

INTEGRATED ANNUAL REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2012



2012



Web link, online reference



Further reading, within this report

## ABOUT THIS REPORT

Andulela Investment Holdings Limited (“Andulela” or the “Company” or the “Group”) is proud to present the second integrated annual report on its activities. Owing to the fact that the Group emerged into its present structure during the prior financial year, much improvement has been made with regard to corporate governance aspects, strategy and the risks that it faces.



This integrated annual report focuses increasingly on the aspects of the Group’s business which are central to its sustained social, economic and environmental activities, together with a close examination of its business performance in relation to the risks that threaten it and the strategy it adopts to survive and grow.

Framework, codes, guides	Framework for the following sections	Assurance providers
IFRS	Annual financial statements	BDO South Africa Incorporated
Companies Act of 2008	Annual financial statements and corporate governance	BDO South Africa Incorporated
King III	Corporate governance	Audit Committee
Global reporting initiative	Sustainable development information	–
JSE Listings Requirements and SRI framework	Full suite of reports and index	Java Capital



## HIGHLIGHTS

Revenue	R1 471,9 million
Kilken Platinum	uptime in excess of 98%

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## ABOUT ANDULELA INVESTMENT HOLDINGS

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### VISION

**Andulela seeks to hold strategic investments primarily in South African-based mining and metals companies. It intends to expand its investment base into the precious and base metal industries from the established platform of its strategic investment in the platinum group metals re-treatment industry and its investment in the steel processing and distribution sector.**

### Company profile

Andulela is an investment holding company listed in the “Equity Investment Instruments” sector of the Main Board of the JSE Limited (“JSE”).

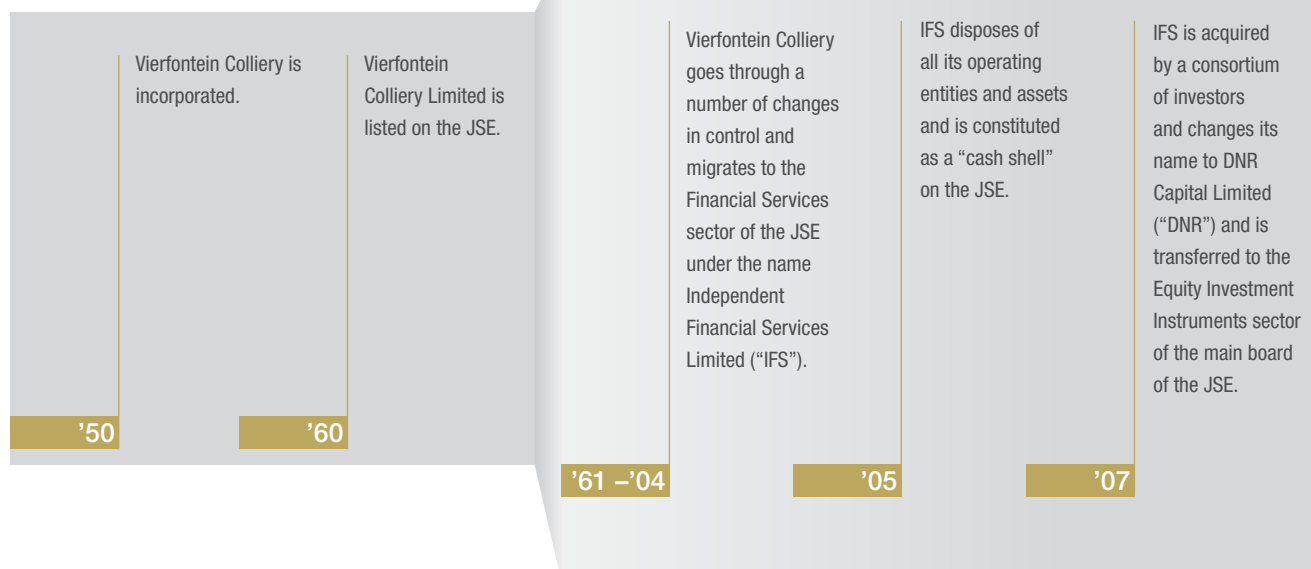
It has two trading subsidiaries: one in platinum tailings re-treatment and the other in steel processing and distribution.

Andulela’s principal strategic investment is an 83,6% interest in Kilken Platinum Pty Ltd (“Kilken”), a profitable, low-cost producer and seller of platinum group metals (“PGMs”), mainly platinum, palladium, rhodium and gold, which are recovered by processing tailings concentrate from Rustenburg Platinum Mines Limited (“RPM”) at its Amandelbult mine in the North West Province. The total interest is made up by the combined holdings of Andulela’s subsidiaries Abalengani Mining Investments Pty Ltd (“AMI”) and JB Platinum Holdings Pty Ltd (“JBPH”) in Kilken.

Kilken Joint Venture (“Kilken JV”), which is 70% held by Kilken and 30% by Imbani Minerals Pty Ltd (a BEE partner), conducts the metallurgical processing business in terms of a Sale of Tailings and Concentrate (“STC”) agreement with RPM. This agreement provides for Kilken to purchase tailings from RPM, reprocess the tailings on premises leased from RPM, and to sell the recovered PGM concentrate back to RPM at market related prices. The STC agreement will continue for as long as RPM produces tailings from the Amandelbult site.

In 2005 Kilken JV concluded an operational services agreement with Tailing Technologies Pty Ltd in terms of which

### HISTORY



the latter company acts as an independent contractor that undertakes the operation, maintenance and management of the tailings treatment facility as detailed in the STC.

In the steel processing industry, Andulela owns 100% of Pro Roof Steel Merchants Pty Ltd ("PRSM") and its subsidiaries (acquired with effect from 1 September 2011), one of the largest and most prominent steel processors and merchants in South Africa with its main processing plant in Vereeniging and six branches around the country. Pro Roof Steel Merchants' product range consists of the most commonly used steel products including welded universal columns or beams and T-beams, a range of roofing solutions (corrugated, inverted box rib, and wide-span); fencing and wire products; tubing and cold formed flat and long products; and value-added services (slitting, cut-to-length, blanking, de- and recoiling, guillotine and tube saw).

During the year under review Andulela started rationalising PRSM's operations to maximise the return on investment for shareholders.

The Group's prime investment focus is on the metals and minerals resources sector, which has the potential for high growth and strong returns.

### Financial performance

The Group's turnover rose to R1 471,9 million from R542,8 million in the previous financial year primarily due to the fact that the results of the PRSM Group were consolidated for the full year compared with the four months to December 2011.

Andulela posted a total comprehensive loss for the year ended 31 December 2012 of R107,4 million compared to total comprehensive income of R37,2 million reported for the year ended 31 December 2011. This arose largely from the impairment of the carrying value and the decommissioning and scrapping of certain of PRSM's plant and equipment, by an amount of R48,9 million after deferred tax, following management's review and its restructuring initiatives, as well as the recognition of the cash flow hedge of R57,5 million after deferred tax.

Kilken contributed earnings before interest, taxation and depreciation ("EBITDA") of R40,9 million compared to R68,2 million in 2011 to the Group results.

PRSM contributed EBITDA of R9,7 million for the year under review, but the impairment and scrapping of fixed assets referred to above led to a loss before tax of R93,9 million.

### Operational performance

#### PRSM Group

Significant financial adjustments were made to the production equipment values of PRSM during the 2012 financial year which arose from the on-the-ground experience of the Andulela Group's management team and an independent, in-depth and across-the-board study by an independent industry expert.

Management accordingly reassessed the carrying values and useful lives of PRSM's production assets and the consequent revaluation led to the impairment of the carrying values and to the scrapping of certain items of plant and equipment.

Oct '08  
DNR changes its name to Andulela Investment Holdings Limited ("Andulela"). An effective 42% stake in Kilken Platinum Pty Ltd ("Kilken") is reverse-listed into Andulela by Jonah Mining Pty Ltd which becomes the controlling shareholder of Andulela. Andulela issues an additional 285 million new Andulela ordinary shares for R285 million additional capital. Andulela also issues 75 million new cumulative redeemable preference shares in favour of Jonah Mining.

Nov '09  
Abalangani Platinum Holdings Pty Ltd exercises a put option for the acquisition by Andulela, of a further 42% effective stake in Kilken.

May '10  
Jonah Mining sells all of its ordinary and preference shares as well as claims on loans in Andulela to Newsshelf 1005 Pty Ltd which becomes the new controlling shareholder of Andulela.

Sept '11  
Andulela issues 3,531 million new ordinary shares as purchase consideration for the additional 42% effective stake in Kilken, thus increasing its total effective shareholding in Kilken to 84%.

