Tiger Brands. Previous years also included Aveng, Group 5, PPC and WBHO. Future years, i.e. awards vesting in 2017/18 onwards includes a list of companies similar to the 2016/17 list above, with Crookes Brothers being included and Bidvest, Illovo and Mondi being excluded over time.

Note 4: These are awards made from 2014 onwards, which vest in the financial years 2017/18 onwards and have the performance conditions, detailed in this table: LTIP's are dependent on 4 of these performance measures (25% each), which vary from year to year and SARS are all dependent on HEPS growth.

Note 5: For the awards that will vest in the 2017/18 year, the performance conditions are based on the 2016/17 results and will result in the HEPS condition (SARS) - 0% vesting; ROCE condition (25% of LTIP) - 0% vesting; sugar production (25% of LTIP) – 0% vesting; land transactions (25% of LTIP) - 100% vesting and TSR (25% of LTIP) – 50% vesting.

Note 6: Further details on specific targets are not disclosed due to commercial sensitivity.

Under these share incentive schemes, senior management and professional 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) if performance conditions have been met, the awards have vested and, in the case of the SARS, when the share appreciation rights have been exercised. These shares have a vesting period of three years. The quantum of instruments allocated each year is determined, inter alia, by taking into account the fair value cost of the instruments. The amendment in 2010 of 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 for four years after the award. The purpose of such awards of unconditional RLTIPs is to assist with targeted key and high potential employee retention. Retention shares are a small quantum in relation to other share-based instruments and are awarded by exception.

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.

Indication of expected values of share scheme awards for Executive Directors – Chief Executive Officer and Chief Financial Officer

The fair value (i.e. the expected value) of share scheme awards (SARS, LTIP and DBP) granted in 2016/17 and that vest after the three-year performance period, expressed as a percentage of cash package were:

- Chief Executive Officer: 79%
- Chief Financial Officer: 62%

Should the minimum level of performance conditions for SARS and LTIP not be achieved, then zero vests and after three years only the DBP portion would vest (i.e. the expected value of approximately 11% of cash package for the CEO and approximately 7% of cash package for the CFO).

Should the maximum level of performance conditions for SARS and LTIP be achieved, then the above expected value would be exceeded and the value of the vesting would depend on the share price appreciation.

Details of the schemes and awards made up to 31 March 2017, after approval by the Remuneration Committee and the Board, are detailed on the following pages.

Performance conditions governing the vesting of the scheme instruments are set at the time of each annual award (refer to table on page 75 for further details) and currently relate to:

- growth in earnings per share;
- total shareholder return;
- share price;
- return on capital employed; and
- strategic goals in areas such as sugar production and extracting value from land conversion.

The performance targets are set each year for the instruments granted that year, taking into account the prevailing circumstances and conditions at that time and 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.

The King III Report 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. Awards thus have relevant performance conditions, do not provide for retesting, and apply the principle of graduated vesting as recommended by King III.

NON-EXECUTIVE DIRECTORS' REMUNERATION

Non-executive directors receive fees for their services as directors of the Board and its committees and includes an attendance fee component. Directors' fees are recommended by the Remuneration Committee, considered by the Board, and proposed to the shareholders for approval at each AGM.

Non-executive directors do not participate in short-term bonus schemes nor in long-term incentive share schemes.

As required by the Companies Act 2008 as amended, the remuneration of non-executive directors will be authorised by special resolution at the AGM and is set out on page 141 of the integrated annual report.

SUMMARY OF REMUNERATION COMMITTEE ACTIVITIES DURING THE YEAR

The main issues considered, engaged in, recommended or approved by the Remuneration Committee for 2017 were:

- Cash package increases for CEO, executives and senior managers;
- Short-term incentives (bonuses) for CEO and executives;
- Long-term incentives (share schemes) for the CEO, executives and senior managers;
- Performance conditions and performance targets for short-term incentives (bonuses) and long-term share schemes;
- Proposal to shareholders on fees payable to non- executive directors;
- Senior executive bench strength and succession planning, as well as talent management in the organisation;
- Employment equity; and
- Approval of the Remuneration Report in the 2017 integrated annual report, including the non-binding advisory vote being proposed to shareholders at the AGM.

DISCLOSURES ON REMUNERATION MATTERS

The table below sets out, for ease of reference, the relevant sections of the remuneration details of directors and officers, including share schemes and interest in share capital.

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Interest of directors of the company in share capital	78
Details of share schemes (including performance conditions)	79
Interest of directors of the company in share-based instruments	83
Special resolution setting out remuneration to be paid to directors for their services as directors of the company for the ensuing year	141
Non-binding advisory vote on the company's remuneration policy	141