



## Approach to governance

The Reunert Limited board of directors and group management are firmly committed to sound corporate governance. Reunert subscribes to a set of ethical values that, among others, foster integrity, respect, honesty and openness. The ethos of the group includes personal accountability and individual empowerment. In line with this, the board and management endorse the principles of fairness, responsibility, accountability and transparency as set out in the King Report on Corporate Governance in South Africa of March 2002 (King II). Reunert strives to comply fully with the recommendations of this report and has started aligning itself with the requirements of King III which will become effective in March 2010.

Internal governance structures and roles have been reviewed and improved at both board and management levels.

The board is satisfied that the group, in all material respects, has complied with the provisions and the spirit of the King II code and that the group is in compliance with all the required JSE codes. The group endeavours to incorporate into its actions the best possible mutual interests of all stakeholders, including investors, employees, suppliers, customers and the communities in which we operate.

## Board, directors and committees

### Composition of the board

The Reunert board provides strategic leadership to the direction and control of the company. The board currently consists of 15 directors with the majority being independent non-executive directors as defined in the King code. Board members duly consider diversity and the appropriate balance of executive, non-executive and independent directors when making or recommending appointments to the board. The directors bring a wide range of experience, wisdom and professional skills to the board. The non-executive directors are deemed to be individuals of calibre and credibility. An induction programme is arranged for new board members and ongoing training and development of directors are conducted through formal processes.

There are four executive directors. The majority of the non-executive directors are deemed independent irrespective of the time they have served on this board.

The board has four black non-executive directors of whom two are women. Ms Thandi Orleyn represents the group's black economic empowerment partner Peotona and is not deemed independent.

Brief résumés for each director appears on pages 20 and 21 of this report.

## Declaration of interests

Several non-executive directors hold directorships in other listed companies. Full details of these directorships are listed as part of their résumés.

When there appears to be a conflict of interest, the director concerned will recuse him-/herself from discussions at board or board committee meetings when the relevant matter is tabled.

## Board charter

The Reunert board has adopted a board charter. Its salient features include:

- demarcation of the roles, functions, responsibilities and powers of the board;
- terms of reference of the various board committees;
- matters reserved for decisions by the board; and
- policies and practices of the board on matters such as corporate governance, board meetings and documentation, disclosure of conflicts of interest and trading by directors in the securities of the company.

## Roles and responsibilities

The roles of the chairman and the chief executive are separate. The chairman is elected by members of the board. The chairman chairs shareholder meetings and has no executive or management responsibilities.

The board, on the recommendation of the nomination committee, appoints the chief executive. In addition, the board, on the recommendation of the remuneration committee, determines the duration of the appointment, terms of appointment and compensation.

Non-executive directors are not appointed under service contracts and their remuneration is not tied to the group's financial performance. There is a clear division of board responsibilities and no one individual has unfettered powers of decision-making.

Directors are jointly accountable for decisions of the board. Directors have a legal obligation to act in the best interests of the company and the group, to act with due care in discharging their duties as directors, to declare and avoid conflicts of interest with the company and the group and to account to the company for any advantages gained in discharging their duties on behalf of the company.

The board of directors evaluated its own performance, including that of the chairman and the chief executive, during the year. The effectiveness of the sub-committees has also been evaluated.

The Reunert board of directors, among other functions:

- retains full and effective control of the group;
- monitors and evaluates the implementation of strategies, policies and management performance;
- sets criteria and approves business plans;
- determines the group's purpose and values;
- ensures the group complies with sound codes of business practice;
- has unrestricted right of access to management, all company information, records, documents and property;
- has an agreed procedure to take professional advice at the company's expense;
- ensures a process exists to identify key business risk areas and key performance indicators; and
- guards the interests of minorities.

The board meets quarterly and at any additional times that may be required. Members of senior management can be invited to attend board meetings to facilitate communication between executive management and non-executive board members.

During the past year, the board met on the following dates:

Date	Meeting	Apologies tendered
4 February 2009	Board & AGM	—
13 May 2009	Board	—
2 September 2009	Board	KS Fuller (illness)
17 November 2009	Board	—

### Appointment and re-election of directors

Directors are subject to retirement by rotation and re-election by shareholders at an annual general meeting at least once every three years in terms of the company's articles of association. The board charter is an integral part of the conditions of appointment of all directors. Procedures for appointments are formal and transparent and a matter for the board as a whole to consider.