Andulela acquires a 100% controlling interest in Pro Roof Steel Merchants Pty Ltd and its subsidiaries, a steel processing and distribution group of companies with a national footprint.

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## ABOUT ANDULELA INVESTMENT HOLDINGS (continued)

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In addition, an in-depth analysis of the PRSM Group's operational strategy, budgets and cash flow forecasts indicated that the national operations of the PRSM Group should be rationalised. This resulted in the closure of smaller outlying branches and consolidation of the manufacturing operations into Vereeniging. PRSM's footprint was unnecessarily wide and it was decided that the operational manufacturing and distribution branches should be concentrated at Pretoria, Vereeniging and Cape Town.

The Polokwane and Durban branches have been scaled down to representative sales offices on smaller premises, with their plant and equipment being distributed among the three key production branches, while the manufacturing and distribution operation in Mbombela (Nelspruit) was sold as a going concern with effect from 1 March 2013.

PRSM's borrowings were restructured and working capital utilisation and deployment were re-analysed around its organisational hubs replacing previous direct external funding.

### Kilken Platinum

The PGM tailings re-treatment operation at Kilken continued to perform well overall and contributed significantly to Group results.

However, large-scale industrial action in the mining sector impacted production and the Company was further adversely affected by weaker PGM basket prices.

The proactive maintenance regime continued to prove successful in ensuring production availability, and plant up-time in excess of 98%.

The Company further reorganised operational management staff to streamline efficiencies, reduce costs and improve reporting and compliance.

### Directors and management

Andulela benefits from a highly experienced management team and a Board of Directors comprising industry and business leaders as well as finance and legal professionals.

The calibre, experience and independent status of the non-executive directors add considerable value to the conduct of the Group's business.

The activities of the Board are conducted within a well-defined framework of ethical and effective corporate governance formulated around the principles enunciated in the King III Report and Regulations as well as relevant legislative enactments, as is more fully described below.

Of the six directors, four (the Chairman, Mohamed Husain, Graham Rosenthal, Pieter du Preez and Nosipho Molohe) are

independent non-executive directors and two are executive directors – the Chief Executive Officer, Ashruf Kaka and the Chief Financial Officer, Pieter de Jager. The Company Secretary, Humeira Kazi, is also Secretary to the Board. Mohamed Husain and Ashruf Kaka have for a considerable time been legal practitioners, making them ideal for overseeing the compliance aspects of governance activity.

After the financial year-end Ismail Kajee resigned as a director of PRSM and accordingly also from the Board with effect from 9 May 2013 and Pieter de Jager has also resigned as Chief Financial Officer with effect from 30 June 2013 for personal reasons, after having been involved with the Company from 2008 when it reverse-listed the Kilken investment asset. Henk Engelbrecht has accepted the appointment as the new Chief Financial Officer with effect from 30 June 2013. Pieter de Jager has been appointed as a non-executive director to the Board (to be confirmed by shareholders at the next annual general meeting) in order to continue providing valuable input and contribution to the Board and its sub-committees as well as to ensure the smooth transition of the Group executive finance management function to Henk Engelbrecht.

### Strategy

Management's basic long-term strategy is to expand and diversify the Group's investment base while continuing to concentrate on cash-generating companies with strong management and a high capacity for growth.

Investing in diverse, though complementary, economic sectors is an important element in managing risk as well as in achieving consistent rates of return and growth over time.

Andulela screens potential investment opportunities thoroughly in order to select businesses that are primarily cash generative, with critical mass in terms of human capital and financial resources.

These businesses generally have well-established track records in management and technical expertise and are identified by their need for expansion, consolidation or growth capital.

The Company intends holding a controlling interest in any targeted investment where it has the ability to exert control or significant influence over management and strategic direction.

The Strategic Committee considers Andulela's business from a product perspective and is the Group's chief operating decision-maker. Management allocates resources to and assesses the performance of the operating segments based on the recommendations and findings of this committee.



## Diversification

Andulela will be looking to expand its investment base to take advantage of the shift in global markets that has driven the appetite for metal commodities. This is likely to result in strong performances across a number of metal classes, including steel. The Company aims to grow both organically and through strategic acquisitions to build a business that delivers a constant income stream from a basket of quality assets, in order to realise a consistent and above-average return on investment.

This strategy is also important to mitigate the inherent risks that are prevalent in the current portfolio, made up of PGMs and steel. Greater diversification will also provide better shelter from the cyclical downturns in the economy.

Proposed acquisitions by Andulela will only be considered if they strengthen the Company's investment base and broaden its geographic footprint.

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## CHAIRMAN'S STATEMENT

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### 2012 was a year of consolidation and restructuring for the Andulela Group.

Having acquired PRSM in the last quarter of 2011, management focused its efforts on devising and implementing a turn-around strategy for the PRSM steel processing division.

The Group consolidated financial results for the year ended 31 December 2012 reflect a headline loss per share of 0,09 cents compared with the headline earnings per share of 0,61 cents for the year ended 31 December 2011. This loss is primarily reflective of depressed demand for steel products and lower market prices of platinum group metals. In the circumstances, the net asset value per share declined to 9,19 cents from 11,53 cents.

PRSM's borrowings were restructured to obtain more flexible terms and to improve working capital utilisation by replacing its external loan funding with an inter-group loan facility from Kilken through its wholly-owned subsidiary, Kinlela Pty Ltd. Kinlela entered into a loan agreement with Absa Bank Limited in terms of which it raised the finance to on-lend to PRSM.

These initiatives are in line with our comments in last year's annual report that: "a great deal remained to be done in the way of rationalisation, restructuring and adjustment for PRSM to reach its full earnings potential". Despite management's ongoing efforts to improve profitability of PRSM, the results since year-end were not positive and various options are being considered for this investment.

Kilken and PRSM together constitute a diversified investment platform from which to expand our Group's activities.

In the operational area, our proactive maintenance approach and continued process improvements ensured that there were no unplanned production interruptions at the Kilken PGM tailings re-treatment plant. Kilken was therefore highly successful in sustaining production-recovery grades of PGM concentrate.

Large-scale industrial action in the mining sector, however, adversely impacted on Kilken's production input and this, coupled with the weaker PGM basket prices in the 2012 financial year compared with 2011, resulted in Kilken posting a net profit after tax of R26,4 million less than the previous year.



MJ Husain – Chairman

Building on the foundations of an effective corporate governance framework laid down in the prior year to meet the requirements for sustainable performance over the long term, Andulela continued to improve and refine its roll-out of systems and procedures towards the desired, fully matured, state of governance and risk management prescribed by King III.

We believe that our continuing rationalisation and cost management programmes in our subsidiaries, together with Andulela's appetite for further value-adding acquisitions will steadily improve stakeholders' value over the years to come.

It was with sadness that we learned about the passing of our previous Company Secretary, Joan Jones recently after a long illness. She had been the Company Secretary of the Company for seven years and made a significant contribution to the Company and its management.

I thank my colleagues on the Board as well as executive and senior managers for their hard work and positive contributions to the overall sustainability of the Group.

**Mohamed J Husain**  
*Chairman*





Investing in diverse, though complementary, economic sectors is an important element in managing risk as well as in achieving consistent rates of return and growth over time.



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## OPERATIONAL REVIEW BY THE CHIEF EXECUTIVE OFFICER

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**National operations of the PRSM Group were comprehensively restructured following an in-depth analysis of strategy, budgets and cash flow forecasts to optimise production throughput in the main regional branches.**



A Kaka – Chief Executive Officer

### PRSM Group

Significant financial adjustments were made to the production equipment values of PRSM during the 2012 financial year which arose from the on-the-ground experience of the Andulela Group's management team in the months following the acquisition of the PRSM Group. Increasingly aware that PRSM's operations were not functioning optimally nor delivering the desired returns, even against the background of a relatively depressed steel market, the team commissioned an independent, in-depth and across-the-board study by an industry expert to investigate various aspects of the business.

The study concluded, *inter alia*, that various production assets were not adding economic value. Management accordingly reassessed the carrying values and useful lives of PRSM's production assets and the consequent revaluation led to the writing down of the carrying values and scrapping certain items of plant and equipment. A review of the proactive repair and maintenance programmes further justified a minor adjustment of the useful economic life of the remaining production machinery from 20 years to 25 years.

In addition, an in-depth analysis of the PRSM Group's operational strategy, budgets and cash flow forecasts indicated that the national operations of the PRSM Group should be comprehensively restructured. This involved the closure of smaller outlying branches and consolidation of the manufacturing operations in Vereeniging. PRSM's footprint was unnecessarily wide and it was decided that the operational manufacturing and distribution branches should be concentrated at Pretoria, Vereeniging and Cape Town.

