

# REMUNERATION REPORT

## PART 1: BACKGROUND STATEMENT

This remuneration report outlines the background, philosophy and policy and implementation details of the remuneration of executive directors, executive management, senior management, non-executive directors, and at a high level, other employees of Tongaat Hulett as proposed by the King IV™ report. Its development has considered appropriate and recommended practices from stakeholders including feedback from shareholders in relation to past AGMs in the non-binding advisory vote by shareholders, and in line with good corporate governance, the principles set out in this report have now been aligned as far as practical to King IV™.

The Remuneration Committee (Remco) is satisfied with the company's application of the requirements of King IV™ and the JSE Listings requirements. Furthermore, the Remco is satisfied that the remuneration policy has achieved its stated objectives. Ongoing enhancements to the company's remuneration policy and practices will continue to be assessed in future reporting periods.

Decisions relating to the remuneration policy and outcomes have been influenced by the various socio-economic dynamics in the countries in which the company operates.

Tongaat Hulett regularly conducts benchmarking studies to establish appropriate remuneration levels and practices to ensure fair, transparent and responsible remuneration for all staff including management. In the 2017/18 reporting period a remuneration consultancy, regarded as independent and objective by the Remco, was commissioned to conduct an internal and external competitiveness analysis focused on the South African operations using current guaranteed packages. The research concluded that there is a high degree of internal equity, with most employees being paid within acceptable salary ranges. The remuneration consultancy also undertook a review of the gender and race equity of current guaranteed packages across the different South African operations. Their research indicated that there are no significant employment equity remuneration issues.

### SUMMARY OF REMUNERATION ACTIVITIES BY THE REMUNERATION COMMITTEE DURING THE 2017/18 REPORTING PERIOD

#### FACTORS WHICH INFLUENCED REMUNERATION DECISIONS IN 2017/18

- Commercial trading conditions that impacted remuneration mandates, influenced decisions on the setting of performance conditions of the long-term incentives and resulted in the non-payment of short-term incentive annual bonuses to executive and senior management;
- matters raised by shareholders, to seek appropriate approval of the 2017/18 remuneration report at the next AGM. The 2016/17 remuneration report was endorsed by 72.46 percent of shareholders at the AGM held on 1 August 2017; further details and the outcomes of the engagements with dissenting shareholders is presented on the following page;

- the company's stated employment equity and localisation of skills objectives in Mozambique and Zimbabwe; and
- creating shareholder value by aligning management with shareholders' interests and ensuring that executive management, senior management and middle management receive remuneration which is fair based on their performance.

#### SUMMARY OF MAIN FOCUS AREAS IN 2017/18

The following issues were considered, engaged on, recommended or approved by the Remco and the Board for the 2017/18 reporting period:

- cash package increases for the CEO, executives and senior managers;
- short-term incentives (STI) (bonuses) for the CEO, executives and senior managers (zero bonuses were paid for the 2017/18 year);
- long-term incentives (LTI) (share schemes) for the CEO, executives and senior managers;
- performance conditions and performance targets for STI and LTI schemes;
- proposal to shareholders on fees payable to non-executive directors;
- succession plans and employment equity/localisation of skills; and
- Remco terms of reference.

In addition to the above, the aforementioned independent external remuneration consultancy which was commissioned to research remuneration levels of the top executive team (CEO and direct reports) concluded that:

- It was unnecessary to substantially change the current practices of top executive remuneration.
- The company's current practice to err on the conservative side regarding future guaranteed pay increases was supported, in addition to exploring moderate improvements to STI and LTIs.
- As a result, the Remco approved the addition of two bonus schemes for the 2017/18 reporting period, namely a STI bonus scheme capped at 70% (previously 65%) of an employee's cash package for the top executives who have an impact on the business results and the addition of a STI bonus scheme targeted at entry level management which is capped at 10% of cash pay.

