

# King IV application statement – October 2020

The board is committed to transparency, accountability, integrity and fairness, complying with the recommendations as set out in the King IV Report (the Code) on Corporate Governance and applicable laws. In refining its corporate governance structure, the Company has used the Code's key principles. The substance of Zarclear's corporate governance is outlined in the body of the Integrated Report.

## PRINCIPLE 1:

The governing body shall lead ethically and effectively

### Disclosure requirement in Code

The governing body should disclose the arrangements by which the members are being held to account for ethical and effective leadership.

**Adherence level: High**

**Reasons for non-adherence: N/A**

The charter of the board commits it to effective and ethical leadership. The board is also committed to the highest standards of good corporate governance. In addition to fulfilling their statutory and fiduciary duties, all members of the board are expected to display the characteristics of integrity, competence, responsibility, accountability, fairness and transparency. The chair of the board is required to monitor the behaviour of board members in this respect.

Directors are kept apprised of the Group's codes and policies. They attend various committee meetings of the board. This allows direct oversight of Group operations. The delegated levels of authority and terms of reference relating to the committees are regularly reviewed. The board determines the strategic direction of the Group in support of a sustainable business.

## PRINCIPLE 2

The governing body shall govern the ethics of the organisation in a way that supports the establishment of an ethical culture

### Disclosure requirement in Code

The governing body should, with regards to ethics management, ensure disclosure on:

- Overview of arrangements for governing and managing ethics
- Key focus areas during the reporting period
- Measures taken to monitor organisational ethics and how the outcomes were addressed; and
- Planned areas of future focus.

**Adherence level: High**

**Reasons for non-adherence: N/A**

Directors set the overall tone for ethical leadership of the board. The directors are signatories to a declaration that lists their commitment to Zarclear's code of ethics.

The board, with assistance from the social, ethics and transformation committee, ensures the Group's ethics are managed effectively. The Group adopts a zero-tolerance approach to breaching ethical standards. In addition to monitoring adherence to the code of ethics, the social, ethics and transformation committee is responsible for oversight of organisational ethics. A whistle-blowing mechanism is in place to assist with the identification of possible unethical behaviour.

## PRINCIPLE 3

The governing body shall ensure that the organisation is and is seen to be a responsible corporate citizen

### Disclosure requirement in Code

The governing body should, with regards to corporate citizenship, ensure disclosure on:

- Overview of the arrangements for governing and managing responsible corporate citizenship
- Key focus areas during the reporting period
- Measures taken to monitor corporate citizenship and how the outcomes were addressed; and
- Planned areas of future focus.

**Adherence level: High**

**Reasons for non-adherence: N/A**

Compliance with the laws of the country throughout the Group, including the Constitution of South Africa and the Bill of Rights, is non-negotiable. The core purpose and values of the Company, as well as its strategy and conduct, are congruent with it being a responsible corporate citizen.

The board has delegated responsibility for monitoring the Group's overall responsible corporate citizenship performance to the social, ethics and transformation committee. The scope of the committee's mandate in this regard includes the relevant activities of the Group in the workplace, in the economy, society and the environment. Where relevant, specific targets have been set against which the performance of the Group is monitored on an ongoing basis.

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## PRINCIPLE 4

The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance, and sustainable development are all inseparable elements of the value-creation process

### Disclosure requirement in Code

In respect of disclosure on strategy and performance, refer to Principle 5 below

### Adherence level: High

Reasons for non-adherence: N/A

The board is deeply aware of the expectation for value creation across various elements of the business and any discussions of strategy, risk and opportunities, as well as the business model and performance are based on the prerequisite for long-term sustainability and sustainable development. This is also within the context of the difficult financial landscape.

The board convenes an annual strategy meeting to approve the strategy and goals for each financial year and measures performance against the targets established for the year. Management is responsible for implementing this strategy to achieve the desired goals and to assess and respond to any issues that may impact the Group's activities and outputs. The risk assessment and ranking methodology led by the executive team ensures that the board is apprised of the risks and opportunities facing the Group and it takes an integrated approach to assessing risks and material matters.

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## PRINCIPLE 5

The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance and its short-, medium-and long-term prospects

### Disclosure requirement in Code

The organisation should issue a report annually that presents material information in an integrated manner and that provides its users with a holistic, clear, concise and understandable presentation of the organisation's performance in terms of sustainable value creation in the economic, social and environmental context within which it operates.