The Polokwane and Durban branches have been scaled down to representative sales offices on smaller premises, while their plant and equipment were distributed among the three key production branches.

The strategic intention behind optimising production throughput in the main regional branches of Vereeniging, Pretoria and Cape Town, is to reduce production cost per ton while continuing to maintain a limited national presence in the market through the downscaled sales offices. Customers in outlying regions will continue to be serviced from these main branches.

During the year under review, PRSM's borrowings were restructured to provide longer terms and better rates. Management re-analysed working capital utilisation and deployment around its organisational hubs and in place of the previous direct external funding, Andulela obtained a R205 million five year loan facility for Kilken. This it on-lent to PRSM via its new 100% owned subsidiary, Kinlela Pty Ltd. This facility attracted a once-off raising fee of R5,7 million and Kilken hedged 30% of its production revenue in favour of the financiers to protect cash flows. The total cost of the production revenue hedge settlements for two months in the year amounted to R1 million.

### Kilken Platinum

The PGM tailings re-treatment operation at Kilken, through its joint venture with Imbani Minerals Pty Ltd, continued



to perform well overall and contributed significantly to the Group results.

During the year, Kilken continued the trend achieved over a number of years of improving its average recovery of PGMs. However, large-scale industrial action in the mining sector impacted production and the Company was further adversely affected by weaker PGM basket prices and the fluctuating currency rates.

The proactive maintenance regime continued to prove successful in ensuring production availability, and plant up-time exceeded 98%. The Company erected a bund walled dam of 200 cubic metres to assist with the retention of potential spillage from the flotation processing cells.

This initiative proved highly successful in increasing recoveries and minimising the impact of the industrial action, while at the same time the Company reorganised operational management staff to streamline efficiencies, reduce costs and improve reporting and compliance.

### Derivative financial liability

As described above, management restructured PRSM's debt by negotiating a R205 million loan through Kilken for a once-off raising fee of R5,7 million.

In order to mitigate the cash flow risk related to commodity price fluctuations and movements in the ZAR/USD exchange rate against the need to repay the funding facility, the Company hedged 30% of its cash flow from platinum, palladium and gold produced in favour of the financier for the period from 1 September 2012 to 30 September 2018.

The fair value of the cash flow hedging instrument, without taking account of any collateral held or other credit enhancements, amounting to R79,8 million before tax, has been recognised in the statements of financial position as at the reporting date.

### Outlook

The profitability of PRSM remains a challenge. To date management's efforts have not resulted in a marked improvement in the trading results of PRSM and accordingly the Company is considering all its options in relation to the operations of PRSM.

Kilken Platinum is set to continue its successful patterns of production and profitability, and in the absence of further severe labour dislocations or drastic fluctuations in PGM prices we look forward to maintaining steady, albeit modest, upward trends.

**Ashruf Kaka**  
*Chief Executive Officer*



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## OPERATIONAL REVIEW BY THE CHIEF FINANCIAL OFFICER

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**The Andulela Group derives its income from two sources: the production of platinum group metals (“PGMs”) at the Kilken tailings re-treatment facility and the processing and distribution of steel products by the PRSM Group. PRSM was acquired in September 2011 and the outstanding vendor shares for the purchase consideration were issued on 11 July 2012 at 40 cents per share.**



PC de Jager – Chief Financial Officer

The Company has accordingly reviewed the fair value of its investment in PRSM, and impaired the investment in PRSM by an amount of R67,9 million.

Preference share dividends on the cumulative redeemable preference shares amounting to R3,8 million (2011: R4,4 million) were expensed as finance costs for the current year, in accordance with the rights attaching to the preference shares. There were no arrear preference dividends as at 31 December 2012.

Andulela announced in February 2012 that the Group's preference shares would be redeemed on an orderly basis over an extended five-year period. The Company subsequently redeemed R20,9 million preference share capital from positive operational cash flows and remains well ahead of minimum capital redemption payments.

The tailings re-treatment operation at Kilken, through its joint venture with Imbani Minerals Pty Ltd, continued to perform well during 2012 in the PGM market and contributed significantly to the Group's results, achieving earnings before interest, taxation and depreciation (“EBITDA”) of R40,9 million compared to R68,2 million in 2011.

**Pieter de Jager**  
*Chief Financial Officer*



The Group has actively engaged with all its key stakeholders throughout the year. In addition, as stakeholders' interests in the Group are dynamic and subject to change, the Social and Ethics Committee will ensure the continuous identification of all stakeholders as well as their legitimate interests in and expectations of the Group. Once new stakeholders are identified, the Committee will decide through consultation with the various stakeholder groups how to further engage with each constituency.

## BOARD OF DIRECTORS



**Mohamed J Husain (52)**  
*BProc (University of Durban Westville)*  
 Independent Non-executive Chairman  
 Appointed on 26 February 2010

Mr Husain has been an attorney for approximately 27 years. During this time he has represented a diverse range of clients in commercial and corporate litigation, insolvency law and administrative law. He is a former president and current member of the executive committee of the Commonwealth Lawyers Association.

Mr Husain was an advisor to the Constitutional Assembly on the drafting of the final new constitution of South Africa and has also acted as a Judge of the High Court. He is also a past president of the Law Society of the Northern Provinces, previous chairman of the Attorneys Indemnity Insurance Fund and currently Councillor of the Law Society of South Africa. Mr Husain is a non-executive director on the board of the Absa Group and Absa Bank, and serves on a number of Absa's board committees.



**Ashruf Kaka (51)**  
*BA LLB (University of the Witwatersrand)*  
 Chief Executive Officer  
 Appointed on 26 February 2010

Ashruf has been an attorney for approximately 21 years, accredited with BA and LLB degrees at the University of the Witwatersrand, having specialised in Commercial Legal Counselling. Ashruf has held an executive management position since 2006.

He now holds such a position primarily within the Balen Group of Companies where his involvement initially focused primarily on legal, compliance and risk assessment of the Group's acquisitions. Ashruf is also a director of Newshelf 1005 Pty Ltd which is the majority shareholder of Andulela. Following the acquisition by Newshelf 1005 Pty Ltd of the majority shareholding in Andulela, he was appointed as Chief Executive Officer in February 2010.



**Pieter C de Jager (41)**  
*BComm Accounting (University of Pretoria); BCompt (Hons) CTA (University of South Africa); MBA (GIBS – University of Pretoria)*  
 Chief Financial Officer  
 Appointed on 25 October 2010

Pieter has over 17 years' senior management experience including major listed companies in various sectors. After completing his articles with Ernst & Young, where he had Anglo Coal as a major client, he worked in senior financial management and executive positions in the Electrical Engineering, FMCG, Supply Chain Freight and Logistics and Mining sectors.

Pieter has worked in various countries in Central and West Africa in the mining sector and has had significant corporate finance experience with merger and acquisition transactions. Before joining Andulela full time in October 2010, Pieter held the position of Group CFO of the Jonah Capital Group and various South African and off-shore Jonah Capital entities. Pieter was also previously seconded by the Jonah Capital Group to Andulela as Financial Director between August 2008 and April 2010.



**Graham R Rosenthal (68)**  
*CA(SA)*  
 Independent Non-executive Director (Chairman of the Audit, Risk and Compliance Committee and Remuneration Committee)  
 Appointed on 26 February 2010

Graham is a non-executive director of Sun International Limited and Investec Property Fund Limited. He chairs their respective Audit Committees and served on the Audit Committee of MacSteel Service Centres SA Pty Ltd. He serves on credit committees and is a trustee of Investec Bank's staff share schemes.

He retired in 2000 from Arthur Andersen after being in charge of their South African audit and business advisory practice. He served as chairman of the Investigations Committee of The South African Institute of Chartered Accountants.

**Pieter E du Preez (55)**

*BComm Accounting (Rand Afrikaans University); MBL (University of South Africa)*

Independent Non-executive Director (Chairman of the Social and Ethics Committee)

Appointed on 1 October 2011



Pieter has been employed in the mining industry since 1984 and has held various senior management positions with two major mining companies, JCI Limited and Anglo Platinum.

He was involved in the gold, coal and corporate divisions of JCI until 1997 and thereafter in strategy, planning, corporate finance and business development with Anglo Platinum until 2009. Pieter's responsibilities included *inter alia* the assessment of business opportunities, the structure, negotiation and implementation of various transactions, including the management of numerous local and international joint ventures. Pieter currently is an independent consultant.