Non-executive directors retire after reaching the age of 70 at the next annual general meeting. Executive directors retire from the board at 63 years of age at the following annual general meeting.

Ms KW Mzondeki and Mr R van Rooyen, having been elected to the board during the year, are required to retire at the next annual general meeting, but being eligible, offer themselves for re-election. Messrs BP Connellan, KJ Makwetla and GH Oosthuizen retire by rotation at the next annual general meeting. The nomination committee, at its meeting held on 17 November 2009, has recommended that they be re-elected and they have offered themselves for re-election.

Mr MJ Shaw who was requested by the board to stay for another year after turning 70 last year, resigned as chairman of the board in May 2009. Mr TS Munday was appointed chairman.

Messrs Fuller and Shaw, having reached retirement age, will retire at the forthcoming annual general meeting. Mr SD Jagoe, who has started a financial advisory business offshore, will also step down from the board at the forthcoming annual general meeting.

Details of remuneration, fees or other benefits earned by directors in the past year are detailed in note 28 to the annual financial statements.

### Board committees

In terms of the articles of association, the board has the power to appoint board committees and to delegate powers to these committees. The board has four sub-committees: the audit and risk committee, the remuneration committee, the nomination committee and the group executive and risk management committee. Minutes are kept of all committee meetings. These committees can, at their own discretion, seek independent, outside professional advice when necessary. All committees have charters approved by the Reunert board. The committees are directly responsible to the board.

#### *Audit and risk committee*

KS Fuller (chairman), BP Connellan, SD Jagoe, Ms KW Mzondeki, MJ Shaw and R van Rooyen.

Mr MJ Shaw was appointed to the committee on 1 June 2009. Ms KW Mzondeki and Mr R van Rooyen were appointed to the committee on 1 November 2009. The external auditor, chief executive, financial director and head of internal audit attend committee meetings by invitation.

The audit and risk committee, chaired by an independent non-executive director comprises only independent non-executive directors. The committee meets at least twice a year and reviews the group's internal and external audit reports and agrees on the scope of audits. The committee operates in terms of its charter and assists the board with regard to financial and risk management matters in the group.

In terms of the revised JSE Listings Requirements, the committee has satisfied itself of the appropriateness of the expertise and experience of the financial director.

The following is a list of key functions which the committee performed during the year:

- Monitoring the integrity of the financial statements and other relevant financial reports and reviewing all judgements and inputs to ensure that a balanced assessment of the performance and financial position of the group is presented.
- Satisfied itself of the adequacy and appropriateness of the internal control procedures of the group.
- Recommends the appointment of the independent registered auditors.



- Determining the terms of engagement and approving fees for external audit and non-audit work appointments.
- Ensuring that the appointment of the auditor complies with the Companies Act and any other legislation relating to the appointment of auditors.
- Implementing corporate governance policies.
- Monitoring the financial reporting cycle and developments in accounting standards.
- Supervision of the effective operation of the internal audit department.
- Overseeing the operation of the risk management function that incorporates insurance, security, occupational health and safety and environmental issues.
- Material litigation affecting the group.

The terms of reference of the audit and risk committee allows investigation into any activity of the group and it can seek information and advice from any employee or expert in order to carry out its duties. The committee has not received any complaints relating to accounting practices or other matters for any of the operations in the group.

The chairman of the audit and risk committee has met on an individual basis with external and internal audit, the chief executive and financial director without the attendance of any other executives of Reunert.

The committee discharges its duties with regard to its widely held subsidiaries in the same meetings that are held for Reunert Limited, as permitted by section 269A of the Companies Act.

During the year, the following meetings took place:

Date	Apologies tendered
19 March 2009	—
8 May 2009	—
19 August 2009	BP Connellan (special meeting)
12 November 2009	—

#### **Executive remuneration policy**

The remuneration of executive directors and executives in operating divisions is determined by a sub-committee of the Reunert Limited board, the remuneration committee. The committee consists of at least three members who are non-executive independent directors of the board. The chairman of the Reunert board may not act as the chairman of the committee.

