

SUMMARY OF CODE OF
GOVERNANCE PRINCIPLES FOR
SOUTH AFRICA – 2009
KING III

KING COMMITTEE ON GOVERNANCE

The Code recommends that the principles should be studied with the Report. All entities should apply both the principles in the Code and the best practice recommendation.

Companies will, in future, be required to make a positive statement that they have observed both the Code and the best practice principles, contained in the Report.

PRINCIPLES

1. BOARD AND DIRECTORS

Role and Function of the Board

- 1.1. The Board is the focal point for corporate governance.
- 1.2. It is important that the Board ensures that the company is a good corporate citizen.
- 1.3. An ethical corporate culture should be cultivated by directors.
- 1.4. Strategy, risk performance and sustainability should be managed as inseparable matters.
- 1.5. Sustainability should be considered to be a business opportunity.
- 1.6. The Board should appoint the CEO and establish a framework for delegation.
- 1.7. Risk management is a responsibility of the Board.
- 1.8. Directors should act in the best interests of the company.
- 1.9. Conflicts of interest should be managed effectively.
- 1.10. Risk based internal audit function should be appointed.
- 1.11. The integrity of financial reporting should be ensured.
- 1.12. The effectiveness of internal financial controls should form part of the Board's reporting responsibility.
- 1.13. Material matters should be disclosed by the Board.
- 1.14. Dispute resolution is a Board responsibility.
- 1.15. Effective compliance is a Board responsibility.
- 1.16. Business rescue proceedings should be instituted as soon as the financially distressed nature of the company becomes evident.

Composition of the Board

- 1.17. Non-executive directors should constitute a majority of the directors.
- 1.18. The Chairman should be an independent non-executive director.
- 1.19. The CEO should be ethical and effective.

Board Appointment Process

- 1.20. The appointment of directors should be by means of a formal process.

Director Development

- 1.21. A formal training and development of directors process should exist.

Company Secretary

- 1.22. A competent Company Secretary should be appointed.

Performance Assessment

- 1.23. An annual evaluation of the Board, Directors and Board Committees should be undertaken.

Board Committees

- 1.24. Delegation of authority to Board Committees, who are required to make recommendations to the Board, does not absolve the Board from responsibility.

Group Companies

- 1.25. The Board Committees of the controlling company have a duty to monitor any Board Committee appointed by subsidiaries.

Approval of Remuneration: Non-executive Directors

- 1.26. The shareholders, usually at the AGM, should approve the remuneration of non-executive Directors, in advance.

Remuneration Policy

The company's remuneration policy should be approved by shareholders.

The Remuneration Committee's Report should form part of the Integrated Report.

2. CORPORATE CITIZENSHIP: LEADERSHIP, INTEGRITY AND RESPONSIBILITY

- 2.1. The Board should ensure that the company is a responsible corporate citizen.
- 2.2. Strategies should be developed to ensure that the company becomes and remains a good corporate citizen.
- 2.3. The company should be run ethically.

3. AUDIT COMMITTEES

- 3.1. The independent non-executive director members of the Audit Committee should be skilled and experienced.
- 3.2. The Audit Committee should be effective
- 3.3. The Chairman of the Audit Committee should also be an independent non-executive director.

Responsibilities of the Audit Committee

- 3.4. This should include:
 - ❖ Financial reporting;
 - ❖ Interim results;
 - ❖ Summarised financial information;
 - ❖ Integrated sustainable reporting.
- 3.5. To ensure that the finance function has adequate expertise and resources.

- 3.6. It should also ensure that a coordinated approach is adopted to all assurance activities.

Internal Assurance Providers

- 3.7. As the Audit Committee is an integral component of the risk management process, it should be responsible for:

- ❖ The oversight of internal audit;
- ❖ Risk and reporting;
- ❖ Internal financial controls;
- ❖ Fraud;
- ❖ IT risks.

External Assurance Providers

- 3.8. The oversight of external audit is an Audit Committee responsibility.

Reporting

- 3.9. A report should be submitted to stakeholders, detailing how the Audit Committee conducted its business.

4. RISK MANAGEMENT

The need

- 4.1. Risk management is an integral part of the strategy and business processes.