**Nosipho CW Molope (48)**

*BSc (Medical Sciences) (University of the Witwatersrand); BCompt (Hons) CTA (University of South Africa); CA(SA)*

Independent Non-executive Director

Appointed on 1 July 2012



After qualifying as a chartered accountant in 1999, Nosipho was appointed as the Finance Executive of Akulalwa Corporate Advisors. In 2001, she joined Wipcapital as manager: specialised funds management, and later that year she was appointed as Group Financial Executive of Vimax, a subsidiary of Transnet Limited. In 2004, she joined Zungu Investments Company as the Financial Director, and in 2005 was appointed as Chief Financial Officer of the Financial Services Board.

She resigned from this position with effect from December 2008 to give focus to her role as a professional non-executive director of companies. She is also a director and Audit Committee member of: Engen Limited, Illovo Sugar Limited, Nampak Limited, MTN SA Pty Ltd, MTN Cameroon, MTN Uganda, Old Mutual Life Assurance Company South Africa Limited, Wesizwe Platinum Limited.

**Humeira I Kazi (37)**

*Nat.Dip (Company Administration) (Wits Technicon/University of Johannesburg)*

Company Secretary

Appointed on 1 February 2013



Humeira started her career working for Octagon chartered accountants and has since worked in the company secretarial departments of large auditing firms like KPMG and Moores Rowland and managed Statucor (BDO South Africa). In 2005 she started her own independent secretarial services consultancy with small and medium sized clients in various sectors like Mining, Asset Management, Shipping and Freight as well as Equity Investments.

Humeira was the assistant Company Secretary for Andulela Investment Holdings Limited for the past five years and was appointed as the Group Company Secretary with effect from 1 February 2013 on the retirement of her predecessor. She has more than 15 years' company secretarial experience and her knowledge of the Andulela Group will be of great benefit.

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# SUSTAINABILITY REVIEW

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## Strategy and profile

Andulela's annual Sustainability Review forms part of the Annual Report, in line with the King Code and report on Corporate Governance for South Africa ("King III"), which calls for greater integration of environment, social and governance considerations into financial management and reporting.

The Sustainability Review covers Andulela's policies, practices and performances relating to its activities in those areas for the financial year ended 31 December 2012 and covers all Group company activities.

The report has drawn on the guidelines and criteria developed by various agencies which set the standard for corporate sustainability (in particular the Global Reporting Initiative's G3 guidelines), but has also been adapted to address issues specific to the business and industry.

The information in the review covers topics and indicators that reflect Andulela's significant economic, environmental and social impacts or that may substantively influence the assessment and decisions of stakeholders. The review is focused on the Company's major stakeholders being shareholders, employees, agents, suppliers, financiers and clients. The services of an independent verification agency have not been used for this report.

## Corporate governance review

The Board of Directors is committed to the implementation of good corporate governance within the Group and endorses the principles of openness, integrity, accountability and transparency. The Board has adopted and applied the Code

of Corporate Practices and Conduct as set out in King III. The Board is of the opinion that the Group currently complies with the specific requirements set out in the JSE Limited Listings Requirements and, except where indicated otherwise in the sections below, the principles as set out in King III.

In doing so, the Board recognises the need to manage the business with integrity in accordance with generally acceptable corporate policies. This includes timely, relevant and meaningful reporting to its shareholders and other stakeholders; and providing a proper and objective perspective of Andulela.

The Board has accordingly established mechanisms and policies appropriate to the Group's business in keeping with its commitment to the best practices in corporate governance in order to ensure compliance with King III. The Board reviews these from time to time.

Three committees reporting to the Board and responsible for vital aspects of the Company's governance in terms of their respective terms of reference are in operation: the Social and Ethics Committee, the Audit, Risk and Compliance Committee, and the Remuneration and Nomination Committee.

## Governance framework

The Company has adopted the Governance Assessment Instrument ("GAI") of the Institute of Directors as a standardised measurement and reporting mechanism on governance as supported by the JSE. The basis of the GAI is the 75 King III principles and the practice note updates issued by the King Committee from time to time.



## King III checklist

### King III

The Institute of Directors of South Africa (“IoDSA”) is the convener of the King Committee and the custodian of the King reports and practice notes.

The IoDSA proposes the use of the Governance Assessment Instrument (“GAI”), an online tool to assist in the following ways:

- Evaluating implementation of governance structures and processes as recommended in King III;
- Enabling ongoing tracking of progress on implementation of King III, understanding that it is a process;
- Providing a simplified framework to the Board for a risk-based review of the application of King III, without voluminous reading;
- Facilitating a meaningful scoring mechanism reflective of an organisation’s adoption of King III;
- Providing a framework by which governance can be assured by independent service providers;
- Giving holding companies a concise view of their subsidiaries’ governance status;
- Providing an audit programme for internal and external service providers; and
- Offering a reporting benchmark to stakeholders for peer-to-peer comparison of organisations, enhancing confidence in governance reporting.

The Company summarised the status of the principles of King III, as categorised by the GAI as follows:

#### Ratings key

✓ – Applied

X – Partially applied

The GAI calculates an overall scoring index indicating the status of application of King III. Andulela’s overall rating in terms of the GAI is AA, indicating an overall high level of application. In Andulela’s pursuit to improve compliance with King III, additional information is provided on all scores indicated as “Partially applied” in the following table to promote transparency. Andulela made use of the GAI for the purposes of assessing the level of compliance with King III. The details of the checklist are available on the Company’s website at [www.andulelaholdings.com](http://www.andulelaholdings.com).

Description	Applica- tion rating	Ref- erence
<b>1. Board composition</b>	✓	
<b>2. Remuneration</b>	✓	
<b>3. Governance office bearers</b>		
3.1 Chairman	X	Par 1.1
3.2 CEO	X	Par 1.2
3.3 Company secretary	X	Par 1.3
<b>4. Board role and duties</b>		
4.1 Focal point of corporate governance	✓	
4.1.1 Fiduciary duties	✓	
4.1.2 Strategy	X	Par 2.1
4.1.3 Ethical leadership	✓	
4.2 Corporate citizenship and leadership	✓	
4.2.1 Risk	X	Par 2.2
4.2.2 IT governance	X	Par 2.3
4.2.3 Compliance	X	Par 2.4
4.2.4 Internal audit	X	Par 2.5
4.2.5 Business rescue	✓	
<b>5. Accountability</b>		
5.1 Stakeholder relations	✓	
5.2 Integrated reporting and disclosure	X	Par 3
<b>6. Performance assessment</b>	X	Par 4
<b>7. Board committees</b>		
7.1 Audit and Risk Committee	✓	
7.2 Remuneration and Nomination Committee	✓	
7.3 Social and Ethics Committee	✓	
<b>8. Group boards</b>	✓	

#### 1. Governance office bearers

##### 1.1 Chairman

King III prescribes that there should be a formal succession plan for the Chairman of the Board. It further requires a formal, clear written role description for the Chairman.

Although a formal succession plan and role description for the Chairman has not been developed as yet, the Remuneration and Nomination Committee will prioritise this during the next financial year. The Chairman is a seasoned independent non-executive director and serves on a number of high-profile boards which is more fully detailed in the section on the Board in this report.



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## SUSTAINABILITY REVIEW (continued)

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### King III checklist (continued)

#### 1.2 Chief Executive Officer

Similarly there is currently no formal succession plan in place for the CEO and other senior executives.

The Remuneration and Nomination Committee will also prioritise this during the next financial year.

#### 1.3 Company Secretary

King III requires that the role and function of the Company Secretary must be clearly formulated in writing. This has not yet been formalised.

The Company Secretary is appointed by the Board based on a thorough review of qualifications and experience. The Company Secretary will be required to be a member of the Institute of Chartered Secretaries of Southern Africa and to regularly attend their seminars and update courses. She is currently in the process of application for formal registration with the Institute. A formal function description for the Company Secretary will be finalised during the following financial year.

## 2. Board role and duties

### 2.1 Strategy

King III prescribes that both the following matters should be addressed:

- Strategy should be translated into key performance and risk areas that include finance, ethics, compliance and sustainability; and
- The associated performance and risk measures should be adequately identified and clear.

The Board is presented with a detailed Group risk and strategy memorandum by the executives at least once a year and the findings are thoroughly considered, on which the Board then advises. The Company seeks to improve on a risk measurement matrix to prioritise and rank the perceived risks and the appropriate responses in future.

### 2.2 Risk

A formal risk register is currently being developed throughout the Group and should be completed during the following financial year. The independent internal audit service provider was appointed to address the relevant operational risk areas.

The Board has oversight of the key risks within the Group at a strategic level, and the Board, through the Audit, Risk and Compliance Committee, will be

performing a detailed review of the compilation of risk registers during the 2013 financial year. The formal risk assessment will include the identification and description of the risk, potential impact, identified compensating controls, residual risk and corrective action required. Through this process, the Board will set the levels of risk tolerance, which will be reviewed annually.