The following general principles apply to executive remuneration in the Reunert group:

- The aim with remuneration is to ensure long-term, sustainable performance while ensuring that staff of the right calibre is attracted and retained.
- A significant portion of the total remuneration is linked to value creating objectives.

- Components of the reward structure are intended to provide alignment between senior executives and shareholders.
- The total remuneration paid to executives is made up of a fixed pay component (cash and benefit costs), a short-term incentive (variable) component and a long-term incentive.

#### **Fixed remuneration**

Fixed remuneration is reviewed annually and determined with due regard to market factors such as size, complexity, strategic requirements, profits and asset base.

#### **Variable remuneration**

A significant portion of senior management's reward is variable and is based on the following principles.

#### **Short-term incentives**

- The incentive is self funding, where a percentage of returns in excess of the required growth is available for distribution to management and is smoothed over a period of time to avoid opportunism.
- All executives have, in addition to their financial targets, additional non-financial objectives that form part of the short-term incentive scheme. The scheme is structured to find an appropriate balance between financial and non-financial objectives as well as performance and behavioural criteria.
- The potential pool for distribution to executives is determined by:
  - An economic value-added reward structure linked to long-range targets in respect of executive management in operating divisions. A portion is coupled to the performance of the group. In addition, stretch targets are in place to reward exceptional performance; however, all bonuses are capped. Depending on performance, bonus payments are banked and released over a three-year period to guard against rewarding non-sustainable performance.
  - Growth in basic headline earnings per share for executive directors. This is aimed at achieving an adequate balance between growth, economic value-added and adequate investment.
  - The committee has discretion in the payment of short-term incentives.

#### **Long-term incentives**

- Long-term incentives have been provided for many years through share option schemes. Options are normally allocated biennially. The committee has the discretion to issue options more frequently if it deems appropriate.
- Options are allocated to employees who have the capability of contributing towards the group achieving its objectives.
- The maximum number of options that may be awarded is capped. Options are capable of being exercised in tranches over three-, four- and five-year periods, after the options are granted.

- Reunert offers a finance scheme to employees to encourage ownership of shares when options are exercised. The loans granted to employees are bearing interest at a rate prescribed by the South African Revenue Services.
- The group has the option to cash settle options instead of issuing shares. The appropriateness of the settlement method is constantly being reviewed.
- Participation in the long-term incentive scheme is limited and the overall number of shares under the option scheme is limited to 10% and has historically been less than 3% of Reunert's issued shares at any time.

#### *Remuneration committee*

SD Jagoe (chairman), TS Munday, MJ Shaw and JC van der Horst. The committee meets at least twice a year to make recommendations to the board on the framework of executive remuneration. These recommendations include granting share options in terms of the Reunert Share Option Scheme and performance-based incentives. The chief executive attends these meetings by invitation.

In the past year, the remuneration committee met on:

<u>Date</u>	<u>Apologies tendered</u>
13 May 2009	–
2 September 2009	–
17 November 2009	–

#### *Nomination committee*

TS Munday (chairman), SD Jagoe, MJ Shaw and JC van der Horst. Mr MJ Shaw resigned as chairman of the committee on 13 May 2009 and was replaced by the new chairman, Mr TS Munday.

This committee comprises independent non-executive directors only and meets at least annually to make recommendations to the board on the composition of the board and to identify and nominate candidates to fill any vacancies. In addition, the committee is tasked to advise the board on succession planning. The chief executive attends by invitation. The committee met on the following dates:

<u>Date</u>	<u>Apologies tendered</u>
13 May 2009	–
2 September 2009	–
17 November 2009	–

#### *Group executive and risk management committee*

G Pretorius (chairman), BP Gallagher, GJ Oosthuizen and DJ Rawlinson.

The group executive and risk management committee comprises executive directors only and is constituted to assist the chief

executive to manage the group. Executive directors and senior executives meet regularly to guide and control the overall direction of the group and to identify potential risk areas. The committee has met at least 23 times during the past year. The internal audit department assists the board and management in monitoring the risk management process.

