

## **Application of King IV principles:**

### **Leadership, ethics and corporate citizenship**

#### **Leadership**

##### **Principle 1 The Board should lead ethically and effectively.**

EOH's Board of directors exercise effective leadership. The directors are competent and act ethically in discharging their responsibility to provide strategic direction and control of the Group as provided in the Board charter and the EOH MOI.

The Board charter outlines the powers and responsibility of the Board. Board members are under a legal duty to prevent conflicts of interest with the Group and are obliged to make full disclosure of any areas of conflict.

The Board is committed to driving the EOH strategy, based on an ethical foundation, to support a sustainable business, acting in the best interest of the Group, society, environment and its stakeholders as well as considering risks and ensuring accountability for the Group's performance.

The Board's responsibility is to set the tone for an ethical organisation and has discharged its responsibilities by ensuring that a robust and resilient Group Risk and Compliance framework is in place including: systems, procedures and monitoring structures to ensure the effectiveness of such a framework.

#### **Organisational ethics**

##### **Principle 2 The Board should govern the ethics of the company in a way that supports the establishment of an ethical culture.**

The Board determines and sets the tone for an ethical organisational culture across the Group, including principles of ethical business practice, human rights considerations and the requirements of being a responsible corporate citizen.

The Board strives, as a minimum to ensure compliance with all applicable legislation and regulations, leading standards and with its own Code of Conduct and Zero Tolerance on Corruption and Bribery Policy.

The Board is assisted in governing the ethics of the organisation by the Social and Ethics Committee and the Governance and Risk Committee.

The Board, assisted by its Committees is committed to maintaining an ethical culture, on transformation within the Group, on fair, transparent and responsible remuneration and on the continued development and training of its employees.

The Code of Conduct and Zero Tolerance on Corruption and Bribery Policy adopted by the Board, commits EOH and its employees to the highest ethical standards of conduct particularly in relation to non-discriminatory practices, unethical practices, bribery and corruption, bad behaviour, and confidentiality of personal information.

Planned areas of focus include the continued training of employees to ensure that the Group embeds a culture of ethical behaviour in all of its operations and at all levels. Whistle blowing mechanisms have been identified and implementation is in progress.

### **Responsible Corporate Citizenship**

#### **Principle 3 The Board should ensure that the company is and is seen to be a responsible corporate citizen.**

In accordance with its role of overseeing the Group's conduct as a good corporate citizen, the Board approves the strategy and objective priorities of the business, including EOH's material matters and, more specifically, those related to sustainability.

EOH is committed to deliver on the South African transformation agenda and to fulfil its legal and moral obligations as a good corporate citizen and holds a Level 1 - BBBEE rating.

Going forward, the Group will holistically consider its responsibilities in the areas of the workplace, the economy, society in general and the environment; all being key inter-related factors in ensuring the sustainability of the Group's businesses.

### **Strategy, performance and reporting**

#### **Strategy and performance**

#### **Principle 4 The Board should appreciate that the company's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.**

The directors individually and collectively assist the Group to realise its strategic objectives, to manage the risks and opportunities and to ensure an ongoing sustainable business. The sustainability of the group's business is a key consideration in the development and implementation of the Group's business model. It is supported by formal policies governing environmental, corporate social investment, ethical and remuneration matters, all of which form key components of the value-creation process.

The Board oversees and monitors, with the support of its Committees, the implementation and execution by management of the policies and procedures in order to ensure that it achieves the Group objectives.

## Reporting

**Principle 5 The Board should ensure that reports issued by the company enable stakeholders to make informed assessments.**

The Board assumes responsibility for ensuring that the Group's reporting on the Group's financial performance is reported fairly with the assistance of the Audit and Risk Committees and the external auditors.

The integrated report provides stakeholders with information relating to the Group's performance.

Information is also made available to stakeholders via investor conferences, roadshows and on the company's website at [www.eoh.co.za](http://www.eoh.co.za)

EOH has appointed an Investors Relation Executive to enhance communication and relationships with shareholders.