To this end the Group is in the process of developing a standalone risk management function, which will include a formal risk plan to be all inclusive of the relevant risk management frameworks to be approved by the Board.

### 2.3 IT governance

The King III Code further requires the following assurances from the Board:

- That an Information Security Management System is developed, recorded and implemented; and
- That the Information Security Management System ensures security, confidentiality, integrity and availability of information.

Andulela is in the process of evaluating the IT governance framework at Group and subsidiary level, which has to cater for the unique requirements of each of the subsidiaries.

Once the IT governance framework has been finalised, it will formally address the integration thereof with the Company's strategic and business processes as well as the IT risks identified and the appropriate management thereof.

Although management is charged with ensuring adequate IT disaster recovery at individual company level, a formal IT disaster recovery programme and policy will be developed and presented to the Board in the following financial year.

### 2.4 Compliance

The induction and ongoing training programmes of directors do not currently include an overview of, and changes to, applicable laws, rules, codes and standards.

The majority of directors on the Board are registered with IoDSA and/or serve on the boards of other large companies in a range of diverse sectors. They are also encouraged to subscribe to the regular IoDSA legal updates and development programmes as well as to attend further professional development seminars.

## 2.5 Internal Audit

As the Internal Audit function is still in a developmental stage towards full maturity, a fully fledged formal quality assurance and improvement programme has yet to be developed and the Company will request same from the independent internal audit service provider which was appointed going forward.

## 3. Accountability

### 3.1 Integrated reporting and disclosure

The Group currently does not have a formal share option incentive scheme. Once a share option incentive scheme has been developed and approved, all such details will be fully disclosed in the integrated report.

Non-executive directors are remunerated by way of an annual fixed fee which is reviewed annually in November for the next financial year, subject to prior approval by shareholders at the Company's Annual General Meeting. A premium is payable to the Chair of the Board, as well as to the chairs of the various sub-committees.

Once the Company has finalised the new fee structure for non-executive directors to consist of a base fee and meeting attendance fees for the following financial year, such details will be fully disclosed in future remuneration reports of the integrated report.

## 4. Performance assessments

Having regard to the Board's priority and the executives' primary focus of restructuring the PRSM operations to profitability to maximise shareholders' value, the Board, while recognising the importance of conducting evaluations of its performance, constitution, leadership and supporting structures, has decided to temporarily delay conducting the formal Board, Board committees and individual directors' evaluations as recommended by King III. A comprehensive evaluation on the role, function and duties of the Board, the Board committees and individual directors will take place in the 2013 financial year.

The performance management system and appraisals for the Board, the Board committees and individual directors, are currently being developed for implementation during the next financial year. The results of this assessment will inform additional training and development plans as required for directors and will be published in future integrated reports.

## The Board of Directors

The Charter of the Board of Directors has been framed subject to the provisions of the Companies Act and the Company's Memorandum of Incorporation.

The Board comprises six directors, of which four are independent non-executive directors. The Chairman of the Board is an independent non-executive director. The Chief Executive Officer and the Chief Financial Officer are *ex officio* members of the Board. Details of the directors are set out on pages 12 and 13 of the Annual Report.

The role of the Board is regulated in a formal Board Charter which defines matters reserved for Board approval. The responsibilities of the Board are set out in the Charter and the Board is required to review its operations annually against this framework and to ensure that there is a clear balance of power so that no one director has unfettered power of decision making. Board resolutions require a clear majority of directors voting in favour of the resolutions and the Chairman does not have a casting vote in case of a tied vote.

The quorum for Board meetings is a majority of the directors, which is four, but full attendance is expected because the meetings have been planned well in advance. The Board meets at least four times a year and additional meetings are held when necessary. In assuming ultimate responsibility for effective control and leadership of the Group, the Board takes responsibility for the following:

- Ensuring that the Board's composition incorporates the necessary skills and experience;
- Appointment of directors;
- Electing the Chairman on an annual basis;
- Annual assessment of the performance of the non-executive directors (which still has to be conducted as at the date of this report);
- Annual assessment of the performance of the executive directors (which still has to be conducted as at the date of this report);
- Giving direction on all strategic matters and annually approving the Group business plan and budgets;
- Monitoring the implementation of the business plan by management;
- Compliance with all relevant laws, regulations and codes of business practice;
- Definitions of levels of materiality, reserving specific powers to itself and delegating other matters to executive management in terms of an approved authority framework;



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## SUSTAINABILITY REVIEW (continued)

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- Reviewing performance of the various Board committees established to assist the Board in the discharge of its duties on an annual basis;
- Monitoring key risk and performance areas of the Group and identifying non-financial issues relevant to the Group;
- Determining the policies applied to ensure the integrity of:
  - risk management and internal controls;
  - director selection, appointment, orientation and evaluation;
  - executive management and prescribed officers' remuneration;
  - external and internal communications;
  - ensuring there is appropriate succession planning at senior management level; and
- At least twice a year, considering the going concern status of Andulela.

Directors are appointed through a formal process in which the Remuneration and Nomination Committee assists by identifying suitable candidates to be proposed to the Board. New directors will undergo a formal induction programme and if they are inexperienced, they will be developed through a mentorship programme. Thereafter, professional development programmes will be continually implemented to ensure that directors are regularly briefed on changes in risks, laws and the environment.

The Board ensures that the Company has an effective and independent Audit, Risk and Compliance Committee although in the final analysis it bears responsibility for managing risk.

It is also ultimately responsible for the management and governance of information technology within the Group.

Directors are required to disclose to the Board all directorships as well as real or perceived conflicts and to deal with them accordingly. They are also required to deal in the Company's securities only in accordance with the policy adopted by the Board. Accordingly directors and prescribed officers are prohibited and employees are discouraged from dealing in the Company's securities in "closed periods" in terms of the JSE Listings Requirements.

The Board is supplied with all relevant information and has unrestricted access to all Group information, records, documents and property, which enable directors to adequately discharge their responsibilities. Information needs are well defined and directors have full access to management and the Company Secretary.

At each annual general meeting at least one third of the non-executive directors retire by rotation from the Board. These retiring directors, if eligible, may offer themselves for re-election.

Individual directors may take independent advice in connection with their duties following an agreed procedure.

The Board as a whole appoints a Chief Executive Officer and annually evaluates his performance.

The Board Charter, which was adopted and approved by the Board, also covers the exercise of the rights of the Board to delegate certain of its responsibilities to formally established committees and deals with procedural details relating to meetings.

The Board is in the process of implementing an annual detailed internal evaluation and appraisal programme of the effectiveness of its overall performance, that of the individual members of the Board and each subcommittee. Details of the overview of the appraisal process of the Board, Board committees, individual directors; the results of this appraisal process, and the action plans emanating from the results of the appraisals will be disclosed once the programme is approved and implemented.



The Board had four meetings during the financial year under review. The Corporate Governance Statement on page 31 contains information on the meetings held and the attendance thereof by the directors.

## Audit, Risk and Compliance Committee

This Board subcommittee assists the Board in discharging its fiduciary duties relating to:

- Ensuring compliance with applicable legislation and the requirements of regulatory authorities;
- Matters relating to financial and internal control, accounting policies, financial and integrated reporting and disclosure;
- External audit; including:
  - recommending the appointment of the external auditors to the shareholders for their approval;
  - review, approval of external audit plans, findings, problems, reports and fees;
  - the setting of principles for the use of external auditors for non-audit services;
- Internal audit charter;

- Appointment and remuneration of the internal audit provider;
- Compliance with the Code of Corporate Practices and Conduct;
- Compliance with the Group's Code of Conduct;
- Review of the risk profile and management of the Group; and
- Compliance with the Group's Code of Ethics.

It reviews the work of the external auditors in regard to the adequacy and effectiveness of the Group's financial, operating, compliance and risk management controls and reviews the scope of work and feedback reports of the independent internal audit service provider.

The Audit Committee and its Chairman are appointed by the shareholders at the annual general meeting from among the independent non-executive directors. It currently has three members who have recent and relevant financial experience.

It makes recommendations to the Board, and ultimately the shareholders, on the appointment, re-appointment or removal of the external auditors by the shareholders at the annual general meeting of the Company, ensuring that their recommendation complies with the Companies Act, the Auditing Professions Act of 2005 and the JSE Listings Requirements. It is required to review and monitor the independence and objectivity of the external auditors, together with the effectiveness of the audit process in relation to relevant professional and regulatory requirements.

The committee deals with the appointment, resignation or dismissal of the internal auditor and has appointed an

## SUSTAINABILITY REVIEW (continued)

outsourced service provider for the internal audit functions and is responsible for their performance appraisal.

