

## 03 | GOVERNANCE





# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE REPORT

The JSE has included certain aspects of South Africa's King III Report on Corporate Governance ("King III") in its listings requirements. The Board has adopted the recommendations on good corporate governance contained in the King III Report, as well as the King Code of Governance Principles for South Africa. The King III principles and recommendations have been implemented across the Group. A full report of the Group's compliance with each of the King III principles is available on pages 141 to 156.

## THE BOARD OF DIRECTORS

The Board is the focal point for corporate governance and is responsible to set the tone for ethical leadership throughout the organisation. It is responsible to shareholders and stakeholders for sustainable performance of the Group. The Board takes overall responsibility for the success and prosperity of the Group. The Board's role is to exercise sound leadership and judgement in directing the Group to achieve sustainable growth, having due consideration to a balanced financial, social and environmental performance, and taking into account the legitimate expectations of its stakeholders in making decisions in the best interest of the Group. The board charter articulates the objectives and responsibilities of the Board. Likewise, each of the board sub-committees operates in accordance with written terms of reference, which are regularly reviewed by the Board.

At the date of issuing the integrated annual report, the Board comprised seven directors, of which only three are executive directors and four non-executive directors, three of whom are independent and free from any business or other relationships which could materially interfere with the exercise of their independent judgement. Advised by the remuneration and nominations committee, the Board ensures that the election of independent directors falls on reputable persons of well-known competence and experience, who are willing to devote a sufficient part of their time to the Group.

Details of the directors in office on 29 February 2016 appear on pages 38 and 39 of this report.

The roles of the chairman of the Board and the Chief executive officer ("CEO") are kept separate, each with clearly defined roles and responsibilities. Non-executive director Mr Carl Stein was the chairman of the Board with executive director Mr Steven Gottschalk as the CEO of the Group throughout the financial year under review. There is a clear division of responsibilities on the Board which forms part of the policy to ensure a balance of power.

The Board reviewed the previously approved board charter to align it to the recommendations of King III. The board charter compels directors to promote the vision of the Group, whilst upholding sound principles of corporate governance. The board charter sets out the primary functions of the Board as being to:

- retain full and effective control of the Group;
- review and approve corporate strategy;
- approve and oversee major capital expenditure, acquisitions and disposals;
- review and approve annual budgets and business plans;
- monitor operational performance and management;
- determine the Group's purpose and values;
- ensure that the Group complies with sound codes of business behaviour;
- ensure that appropriate control systems are in place for the proper management of risk, financial control and compliance with all laws and regulations;
- appoint the CEO and ensure proper succession planning for executive management;
- regularly identify and monitor key risk areas and the management thereof; and
- oversee the Group's disclosure and communication process.

The Board's governance procedures and processes are continuously being reviewed and a number of specific policies have been adopted by the Board, expanding on the content of the board charter in the following areas:

- communication on behalf of the Group and the Board;
- conflict of interest;

- access to professional advice;
- social responsibility policies;
- access to external professional advice;
- legal compliance;
- internal audit; and
- trading in company shares.

To avoid conflict of interest and in compliance with section 75 of the Companies Act of South Africa, Board members must disclose their interest in material contracts involving the Group. In addition, Board members must recuse themselves from deliberations or the decision-making process relating to any matter in which such member may have a personal financial interest.

The Board is required to meet at least four times a year. During the 2016 financial year, the Board convened six times. Quarterly board meetings have been included in the Board's annual calendar. In addition to the above, the Board reviewed the previously approved governance work plan to ensure that the Board discharged its duties in a structured manner and that all governance issues are considered and appropriately dealt with in an annual cycle.

Shareholders are advised that the Company was unaware of Dr Mathews Phosa's share dealings on the 6, 7 and 11 of August 2015. As soon as the Company became aware of these share dealings on 8 February 2016, an announcement was prepared and released on SENS on 9 February 2016

highlighting the fact that clearance in terms of paragraph 3.66 of the JSE Listing Requirements was not obtained. Dr Phosa has acknowledged that he was fully responsible for this omission and letters were sent to the JSE by Dr Phosa in this regard. The necessary correspondence has been submitted to the JSE and the Company awaits further feedback from the JSE.

With the exception of the above, the directors and company secretary certify that in terms of Schedule 18 of the JSE Listings Requirements, that it has complied with all JSE Listings Requirements for the period ended 29 February 2016.