## Governing structures and delegation

**Principle 6 The Board should serve as the focal point and custodian of corporate governance in the company.**

The EOH Board serves as the focal point and custodian of corporate governance in the organisation. The Board has adopted a Board Charter that ensures its power, roles and responsibilities is documented and adhered to, which includes responsibilities relating to corporate governance. The Board is supported by various Board Committees which have delegated responsibility to assist it to fulfil certain specific functions. The Board Committees report to the EOH Board at every Board meeting. The EOH Charter and Board Committees' Terms of Reference underpin the Boards responsibility for good corporate governance.

An appropriate governance framework and the necessary policies and processes are in place to ensure all entities in the EOH Group adhere to essential Group requirements and minimum governance standards.

The recommended practice note from the King Committee on Group Governance will be published in January 2019. EOH will consider and implement these recommendations as appropriate to enhance its current governance framework.

## Composition of the Board

**Principle 7 The Board should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.**

**Also applicable: JSE3.84(e): Categorisation of directors. JSE3.84(a): Balance of power and authority on the Board. JSE3.84(b): Appointment of CEO and Chairman. JSE3.84(i) and (j): Policy on the promotion of gender and race diversity of the Board. JSE3.84 (d): CV of each director standing for election or re-election.**

To ensure that the Company's leadership is effective, appointments to the Board and its Committees are proposed by the Nominations Committee.

Board members collectively possess a wide range of financial, commercial and technical knowledge, together with the required level of experience.

The capacity of each director is categorised as defined in the JSE listings requirements, also taking into consideration King IV and other factors as outlined in the Board Charter. The Board comprises of non-executive directors (majority independent) and executive directors. During the year, changes were made to the Board and will be confirmed at the Annual General Meeting. The composition of the Board is continuously reviewed and recommendations considered to ensure the Board is adequately constituted to discharge its responsibilities.

An annual review was undertaken of the independence of independent non-executive directors serving more than 9 years with the support of the Nominations Committee. The Nominations Committee was satisfied that the independence requirements were met.

The Board Charter includes a policy on the promotion of race and gender diversity. A policy on the promotion of race and gender diversity forms part of the EOH Board terms of reference. All facets of diversity and race, are considered in determining the optimal composition of the Board, which should be balanced appropriately to enable the Board to discharge its duties and responsibilities effectively.

A brief CV for each director standing for election or re-election at the AGM accompanies the notice of the AGM.

### **Committees of the Board**

**Principle 8 The Board should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with balance of power and the effective discharge of its duties.**

**Also applicable: JSE3.84(c): Audit Committee, Remuneration Committee and Social and Ethics Committee. JSE3.84(g) Expertise and experience of the Financial Director.**

Committees have been established to assist the Board in discharging its responsibilities. The Committees of the Board comprise the Audit Committee, the Nomination Committee, the Governance and Risk Committee, the Remuneration Committee, the Social and Ethics Committee and the Technology and Information Committee.

The Committees are appropriately constituted and members are appointed by the Board, with the exception of the Audit Committee whose members are nominated by the Board and elected by shareholders. The Nomination Committee reviews the composition of the Board Committees and makes recommendations to the Board with regard to their composition, including appointment of the chairperson of each Committee, taking into account factors such as diversity and skills and the need to create an even spread of power and authority.

A delegation by the Board of its responsibilities to a Committee will not by or of itself constitute a discharge of the Board's accountability.

EOH will further develop and enhance its Delegation of Authority framework to ensure the efficient and effective business operations authority across the newly implemented structures of EOH. EOH will also work with the University of Stellenbosch Business School to enhance its Group Governance Framework, policies and procedures.

### **Evaluations of performance of the Board governing body**

**Principle 9 The Board should ensure that the evaluation of its own performance and that of its Committees, its chair and its individual members, support continued improvement in its performance and effectiveness.**

The Nominations Committee will pursue a formal external review process for the board and its committees in the next 12 months.

An assessment of the suitability and effectiveness of the Financial Director is conducted annually by the Audit Committee and is confirmed in the Audit Committee's report in the annual financial statements.

### **Appointment and delegation to management**

**Principle 10 The Board should ensure that the appointment of, and delegation to, management contribute to role clarity and effective exercise of authority and responsibilities.**

The appointment of the executive and senior management team falls within the mandate of the CEO, in consultation with the Board. Clarification of roles and responsibilities are finalised through a formal internal HR process.

The CEO has a clearly defined role and, assisted by the EXCO under his chairmanship, is responsible for the implementation and execution of the strategy, objectives, policies and proposals presented to and approved by the board.