Similarly, the committee monitors and reviews the effectiveness of the Company's outsourced Internal Audit service provider and the annual internal audit plan, ensuring that material risk areas are included and that the coverage of business processes is acceptable.

An important function of the committee is to ensure co-ordination and co-operation between Internal Audit and the risk management and compliance functions.

The committee will ensure that the internal audit function is subjected to an independent quality review as and when the Audit Committee determines it appropriate as a measure to ensure that the function remains effective.

Accordingly the role of the Chief Internal Audit Executive is represented by an independent outsourced service provider ("OSP") which reports administratively to the Chief Executive Officer ("CEO") or his nominee and reports functionally to the Audit Committee of the Board.

The OSP has unlimited access to all officers of the Company including the Chairmen of the Board and Audit Committee and the CEO.

The OSP may request the CEO to attend meetings of the Executive Committee or other committees made up of a majority of senior executives, but is not a member of these committees in order to protect independence.

The OSP was appointed in the third quarter of 2011. Its initial work was agreed as identifying current systems and procedures in use throughout the Group and making recommendations thereon. Until the systems of internal control have been standardised, the committee with input from executive management will direct the specific tasks of the OSP on a phase-by-phase basis.

The appointed OSP who regularly attends and is invited to attend Audit Committee meetings is Vexillum Auditors Incorporated.

The following persons served as members of the Audit Committee during the year under review:

### Audit, Risk and Compliance Committee

Name	Date appointed
Graham Rosenthal (Chairman)	19 March 2010
Nosipho Molohe	1 July 2012
Pieter du Preez	15 November 2012
Mohamed Husain	19 March 2010
<i>resigned</i>	1 July 2012

The duties and responsibilities of the committee in relation to the exercise of its functions in the risk management arena have been detailed in the section of this report relating to risk.

The committee has considered and satisfied itself of the appropriateness of the expertise and experience of the Chief Financial Officer and the finance function of the Group.

### Risk Management

Risk Management ("RM") is fundamental to the continued success of the business and plays a crucial role in enabling management to operate more effectively in a constantly changing environment. It has become one of the Group's core capabilities and is integral to evaluating strategic alternatives and setting objectives, all within an RM framework that ensures alignment with the Group's risk appetite and overall strategy. The approach followed by the Group is to ensure that all significant risks are identified and managed.

The Audit, Risk and Compliance Committee of the Board is charged with responsibility to review and debate Group risk management and compliance initiatives planned for the year, and to monitor the manner in which management identifies and monitors the risk and control infrastructure of the Group, with particular reference to its adequacy, intent and effectiveness.

The committee's terms of reference charge it with the necessity to regularly review the Company's internal financial controls and RM systems. It requires and receives regular assurance reports from management, the external auditors and others concerning the operational effectiveness of matters related to risk and control.

Internal Audit reviews and reports to the Board on the effectiveness of any corrective action that may have been taken by management and generally ensures that the principles of the King III Report in respect of risk management are being embedded within the Group in principle and in action.

The committee also requires periodic reports on the prevention, detection and investigation of fraudulent activity or misconduct within the Group. This area would include appropriate future measures to facilitate whistle-blowing by staff, or other appropriate alternatives, and checks on follow-up action.

The nature of Andulela's businesses means that the risks to which it is most commonly exposed are financial risks such as liquidity risk, credit risk and market risk. Thus the Group's overall risk management programme seeks in particular to minimise potential adverse effects on its financial performance.

The committee has satisfied itself of the effectiveness of the Company's RM processes.

In this area there are certain matters of fixed principle:

- The Group does not use financial instruments for speculative purposes;
- Excess cash generated from operations is deposited only with major and reputable financial institutions with an acceptable credit quality standing;
- Counterparties in transactions are well-recognised financial institutions;
- The Group only trades with customers of suitable creditworthiness; and
- The management, on a monthly basis, monitors their collections from customers and movements in lending rates.

## Remuneration and Nomination Committee

The terms of reference provide that the independent non-executive Chairman of the Board will be an *ex officio* member of the Remuneration and Nomination Committee but not the Chairman of the committee. It comprises two additional Independent non-executive directors, the last of which was appointed after the end of the reporting period.

Since the Remuneration and Nomination Committee is combined the individual components are deliberated on separately and under the guidance of the appropriate Chairman. Accordingly, the director who is the Chairperson of the Remuneration Committee (in accordance with King III) will preside only over those matters that are to be dealt with by the remuneration component of the committee, while the director who is deemed the Chairperson (Chairman of the Board) of the Nomination Committee will preside only over those matters to be dealt with by the Nomination Committee.

### Remuneration and Nomination Committee

Name	Date appointed
Graham Rosenthal (Chairman – Remuneration)	14 December 2011
Mohamed Husain (Chairman – Nomination)	14 December 2011
Pieter du Preez	18 March 2013

The role of the committee is to assist the Board to ensure that the Group remunerates directors, executives and prescribed officers fairly and responsibly and that the Board has the appropriate composition for it to execute its duties

effectively. It ensures that directors are appointed through a formal process and that their induction, ongoing training and development take place in a structured manner.

In carrying out its mandate, the committee oversees the establishment of a remuneration policy that will promote the achievement of Group strategic objectives and encourage individual performance while ensuring that all benefits and other financial arrangements are justified and correctly valued.

In exercising its nomination mandate, the committee oversees a formal process for the appointment of directors, including the identification of potential suitable members of the Board and the performance of reference and background checks on candidates before they are nominated.

Where necessary, the committee oversees the development of a formal induction programme for new directors, sees that inexperienced directors are developed through a mentorship programme and oversees the implementation of continuing professional development programmes for directors, ensuring that they receive regular briefings on changes in risks, laws and the environment in which the Group operates.

## Social and Ethics Committee report

The actions of the Social and Ethics Committee have a vital bearing on the face that the Andulela Group presents to its stakeholders and to the South African public in general. The committee was convened at its inaugural meeting on 24 April 2012.

The following persons served as members of the committee during the year under review:

### Social and Ethics Committee

Name	Date appointed
Pieter du Preez (Chairman)	24 April 2012
Ashruf Kaka	24 April 2012
Pieter de Jager	24 April 2012
Ismail Kajee	24 April 2012
<i>resigned</i>	9 May 2013

The committee is constituted as a committee in respect of its statutory duties in terms of section 72(4) of the Companies Act, 2008 ("the Act").

An independent third party assurance provider, Sinclair Consulting, was appointed as a consultant to assist the committee in the execution of its role and responsibilities. Sinclair Consulting is invited to attend all committee meetings.

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## SUSTAINABILITY REVIEW (continued)

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### Meetings of the Social and Ethics Committee:

- Two meetings were held during the 2012 financial year; and
- A further two meetings were held after the close of the 2012 financial year, up to the date of this report.

The responsibilities and functioning of the committee are governed by terms of reference as approved by the Board.

The purpose of the committee is to regularly monitor the Group's activities, having regard to any relevant legislation, other legal requirements, prevailing codes of best practice and applicable voluntary adherence to applicable non-binding rules, codes and standards in respect of the items listed below:

- Social and economic development, including the Company's standing in terms of the goals and purposes of the:
  - 10 principles set out in the United Nations Global Compact Principles;
  - OECD recommendations regarding corruption;
  - Employment Equity Act; and
  - Broad-Based Black Economic Empowerment Act;
- Good corporate citizenship as shown by:
  - the promotion of equality, prevention of unfair discrimination, and reduction of corruption;
  - the Group's contribution to development of the communities in which its activities are predominantly conducted or within which its products or services are predominantly marketed;
- its record of sponsorship, donations and charitable giving;
- overseeing of the implementation of the ethics management programme, focusing on the values of the Group, ethical risks and opportunities and codes of conduct with all stakeholders; and
- overall the positive and negative effects of the Group's operations on the environment and society are assessed and, where applicable the committee oversees initiatives to improve on the positive effects and curb any negative effects;
- The impact of the Group's activities and of its products or services on the environment, health and public safety;
- The Group's relationships with consumers, covering advertising, public relations and compliance with consumer protection laws; and
- Labour and employment, including:
  - the Company's standing in terms of the International Labour Organisation Protocol on decent work and working conditions; and
  - the Company's employment relations and its contribution toward the educational development of its employees.

The committee is satisfied that it is successfully fulfilling the roles and functions which it has been assigned.





### Activities of the committee during the 2012 financial year

The services of a specialist third party assurance provider which specialises in legal compliance are engaged to assist with the development and implementation of the Social and Ethics Framework.

The Framework was designed through a rigorous process of consultation and approved by the Board of the Andulela Group.

The timelines and action plans for the conducting of the compliance audit were laid out, and the process for implementation of corrective action was determined.