The daily management of the Group's affairs is the responsibility of the CEO. In addition to the annual work plan, an approvals framework is also in place, setting out the respective responsibilities and levels of authority of the Board and executive management. The Board is kept informed of all developments at the Group, primarily through the executive directors. At the time of publishing the integrated annual report, the composition of the Board was as follows:

Mr CD Stein	<i>(Chairman)</i>
Mr SD Gottschalk	<i>(Chief executive officer)</i>
Mr IM Groves	<i>(Independent non-executive director)</i>
Mr VW Mcobothi	<i>(Independent non-executive director)</i>
Dr NM Phosa	<i>(Non-executive director)</i>
Mr CL Sack	<i>(Group financial director)</i>
Mr M Padiyachy	<i>(Executive director)</i>

#### Summary attendance table of board meetings during the financial year ended 29 February 2016:

Member	24 March 2015 SB	13 May 2015	22 July 2015	10 September 2015 SB	21 October 2015	10 February 2016
CD Stein	P	A	P	P	P	P
SD Gottschalk	P	P	P	P	P	P
IM Groves	P	P	P	P	P	P
VW Mcobothi	P	P	P	P	P	P
NM Phosa	P	P	P	A	P	P
CL Sack	P	P	P	P	P	P
M Padiyachy	P	P	A	P	P	P

Key:

P: Present

A: Apology

SB: Special Board

# CORPORATE GOVERNANCE REPORT

(continued)

All directors have access to the advice and service of the company secretary who is responsible to the Board for ensuring compliance with procedures and applicable statutes and regulations. The company secretary administers corporate governance within the Group and provides counsel and guidance to the Board on the proper discharging of their powers, duties and responsibilities. All directors, executive and non-executive, may liaise with the company secretary on agenda items for board meetings.

iThemba Governance and Statutory Solutions Proprietary Limited, represented by Ms Claire Middlemiss (FCIS CSSA) is the company secretary. Ms Middlemiss has 16 year's experience as a company secretary and is actively involved in assisting the Board in its governance initiatives.

During the year under review, the Board was satisfied with the competence, qualifications and experience of the company secretary and that an arm's-length relationship was maintained with the Board of directors. The company secretary are external consultants and are not involved in the management of the Group. They are therefore independent of the Group. Contact details of the secretary are disclosed under corporate information (IBC).

In accordance with the MOI, and in order to facilitate continuity of the Board, one-third of the non-executive directors shall retire from office at each annual general meeting (AGM) and their reappointment is subject to shareholders' approval. If a director is also an employee of the Company in any capacity (also referred to as an executive director) he shall not, while he continues to hold that position or office, be subject to retirement by rotation and he shall not, in such case, be taken into account in determining the rotation or retirement of directors. In addition, all directors are subject to election by shareholders at the first opportunity after their initial appointments. The Board, assisted by the remuneration and nominations committee, recommends the eligibility of retiring directors

(subject to availability and their contribution to the business) for reappointment. The directors retiring by rotation at the forthcoming AGM are Dr NM Phosa and Mr VW Mcobothi.

## REMUNERATION

Details of directors' fees and remuneration are fully disclosed in note 18 to the consolidated financial statements. In addition, the proposed fees to be paid to non-executive directors for approval by shareholders by way of a special resolution are set out in the notice of the AGM forming part of this report. Non-executive directors only receive remuneration that is due to them as members of the Board. Directors serving as members on board sub-committees receive additional remuneration. Remuneration of executive directors in their capacities as executive members of the management team as approved by the remuneration and nominations committee is fully disclosed in note 18 to the consolidated financial statements.

## DIRECTORS' SERVICE CONTRACTS

The non-executive directors do not have service contracts with the Group and all remuneration paid to non-executive directors is in accordance with the approval given by the shareholders at each annual general meeting.

The executive directors are full-time employees of the Group and, as such, each has an employment contract, the terms of which are substantially in accordance with the Group's standard conditions of service.

## MONITORING OF PERFORMANCE

The chairman is appointed on an annual basis by the Board, with the assistance of the remuneration and nominations committee. The remuneration and nominations committee assesses the independence of non-executive directors annually.

In line with recommendations of King III, in 2016, a detailed self-assessment of the performance of

the Board and its committees was conducted and the results thereof were considered in order to identify areas for improvement. The assessments found that the structures and processes governing the Board and its committees were well established and functioning satisfactorily. It also found that the Board had fulfilled its role and responsibilities and had discharged its responsibility to the Group, shareholders and other stakeholders in an exemplary manner.

Mr CD Stein, the chairman of the Board and Mr IM Groves have served for a term beyond nine years as independent non-executive directors and have been subject to particularly rigorous reviews by the Board, of not only their performance, but also the factors that may impair their independence. After an independence assessment by the Board, it was determined that there are no relationships or circumstances likely to affect, or appearing to affect the directors' judgement. The assessment determined that the independent directors' independence of character and judgement was not in any way affected or impaired by their length of service.