#### **Company secretary**

The board has access to the advice and services of RMS. RMS fulfils the role of company secretary and administer the share option schemes and all statutory requirements of the company and the group. The board believes the management of RMS has the requisite attributes, experience and qualifications to fulfil its company secretarial commitments effectively.

#### **Sponsor**

The company continues to use RMB as its sponsor. RMB's services include advising the board on the interpretation of, and compliance with, the listing requirements of the JSE and reviewing all notices required in terms of its statutes and JSE rules and regulations.

#### **External audit**

The board has appointed Deloitte & Touche to perform an independent and objective audit on the group's annual financial statements. The financial statements are prepared in terms of IFRS. The board has considered the extent of non-audit related services provided by the external auditors and is satisfied that the independence of the external auditors is not compromised.

#### **Accounting and internal controls**

Accounting and internal controls focus on critical risk areas. The controls are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorised use and those financial records may be relied on for preparing the financial statements and maintaining accountability for assets and liabilities. The identification of risks and the implementation and monitoring of adequate systems of internal, financial and operating controls to manage such risks, are delegated to senior executive management. The risk management policies are communicated directly to executive management and the appropriate levels of management in the various entities.

The board acknowledges its responsibility for ensuring that management implements and monitors the effectiveness of systems of internal, financial and operating controls. The board, via the audit and risk committee, receives regular reviews from management on the effectiveness of established controls and procedures to ensure the accuracy and integrity of the accounting records and monitors the wider group's businesses, risks and performance.



The board has not been informed by executive management or internal audit of any issue that would constitute a material breakdown in the functioning of these controls during the financial year under review.

#### **Internal audit**

Instituted, comprehensive internal controls assist management and the directors in fulfilling their responsibility for preparing the annual financial statements, safeguarding assets and providing answers on transactions that are executed and recorded in terms of company and group policies and procedures. The audit and risk committee concurred on the appointment of the head of internal audit.

Internal audit responds to these requirements by performing periodic independent evaluations of the adequacy and effectiveness of all controls, financial reporting structures and the integrity of all information systems and records. Bi-annual risk assessments are performed by the internal audit function and the internal audit work plan is approved by the audit and risk committee.

Internal audit reports to the audit and risk committee and has unrestricted access to the chairman of the board.

#### **Non-financial matters**

Reunert is committed to upholding and maintaining best international practices in the social, ethical, safety, health and environmental spheres of its business and acknowledges the responsibility it bears as a corporate citizen in society. The group sets the highest level of ethical standards for all its officers and employees in conducting business and dealing with all stakeholders.

#### **Employment equity**

The group supports employment equity and is committed to providing equal opportunities for all employees. All business units have employment equity programmes that comply with legislative objectives and requirements. Various skills development, mentoring and training programmes exist within the group. An in-depth review of Reunert's focus on people development is available in the sustainability report on pages 24 to 31.

#### **Environmental issues**

Systems and policies are in place to control or influence issues that may have an impact on the environment. To see more on how we address these issues go to pages 30 to 31.

#### **Communication with stakeholders**

Reunert is committed to ongoing and effective communication with all stakeholders. It subscribes to a policy of open, frank and timely communication in line with JSE guidelines and sound corporate governance practice. Executive directors conduct one-on-one interviews during open periods, while executive management interacts with investors and shareholders through participative, open investor days.

Numerous channels are used to disseminate information according to the preferences of the intended target audiences. These include ongoing dialogue with institutional investors, analysts and the media and a corporate website with up-to-date information on the group.

#### **Dealing in the company's shares and closed periods**

Employees are restricted from dealing either directly or indirectly in the company's shares on the basis of privileged price-sensitive information before it is publicly announced to the market.

Senior executives require permission from the chief executive before shares are purchased or sold. All directors require permission from the chairman before dealing in the company's shares.

The group operates a closed period prior to the publication of its interim and year-end results. During these periods, the group's directors, officers and senior management may not deal in the shares of the company, nor may they discuss the group's financial prospects with any outside party. Additional closed periods are enforced as required by any corporate activity.

#### **Code of ethics**

The group's code of ethics is printed on page 4 and is displayed on the company website. All employees are required to adhere to this code.

#### **Whistle blowing function**

The group has designed and is testing a whistle blowing programme which will be implemented throughout the whole group in the next financial year.