### Continuing achievements of the Social and Ethics Committee

The following activities were undertaken by the committee and its consultants in the reporting period and up to the date of this report, in order to achieve the objectives as set out in the Social and Ethics Implementation Framework:

- Legal Compliance Audit of Kilken Platinum Pty Ltd (“Kilken”)
 

A comprehensive on-site legal compliance audit of Kilken was conducted, focusing on the areas as defined in the role and function of the committee. Instances of non-compliance with applicable legislation were identified and are in the process of being addressed. In many instances no apparent non-compliance was identified.
- Appointment of compliance officers

Ten compliance officers were formally appointed within the Group in order to assist the committee with its monitoring function. These individuals have also been

tasked to implement newly approved Group policies which relate directly to the areas of responsibility of the committee.

- Compilation of a Group Legal Audit Questionnaire

All legislation applicable to the committee’s areas of responsibility was translated into the form of a questionnaire, which will be utilised by the compliance officers as an internal control measure.

- Legal register

A legal register containing all legislation applicable to the committee was compiled and will be kept updated. All compliance officers appointed within the Group will have access to this register and will receive training on its contents, specifically the statutory obligations imposed on the committee. The compliance officers will ensure that these obligations are met on a continuing basis.

- Development and approval of Group policies

A number of Group policies have been developed and approved. These relate to the following areas of responsibility:

- Health and safety
- Environmental
- Consumer protection
- Ethics, fraud and illegal activities
- Labour and employment.

The compliance officers will be responsible for implementation throughout the Group.

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## SUSTAINABILITY REVIEW (continued)

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### Remuneration report

The role of the Remuneration Committee is to ensure that directors and executives are remunerated fairly and responsibly and that the disclosure of directors' and prescribed officers' remuneration is accurate, complete and transparent. The terms of reference for the Remuneration Committee include the following:

- Overseeing the setting and administering of remuneration of all directors, senior management and prescribed officers;
- Overseeing the establishment of a remuneration policy;
- Setting the remuneration of non-executive directors;
- Ensuring that the mix of fixed and variable pay, in cash, shares or other elements, meets the Group's needs and strategic objectives; and
- Overseeing the preparation and recommending to the Board the remuneration report included in the Integrated Annual Report.

The committee is satisfied that it has carried out its responsibilities for the period in compliance with its terms of reference.

### Remuneration approach

In remunerating executive directors, senior management and prescribed officers, the Group aims to attract, motivate and retain competent and committed leaders in its drive to create sustainable shareholder value. The Group aims to recognise top performance and attract best creative self-driven senior management to grow the value of the Group. The remuneration policies strive to meet this objective.

Accordingly, the focus is not primarily on guaranteed annual remuneration, but on individual incentive plans linked to creating shareholder value as well as the level of achievement of personal objectives.

Andulela usually structures packages on a total cost-to-company basis. In addition, most executives qualify for individual and/or team short-term performance incentives. At senior level, the Group avoids standardised packages and aims to tailor compensation structure to the needs of the specific business.

Remuneration packages are reviewed annually and are monitored and compared with reported figures for similar positions in the latest available published industry remuneration surveys from reputable sources to ensure they are fair and market related. In some cases independent consultants provide benchmarks. Any proposed directors'

fees and remuneration above the median of the benchmark studies used for setting the remuneration levels are carefully considered and justified per individual director, taking account of the individual's calibre, experience, portfolio and workload as well as their anticipated contributions to the Company, the Group and the Board.

The committee will set clear guidelines, measurable performance criteria and details of limits for participation in the future short-term and long-term incentive schemes which are being considered.

The Group currently does not have a long-term share-based incentive bonus scheme in place, but will consider such a scheme in the future.

The Board will not be asking shareholders for non-binding approval of the Company's remuneration policy at the coming Annual General Meeting.

The Remuneration Committee is composed of independent non-executive directors tasked with operating on behalf of the Board to ensure the alignment of remuneration with realising shareholder value.

### Executive directors, senior management and prescribed officers

These employees are rewarded by means of a two tier approach, which entails:

#### Fixed pay

This element consisting of components such as salary and car allowance is the total guaranteed package of these employees. As part of the annual review process by the Remuneration Committee, guaranteed packages are benchmarked against the middle to upper quartile of the market for comparable companies as indicated in independent surveys. The services of independent remuneration consultants may be contracted for this purpose. The annual review is based on the executive's level of responsibility, overall performance and the achievement of specific agreed objectives. The average salary increase for the executive directors, prescribed officers and general staff was 7%, with effect from 1 January 2013. Directors and prescribed officers of PRSM received no increases for 2013.

#### Variable pay

The executive directors' and prescribed officers' remuneration is structured to ensure that a portion of their package is linked to performance and achievement of sustainable targets through short-term and long-term incentives. Senior management are also remunerated for performance of the respective subsidiaries for which they are responsible. This remuneration is in the form of a performance bonus linked to the achievement of predetermined performance

measures, which include achieving and exceeding agreed on budgets for the financial year, in terms of both quantity and profit growth. In terms of the performance scheme, senior management will qualify for bonuses once they have achieved the budgeted net profit after tax, but the amount of the bonus will be subject to real growth in customers and net profit after tax above the budgeted numbers.

The Company does not have a share incentive scheme currently in place.

The remuneration paid to the executive directors of the Company, whilst in office, during the year ended 31 December 2012, are disclosed in note 22 of the Annual Financial Statements which forms part of this report.

#### **Contracts of employment**

The executive directors and prescribed officers of the Group do not have fixed-term contracts, but are employed in terms of the Group's standard contracts of employment. The notice period for termination of service is two calendar months for executive directors and one calendar month for senior management. None of these employees have any benefits associated with the termination of their services.

In relation to contracts and service agreements with executive directors, the committee, subject to circumstances, will maintain the following policy:

- Fixed-term contracts should not exceed three years but may provide for extension;
- Agreements with certain identified executives who are considered to be specialists in any one specific industry or market sector should contain a restraint of trade clause with a term of not less than a year;
- Contracts do not commit the Group to pay on termination arising from the director's failure or neglect;
- Balloon payments or 'golden parachutes' on termination are not seen as fair remuneration policy and no exceptional benefits are associated with the termination of their services;
- If a director is dismissed because of a disciplinary procedure, a shorter notice period should apply without entitlement for compensation for the shorter notice period;
- Contracts should not compensate directors for severance because of change of control;
- The service agreements of executive directors should have a minimum of two months' notice period for termination; and

- If it is deemed appropriate and necessary, executive directors' service agreements will contain a restraint of trade clause, the details of which will be reported to shareholders should this occur in the future. Currently none of the executive directors have restraint clauses in their service agreements.

Save for related party transactions in note 25 of the Annual Financial Statements, no other management, consulting, technical or other fees, directly or indirectly, including payments to management companies have been paid to any directors of the Company. No other material benefits or expense allowances were received by the directors. There is no commission, gain or profit sharing arrangement payable to any of the directors.

#### **Non-executive directors**

Non-executive directors do not have employment contracts and do not receive any benefits associated with permanent employment. They do not participate in any incentive plans.

Non-executive directors are remunerated by way of an annual fixed fee which is reviewed annually in November for the next financial year, subject to prior approval by shareholders at the Company's Annual General Meeting. A premium is payable to the Chair of the Board, as well as to the chairs of the various subcommittees.

The fees are market related and take into account the nature of the Company's operations. The annual fees payable to non-executive directors were approved by shareholders on 8 August 2012.

The remuneration paid to non-executive directors of the Company during the year ended 31 December 2012 is disclosed in note 22 of the Annual Financial Statements which forms part of this report. The average increase in non-executive director fees for the 2012 financial year amounted to 8%.

Based on the Group's expansion the Board will consider amending the Board fee structure to comprise a base fee and meeting attendance fees going forward in line with the recommendations of King III.

Non-executive directors' fees are reviewed annually, and benchmarked against companies of approximate similar size, complexity and within similar industry sector groupings, with reference to readily available published surveys from reputable sources. Independent advice is acquired to review directors' remuneration from time to time.



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## SUSTAINABILITY REVIEW (continued)

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### Social performance

#### Stakeholders

The Group has actively engaged with all its key stakeholders throughout the year. In addition, as stakeholders' interests in the Group are dynamic and subject to change, the committee will ensure the continuous identification of all stakeholders as well as their legitimate interests in and expectations of the Group. Once new stakeholders are identified, the committee will decide through consultation with the various stakeholder groups how to further engage with each constituency.

#### Safety, health and the environment

The Andulela Group is committed to a clean, safe and healthy environment for its employees, contractors, consumers and surrounding communities.

The committee is responsible for the regular review of the Group Health and Safety, and Environmental Policy, for the guidance of Group companies in their implementation, and for monitoring performance in terms of these policies.