## **BOARD COMMITTEES**

The Board has established a number of standing committees with delegated authority from the Board. Each committee has agreed terms of reference as approved by the Board that addresses issues such as composition, duties, responsibilities and scope of authority.

Although the Board delegates certain functions to these committees, it retains ultimate responsibility for their activities. The committee members are all independent non-executive directors and the Chief executive officer and Group financial director are permanent invitees to each committee meeting. Each board committee is chaired by an independent non-executive director.

Committees operate in accordance with Board approved terms of reference, as well as annual work plans, which are reviewed and updated on a regular basis to align them further with best practice. The Board appoints the chairmen and the members of these committees. In addition, the committees are required to evaluate their effectiveness and performance on an annual basis and to report the respective findings to the Board for consideration. The Board has an audit and risk, remuneration and nomination committee as well as a social and ethics committee. All these committees operate under Board approved terms of reference.

## **DIVERSITY AND COMPOSITION OF THE BOARD**

In an ongoing endeavour to maintain the highest corporate governance standards and in line with the recommendations of the JSE Limited, the Group is in the process of reviewing its policy on the promotion of diversity at Board level, including ethnicity and gender. The Group undertakes to continually ensure that representation at Board level remains optimal by identifying candidates with a diverse collection of skills, expertise and experience to allow the Board to effectively lead the business and strategy of the Company, as required.

## **AUDIT AND RISK COMMITTEE**

The committee consisted of three independent non-executive directors throughout the financial year. At the time of publishing the integrated annual report, the composition of the audit and risk committee was as follows:

Mr IM Groves (*Chairman*)

Mr VW Mcobothi

Mr CD Stein

# CORPORATE GOVERNANCE REPORT

(continued)

## Summary attendance table of members at the audit and risk committee meetings during the financial year ended 29 February 2016:

Member	12 May 2015	21 July 2015	20 October 2015	10 February 2016
IM Groves	P	P	P	P
VW Mcobothi	P	P	P	P
CD Stein	P	P	P	P

Key:

P: Present

The relevant resolution for the appointment of the audit and risk committee as required by the Act is set out in the notice of the AGM as contained in this report. The Board is satisfied that the members as proposed for approval by shareholders meet the definition of non-executive directors, acting independently, as defined in the Act.

Mr CD Stein is currently the chairman of the Board and a member of the audit and risk committee as his experience and knowledge of the Group's operations and risks are invaluable to the audit and risk committee.

Mr CD Stein is an independent non-executive chairman of the Board, therefore he may be a member of the audit committee. Additionally, the Company has complied with guidance from the JSE in this circumstance, in that:

- all the other members of the audit and risk committee are independent non-executive directors;
- Mr CD Stein is not the chairman of the audit committee;
- the dual role has been specifically disclosed to shareholders; and
- shareholders approved the appointment of the chairman to the audit and risk committee at the AGM.

The audit and risk committee has updated, formal Board approved terms of reference. The Board is satisfied that the committee has complied with

these terms and with its legal and regulatory responsibilities as set out in the Act, King III and the JSE Listings Requirements. The terms of reference for the audit and risk committee intend to ensure compliance with both governance recommendations and statutory requirements.

The Board believes that the members collectively possess the knowledge and experience to exercise oversight of the Group's financial management, internal and external auditors, the quality of the Group's financial controls, the preparation and evaluation of the Group's financial statements and financial reporting. The Board has established and maintains internal controls and procedures, which are reviewed on a regular basis. These are designed to manage the risk of business failures and to provide reasonable assurance against such failures but this is not a guarantee that such risks are eliminated.

It is the duty of this committee, among other things, to monitor and review:

- audit findings, audit reports and the appointment of external auditors including an assessment of their performance, independence and objectivity;
- approving the audit fee of the external auditors;
- reports of external auditors;
- evaluation of the performance of the Group financial director;
- adequacy and effectiveness of the Group's enterprise-wide risk management policies, processes and mitigating strategies;

- internal controls in place, through consultation with internal and external auditors;
- governance of information technology (IT) and the effectiveness of the Group's information systems;
- quarterly and annual financial and operational reports, the annual financial statements and all other widely distributed documents;
- mandatory term limits on the period that the lead audit partner of the external auditors may serve the Group;
- the nature, scope and extent of audit and any non-audit services which the external auditors may provide to the Group;
- undertaking the prescribed functions (in terms of section 94(7) of the Companies Act of South Africa) on behalf of the Group and all subsidiary companies;
- overseeing internal audit;
- assisting the Board on the going concern statement;
- accounting policies of the Group;
- compliance with applicable legislation, requirements of appropriate regulatory authorities;
- the integrity of the integrated annual report (by ensuring that its content is reliable and recommending it to the Board for approval);
- receiving and dealing appropriately with any complaints relating to the accounting practices and internal audit of the Group, or to the content or auditing of its financial statements, or to any related matter;
- considering and recommending to the Board the need to engage external assurance providers to provide assurance on the accuracy and completeness of integrated sustainability reporting; and
- performing any other functions as may be determined by the Board.