Succession plans will be reviewed and updated for key roles during 2019 financial year.

The performance and independence of the company secretary is evaluated by the Board, the company secretary has an arms-length relationship with the Board.

### **Governance functional areas**

#### **Risk governance**

**Principle 11 The Board should govern risk in a way that supports the company in setting and achieving its strategic objectives.**

The Board assumes responsibility for Governance and Enterprise Risk Management Process. The Audit and Risk Committees assist the Board by providing an independent and objective view on the

Group's financial, accounting and control mechanisms and the Group's compliance with all relevant statutory and regulatory requirements.

The Group risk function assists the Board to oversee the risk management processes within the Group and the Audit and Risk Committees assist the Board by providing an independent and objective view on the Group's financial, accounting and control mechanisms and policies, information systems and internal controls, the going concern status of the Group and compliance with all relevant statutory and regulatory requirements.

The risk reports, which are updated on a regular basis, categorise the estimated impact and likelihood of the risks identified by each division, differentiating between inherent risks and residual risks as well as advising the Board of the controls established and or remedial action taken at divisional level to mitigate these risks identified.

The Company has adopted an Enterprise Risk Management Policy and Framework that provides management direction and support to the Group's divisions in accordance with the Board's risk appetite and the applicable legal and regulatory requirements.

The responsibility for effective risk management is delegated to the Group's executive and management teams.

### **Technology and information governance**

**Principle 12 The Board should govern technology and information in a way that supports the company setting and achieving its strategic objectives.**

The Board is ultimately responsible for ensuring that the technology and information needs of the business are in place and effectively governed. The Technology and Information Committee assists in this regard.

The Technology and Information Committee has four main objectives: to approve the EOH IT Philosophy and the Business IT Strategies, to review IT risk / mitigation and IT Audit approaches, to approve major IT investments and to oversee that IT best practices and trends are implemented in EOH.

### **Compliance governance**

**Principle 13 The Board should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the company being ethical and a good corporate citizen.**

The Board is assisted by the Governance and Risk Committee in order to oversee the governance of compliance. The Board ensures compliance with applicable laws, adopted non-binding rules, codes and standards. The Group has identified applicable laws, codes and standards that impact its operations. The Board has delegated the implementing of compliance to management.

## Remuneration governance

**Principle 14 The Board should ensure that the company remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.**

The Board, assisted by the Remuneration Committee, ensures that executives and general staff are remunerated fairly and responsibly with a view to promoting the creation of value in a sustainable manner.

The Group's remuneration policy is reviewed by the Remuneration Committee and approved by the Board.

The Group's remuneration policy seeks to secure the strategic objectives of the organisation and to reward executive directors and other senior management for individual and Group performance. It recognises that these individuals can significantly impact the Group's performance over the short-, medium-, and long-term. The Group's remuneration policy provides a framework for remuneration to attract, retain and motivate employees to achieve the strategic objectives of the organisation, within its risk appetite and risk management framework.

The Remuneration Policy, together with the implementation report, will be presented to shareholders at the Company's annual general meeting to be held on 20 February 2019 for a non-binding, advisory vote by shareholders.

## Assurance

**Principle 15 The Board should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the company's external reports.**

The Audit Committee is responsible for the quality and integrity of EOH's integrated reporting. The Board with the support of the Audit Committee, satisfies itself that the combined assurance model is effective and sufficiently robust for the Board to be able to place reliance on the combined assurance.

A combined assurance approach has been implemented to ensure the effectiveness of processes and internal controls. Divisional Finance Directors oversee the financial management function of the various operations. Finance staff report to the centre (shared services) and are not rewarded for the profits achieved. A Risk, Governance and Compliance ('GRC') framework is in place.

A formal internal audit function will be established during FY 2019, it will initially be outsourced but in time it will include a combination of outsourced and internal functions.

## Stakeholder relationships

### Stakeholders

**Principle 16 In the execution of its governance role and responsibilities, the Board should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the company over time.**

EOH strives to ensure a systematic and integrated approach to stakeholder engagement across the Group, facilitated through engagement programmes.

Stakeholders are kept informed of the Group's financial performance through the publication of audited results and other announcements. The Board through its Committees, ensures that the interests of all stakeholders are addressed.