#### Ethics

The Andulela Group does not in any way tolerate unethical, fraudulent or illegal behaviour and shall adopt and maintain measures for the prevention, detection, management and fair dealing in the investigation of this type of conduct.

The promotion of an ethical and fraud-free culture within the Group, in addition to implementing procedures and controls, involves changing organisational culture that may allow these events to occur and possibly go unnoticed or unreported.

Any investigative activity which is required will be conducted without regard to the suspected wrongdoer's length of service, position/title, or relationship to the Andulela Group.

#### Good corporate citizenship

The Group aims to be acknowledged as a responsible corporate citizen and strives to operate in a manner that is sustainable: economically, socially, and environmentally – in the best interest of long-term success for the Group.

Led by an effective Board of Directors and long-serving, experienced executives, the Group operates on an established foundation of strong corporate governance.

#### Community development

The Group acknowledges the importance of making a contribution to the development of communities in which its activities are predominantly conducted. Donations and sponsorships to deserving initiatives are made. A formal policy in this regard is in the process of being drafted.

#### Empowerment and social responsibility

Andulela is committed to the establishment of a social upliftment programme whereby the Company, through its subsidiaries, is actively involved in providing management skills, education, training and systems which will facilitate the upliftment of people within the previously disadvantaged communities.

#### Workforce profile

The resilience and success of Andulela and its subsidiaries is underpinned by committed, competent and value orientated people that drive businesses from the front line to the boardroom. Living the following values and core beliefs are the key ingredients for the culture that supports achievement of the Group's strategy:

- Professionalism and brand ambassadors in working together to add value to clients and stakeholders;
- Respect for one another, all stakeholders and the environment;
- Integrity and honesty in managing relationships and partnerships;
- Establishment and promotion of a non-discriminatory environment that supports people's rights and obligations;
- Accountability for complying with laws, regulations, policies and Andulela's Code of Ethics; and
- Commitment to add value and support development of South Africa.

The workforce complement increased over the last year from 433 at 31 December 2011 to 461 at 31 December 2012.

#### Human capital initiatives

Andulela is launching projects informed by good industry practice to support its growth and expansion plans. Performance management is a critical business requirement as this helps align, manage and calibrate the contributions of each person in the organisation in line with the strategic goals.

#### Recruitment

The Group recruits its employees primarily by way of advertising in national print or on online media. Interviews are conducted with input from appropriate directors and senior management. In certain instances, the Group may head hunt predetermined and appropriate personnel, and in instances where appropriate senior personnel cannot be sourced, the Group might utilise the services of employment

agencies. Interview procedures are conducted in line with the guidelines of the Labour Relations Act (Act No 127 of 1998).

### **Training**

In addition to the requirements of the appropriate legislation, appropriate training of all personnel including in-house training, external training and planned training are done on an ongoing basis. The Board of Directors recognises and is committed to the principles of openness, integrity and accountability applicable for appropriate grants in terms of the Skills Development Levies Act (Act No. 9 of 1999) and ensures that training reflects the adopted policy of continuous improvement to enhance employee skills and efficiency.

The education of staff remains a key development area for the Group to enable it to continue providing products and services to its client base.

### **Talent management**

In the area of talent management, specifically processes for attracting and developing, retaining and performance managing, our people resources have undergone significant improvements.

The Group promotes an environment in which all employees are afforded equal developmental and promotional opportunities and to this end has supported initiatives aimed at promoting training, education and development. The principle of learning through experience, as well as formal training, is adhered to throughout the Group. In addition, employees with professional qualifications are encouraged to keep abreast of developments in particular fields by attending seminars, conferences and training courses. Financial assistance is also given to employees to encourage further tertiary education and to update the professional skills quotient in the organisation.

The Group is committed to ensuring equal opportunities for people from historically disadvantaged groups (comprising African, Asian and Coloured persons, women and the disabled). Employment equity reports are submitted in accordance with the Employment Equity Act (Act No. 55 of 1998). Goals will be established for business transformation and will be incorporated into various talent processes such as acquisition, development and progression. Succession and progression processes will be improved to build a sustainable pipeline of leadership talent from the frontline to directors.

### **Labour relations**

The Group follows the principle of consultation for the benefit of management and employees. Freedom of association and dissociation is acknowledged.

### **Disciplinary and grievance procedures**

Behavioural standards are documented as conduct, performance or disciplinary codes and these are communicated to all employees. The Group prefers measures that are progressive in correction rather than punitive. To this end, in minor cases of misconduct, a written warning is given, subject to an investigation of the facts, and the outcome is based on a balance of probabilities. For more serious offences which may warrant dismissal, a fair and unbiased disciplinary hearing is conducted. All employees involved in a disciplinary procedure are permitted representation by another employee of his/her choice. There is an appeal procedure for all forms of disciplinary action. A formal grievance procedure exists to enable employees to communicate grievances to management and to obtain the earliest possible resolution.

### **Broad-Based Black Economic Empowerment (“B-BBEE”)**

The committee’s role is to create an organisational culture with the necessary structures and processes that encourage transformation to ensure compliance with relevant legislation and charters. This will assist in the development of a corporate structure that reflects the demographics of South Africa through the full spectrum of the Group’s activities and programmes.

B-BBEE is an integral component of South African business and the Group is committed to aligning its businesses with the national legislation in the area of sustainable business transformation and to the creation and development of an enabling environment, for effective implementation within the organisation. The Group ensures that each business retains business focus, values, performance, customer satisfaction and increased shareholder value.

### **Employment equity**

The Group continually considers governmental policies and informs itself about proposed legislation and regulations, the most significant being the Employment Equity Act. As such, it is essential that the cornerstones of the Group continue to encompass integrity, exemplary business practice, and respect for the individual, irrespective of colour, race or creed. The Group provides an opportunity to increase previously disadvantaged equity participation.

## SUSTAINABILITY REVIEW (continued)

The official policy of the Group is to approach affirmative action from the perspective of making a substantive difference to people's lives, balanced with good business practice. This includes implementing affirmative action policies at all levels in the organisation. Certain positions were already filled over the past year to give effect to this policy.

All Group companies have adopted an employment equity policy promoting equal opportunity and fair treatment in employment through the elimination of any discriminatory practices and prejudices. An environment has been created in which every employee has the opportunity for advancement. A developmental approach is being taken to affirmative action with the focus on promoting education

and training to assist persons from designated groups to occupy more skilled and responsible positions within the Group. Employment equity reports have been submitted in accordance with the Employment Equity Act of 1998. Goals will be established for business transformation and will be incorporated into various talent processes such as attraction, development and progression. Succession and progression processes will be improved to build a sustainable pipeline of leadership talent from the frontline to directors as referenced above.

The Group's current demographic profile of permanent employees in South African companies per occupational level is tabled below:

Group									
Occupational levels	Male				Female				Total
	A	C	I	W	A	C	I	W	
Top management	1	–	5	3	1	–	–	–	10
Senior management	–	2	–	4	–	–	–	2	8
Professionally qualified and experienced specialists and mid-management	2	3	4	11	–	–	1	1	22
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	46	1	12	22	2	1	4	12	100
Semi-skilled and discretionary decision making	168	5	4	11	5	1	–	36	230
Unskilled and defined decision making	82	2	–	–	6	1	–	–	91
<b>Total permanent</b>	<b>299</b>	<b>13</b>	<b>25</b>	<b>51</b>	<b>14</b>	<b>3</b>	<b>5</b>	<b>51</b>	<b>461</b>
Percentage (%)	65	3	5	11	3	1	1	11	100
2011	–	–	–	–	–	–	–	–	–
<b>Total permanent</b>	<b>281</b>	<b>11</b>	<b>29</b>	<b>46</b>	<b>13</b>	<b>3</b>	<b>9</b>	<b>41</b>	<b>433</b>
Percentage (%)	65	3	7	11	3	1	2	8	100



### **Skills development**

The Group is committed to the development of all its employees and to this end supports initiatives aimed at promoting training, education and development. The Group, through its subsidiaries, also provides independent contractors with regular training in all aspects required to enable them to own and manage successful businesses. The principle of learning through experience, as well as formal training, is promoted throughout the Group.

### **Human rights**

Andulela continues to uphold and respect employee human rights through its operations. Basic human rights are

enshrined in Company policy and in employment contracts. There is no child labour and forced labour within the Group. There were no incidents of human rights violations during the year under review.

### **HIV/AIDS**

The Group is committed to reducing the spread and minimising the impact of HIV/AIDS on our employees and our stakeholders. Across our companies, we promote non-discriminatory behaviour through our shared Code of Ethics and provide education to support safe and responsible decisions.