The committee is responsible for facilitating the relationship with the external auditors and for monitoring the non-audit services provided by the external auditors. The external auditors have direct access to the chairman of the committee and attend all meetings of the committee ensuring that auditors are able to maintain their independence. The chairman of the committee is expected to attend the AGM in order to answer any questions that shareholders may have relevant to the committee's areas of responsibility. The committee is responsible for recommending the appointment of a firm of external auditors to the Board who in turn will recommend the appointment to the shareholders. The committee is also responsible for determining that the designated appointee has the necessary experience, qualifications and skills and that the audit fee is adequate. The audit and risk committee is satisfied that the external auditors and the respective audit partner observed the highest level of business and professional ethics and independence. Rotation of the engagement partner responsible for the external audit happens every five years.

Committee members have unlimited access to all information, documents and explanations required in the discharge of their duties. This authority has been extended to internal and external auditors.

The committee has, in addition to its other duties, also satisfied itself as to the appropriateness of the experience and expertise of the Group financial director as required in terms of the JSE Listings Requirements and the entire financial function.

The Board is satisfied that the committee has been equipped to properly fulfil its duties going forward.

The statutory report of the committee as required by the Act can be found on pages 62 to 63 of the integrated annual report.



# CORPORATE GOVERNANCE REPORT

(continued)

## REMUNERATION AND NOMINATIONS COMMITTEE

At the time of publishing the integrated annual report, the composition of the remuneration and nomination committee was as follows:

Mr IM Groves (*Chairman*)

Mr CD Stein

### Summary attendance table of members at the remuneration and nomination committee meetings during the financial year ended 29 February 2016:

Member	25 March 2015	22 July 2015
IM Groves	P	P
CD Stein	P	P

Key:

P: Present

The committee is primarily responsible for assisting the Board in formulating remuneration and other employment policies as well as the remuneration philosophy of the Group and to structure appropriate remuneration packages for executive directors, based on industry standards and the best interests of all parties concerned. The objective is to ensure that remuneration is fair and appropriate to attract, retain and motivate individuals of high calibre to run the Group successfully and to ensure that executive directors are fairly rewarded for their individual contribution to the Group's operating and financial performance in line with its corporate objectives and business strategy. The committee regularly consults with a range of external independent advisers on market information and remuneration trends to ensure that the remuneration is aligned with the industry and market benchmarks. The committee also assists the Board in the nomination of new Board candidates and ensuring regular assessment of Board performance. The

committee's terms of reference ensure that, for Board appointments, a rigorous, fair and open nomination and appointment process is established which will promote meritocracy in the boardroom and support strong corporate performance. The committee leads that process and makes recommendations to the Board.

Although the chairman of the Board is not the chairman of the remuneration and nominations committee, when matters pertaining to nominations are discussed, the chairman of the Board chairs this portion of the meeting, as required by the JSE Listings Requirements.

As there are only two members on the remuneration and nomination committee, any decisions which have a tie vote are escalated to the Board for resolution.

## SOCIAL AND ETHICS COMMITTEE

At the time of publishing the integrated annual report, the composition of the social and ethics committee was as follows:

Mr VW Mcobothi (*Chairman*)

Mr IM Groves

Mr SD Gottschalk

It is the duty of this committee, among other things, to monitor and review:

- the Group's directors and staff comply with the Group's Code of Ethics;
- the Group practices labour and employment policies that comply with the terms of the International Labour Organisation (ILO) protocol on decent work and working conditions;
- the Group ensures the continued training and skills development of its employees;
- the Group performs its responsibilities in respect of social and ethics matters in line with relevant policies and that these policies are reviewed on an annual basis, or as required; and

- an annual work plan to ensure it met all of its statutory requirements.

It is the responsibility of this committee, to ensure, among other things, that:

- the Group discharges its statutory duties in respect of section 72 of the Act dealing with the structure and composition of board sub-committees;
- the Group upholds the goals of the Organisation of Economic Co-operation and Development (OECD) recommendations regarding corruption; and
- the Group complies with the Employment Equity Act (as amended) and the Broad-based Black Economic Empowerment Act (as amended).

**Summary attendance table of members at the social and ethics committee meetings during the financial year ended 29 February 2016:**

Member	21 March 2015	21 July 2015
VW Mcobothi	P	P
IM Groves	P	P
SD Gottschalk	P	A

Key:

P: Present

A: Apology