Responsibility for risk

- 4.2. Management is responsible for implementing risk management processes.

- 4.3. Risk management should be an integral part of the company's day-to-day activities.

- 4.4. The process of risk management is a Board responsibility.

- 4.5. The risk philosophy should be approved by the Board.

- 4.6. It should be accompanied by a risk management plan.

4.7. A risk committee may be appointed by the Board.

Risk Assessment

4.8. On-going risk assessment should be conducted.

Risk Identification

4.9. Risk identification is important.

Risk Quantification and Response

4.10. Key risks should be quantified.

Assurance over the Risk Management Process

4.11. The risk management process should be verified/assured by internal audit.

Disclosure

4.12. The effectiveness of risk management should be reported by the Board.

Key Risks Facing the Modern Company

4.13. It is necessary to protect the company against a loss of reputation.

4.14. Sustainability risks, including the reporting thereof, is a Board responsibility.

4.15. IT objectives risk should be included in the business and sustainability plans.

4.16. Risk assessment should take into account the risk of the unknown.

5. INTERNAL AUDIT

The Need for and Role of Internal Audit

- 5.1. A risk based and effective internal audit should be required by the Board.

The Role of Internal Audit

- 5.2. It is necessary for internal audit to provide the Board with a written assessment of the system of internal control, performance and risk management.
- 5.3. Internal audit should assist the Audit Committee.

Internal Audit's Approach and Plan

- 5.4. A risk based approach is necessary, for internal audit planning.

Internal Audit's Status in the Company

- 5.5. It is necessary for internal audit to be strategically placed.
- 5.6. Through the CEO, internal audit should have a direct relationship with:
- ❖ Audit Committee;
 - ❖ Corporate Governance Committee;
 - ❖ Risk Committee.
- 5.7. The internal audit function should be properly staffed.

6. INTEGRATED SUSTAINABILITY REPORTING AND DISCLOSURE

Transparency and Accountability

- 6.1. Effective stakeholder communication is necessary.
- 6.2. Comprehensive sustainability in reporting should be accurate and transparent.
- 6.3. Sustainability reporting should be part of the reporting process.

Methods and Timing of Reporting

- 6.4. Regular and effective reporting is necessary.
- 6.5. An independent assurance of sustainability reporting and disclosure is necessary.

7. COMPLIANCE

Compliance with laws, regulations, rules and standards

- 7.1. It is necessary to comply with the applicable laws and regulations.
- 7.2. Adherence to applicable rules and standards should be considered.
- 7.3. It is necessary for individual directors to be aware of relevant laws and standards.
- 7.4. Compliance with laws and regulations is a responsibility of the Board.
- 7.5. Effective compliance processes and frameworks should be implemented.
- 7.6. Risk management should include compliance as part of its function.

8. MANAGING STAKEHOLDER RELATIONSHIPS

- 8.1. The interests of stakeholders should be taken into account in all decisions.
- 8.2. These relationships should be managed.
- 8.3. Constructive stakeholder engagement should be encouraged by identifying applicable processes.
- 8.4. It is necessary to have a balance between stakeholder groupings.
- 8.5. All shareholders should be treated equally.
- 8.6. Transparency and effective communication is necessary.
- 8.7. Mutual respect should be encouraged between the company and its stakeholders.

Dispute Resolution

- 8.8. A process should exist resolve all disputes.

- 8.9. Internal and external disputes should be resolved as expeditiously as possible.
- 8.10. Representatives of the company, at alternative dispute resolution (ADR) processes, should be selected by the Board.

9. **FUNDAMENTAL AND AFFECTED TRANSACTIONS**

- 9.1. All conflicts and potential conflicts of interest should be disclosed by the applicable director.
- 9.2. Affected transactions should not include directors with any conflict of interest.
- 9.3. Directors have a duty to shareholders.
- 9.4. Applicable knowledge is required of independent directors.
- 9.5. It is necessary for the Board to express opinions, in the case of certain transactions.
- 9.6. Independent, competent advisers should be used by offeree companies.
- 9.7. Negotiations should be kept confidential. On any leak of information, the negotiations should be disclosed.
- 9.8. The shareholders of all offeree companies should be treated equitably.
- 9.9. All processes should be driven by directors who have no conflict of interest.