#### FOCUS AREAS FOR 2018/19

The Remco has agreed to workshop the company's remuneration strategy and practices during the 2018/19 year in conjunction with independent remuneration consultants. The aim is to review the alignment of these remuneration strategies and practices with changing market needs, the requirements of King IV™ and the feedback received from shareholders in pursuit of best practice.

#### MINIMUM LIVING WAGE

Tongaat Hulett is acutely aware of the income levels which impact the quality of life of the lower-level employees in the agricultural and manufacturing operations of the various countries in which it operates. At the same time, different socio-economic and labour



dynamics present challenges to control operating costs, contain the total labour bill whilst striving to offer competitive salaries, and to preserve jobs as far as possible. Against this background and to improve the quality of life of its employees and maintain sound labour relations, Tongaat Hulett negotiates and sets the wage levels within known external parameters of remuneration as agreed with labour unions and offers in-kind benefits. To reinforce this, salary increments are also differentiated, with lower level employees' average percentage increases generally being higher than that of senior grade levels in the company.

## PART 2: OVERVIEW OF THE REMUNERATION POLICY

### REMUNERATION PHILOSOPHY


The objective of the remuneration philosophy is to align performance of company executives and fair reward with the company's commercial success and sustainability, simultaneously taking into account various stakeholders' perspectives and the affordability/cost to company.


### THE REMUNERATION COMMITTEE

#### ROLES AND RESPONSIBILITIES

The roles and responsibilities of the Remco are determined and approved by the Board, as explained in the corporate governance section of this integrated annual report, which deals with Board Committee structures and responsibilities. In accordance with its terms of reference the Remco's responsibilities are, inter alia, to:

- Propose, review and administer the broad policy for executive management remuneration on behalf of the Board and the shareholders, in accordance with best corporate practice. It ensures alignment of the remuneration policy with the overall business strategy, desired company culture, shareholders' interests and the sustainable commercial well-being of the company.
- Consider and make recommendations to the Board on the remuneration policy and on the quantum, structure and composition of remuneration packages of executive management and senior executives. It reviews general salary increases for management and the operation of the company's management incentive schemes. In addition, it oversees succession planning, retention, employment equity as well as localisation of skills in Mozambique and Zimbabwe.

 The Remco meets at least twice a year and information relating to members and attendance has been presented on pages 68 and 69.

 The remuneration report is available at [www.tongaathulett.com/remco](http://www.tongaathulett.com/remco)

### SHAREHOLDER ENGAGEMENT

Where practical, the Remco continues to constructively engage with dissenting as well as other shareholders on matters related to disclosure, performance conditions and the structuring of remuneration packages.

A summary of the themes raised in the shareholder feedback and the corresponding actions taken in response thereto appears below.

In future, in the event that the Tongaat Hulett remuneration policy (as contained in part 2 of this report) or the remuneration implementation report (as contained in part 3 of this report) is voted against by 25% or more of voting rights exercised by shareholders, the Remco will take the following steps as a minimum:

- An engagement process to ascertain the reasons for dissenting votes.
- Appropriately addressing legitimate and reasonable objections raised, which may include amending the remuneration policy or clarifying or adjusting the remuneration governance and/or processes.

Shareholder feedback	Actions taken and/or response to feedback
Additional disclosure requested on performance conditions – financial and non-financial targets/KPIs and ranges/thresholds compared to stretch.	Cognisance has been taken of this feedback and progress is disclosed in the current integrated annual report on pages 80 to 81 and 83.
More detail is required on the structure of STI (annual bonus) and its context within the total remuneration package, including the quantum of variable pay compared to fixed pay.	Cognisance has been taken of this feedback and progress has been disclosed in the current integrated annual report on pages 80 to 81 and 84.
Debate on the vesting scales of the Total Shareholder Return (TSR) component of the LTI, which has a 25% weighting in one of three share schemes.	This is an ongoing consideration.
Debate on the length of the vesting period of LTIs	This is an ongoing consideration.
Questions have been raised on the CEO's package.	Specific contextual responses have been provided in the direct engagement process. In 2016/17 and 2017/18 the CEO elected to receive a 0% cash package increase.