### Adherence level: High

Reasons for non-adherence: N/A

The regular tabling of reports at the various committee meetings ensures the board is aware of all developments across the Group and can track progress against established targets in the short, medium and long term. Each committee chairperson provides feedback to the board. The chairperson of the social, ethics and transformation committee reports back to shareholders at each annual general meeting. This bottom-up approach is vital.

The integrated annual report provides details on the operations and performance of the Company over the past year and allows stakeholders to assess and gauge how value is created. This report sets out the Group's highlights, challenges and future focus areas to provide stakeholders with a realistic view of the Company. The integrity of all reporting is ensured with the assistance of relevant internal and external role players forming part of the integrated assurance process.

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## PRINCIPLE 6

The governing body should serve as the focal point and custodian of corporate governance in the organisation

### Disclosure requirement in Code

The following should be disclosed in relation to the primary role and responsibilities of the governing body:

- Number of meetings held during reporting period and attendance at those meetings.
- Whether the governing body is satisfied that it has fulfilled its responsibilities in accordance with its charter for the reporting period.

### Adherence level: High

Reasons for non-adherence: N/A

The board fully appreciates that it is first and foremost accountable for the application of corporate governance principles and practices in the Group. It furthermore understands that its key functions are to set the strategic direction of the Group, to approve appropriate policies and plans to give effect to the approved strategy, to delegate implementation of the afore-going to management and adequately monitor the performance of management and to ensure accountability through reporting and the principle of transparency. The role and functions of the board are set out in the board charter and also incorporated into the board's annual workplan. The board is comfortable that it has fulfilled its responsibilities in accordance with its charter and is satisfied with the strategic direction set for the Group. It appropriately manages its duty as custodian of corporate governance.

As previously indicated, the board is fully committed to ethical and effective leadership. This entails, amongst others that the board appropriately manages its duty to act as custodian of corporate governance in the Group.

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## PRINCIPLE 7

The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity, and independence for it to discharge its governance role and responsibilities objectively and effectively

### Disclosure requirement in Code

The governing body should ensure disclosure on the following:

- Whether the governing body is satisfied that its composition reflects the appropriate mix referred to above
- Targets set for gender and race representation and progress against these targets
- Categorisation of each member of the governing body as executive or non-executive
- Categorisation of non-executive members of the governing body as independent or not, and, when a non-executive member has been serving for longer than nine years, a summary of the views of the governing body on the independence of the member
- The qualifications and experience of members
- The length of service and age of members of the governing body
- Other governing body and professional positions held by each member
- Reasons for removal, resignation or retirement of members of the governing body.

The governing body should disclose on the independence of the chair and whether or not a lead independent director had been appointed and the role and responsibilities assigned to the position.

**Adherence level: High**

**Reasons for non-adherence: N/A**

## PRINCIPLE 8

The governing body should ensure that the arrangements for delegation within its own structures promote independent judgement and assist with the balance of power and the effective discharge of its duties

### Disclosure requirement in Code

The governing body should ensure disclosure of the following as regards each of its committee:

- Its role and functions
- Composition, including each member's qualifications and experience
- Any external advisers who regularly attend or are invited to attend committee meetings
- Key areas of focus
- Number of meetings and attendance, and
- Whether the committee is satisfied that it has fulfilled its responsibilities for the reporting period in accordance with the terms of reference.

In addition to the general disclosure required in respect of each committee of the governing body in terms of this Code and statutory disclosure, the audit committee should ensure disclosure on the following:

- Whether the audit committee is satisfied that the auditor is independent of the organisation, which disclosure should be done with reference to:
  - The nature and extent of non-audit services rendered
  - Audit firm tenure and, in the event of the audit firm having been involved in a merger or acquisition, including tenure of its predecessor
  - Rotation of the designated audit partner, and
  - Significant changes in management during the tenure of the external audit firm.

The board embraces diversity by improving gender, race, age and skills representation. With the variety of board member qualifications, there is further assurance that the business is considered from different perspectives to provide a holistic review of the Group's strategy. The board-approved diversity policy incorporates gender, race, age and skills diversity as required by the JSE Listings Requirements. Members of committees are carefully selected, having regard to race, gender, age and skills and experience, and the provisions of the Companies Act, the JSE Listings Requirements and good corporate governance practices.

The independence of directors is monitored in accordance with the JSE Listings Requirements. We believe that the board has the appropriate mix of knowledge, skills and experience, diversity and independence. The company secretary and chief financial officer are evaluated annually in terms of their skills, experience and expertise.

Board composition with regard to a majority of directors being non-executive was being considered by the board at the time of reporting.

The nominations committee continues to play an active role in assessing board composition and identifying appropriate candidates for appointment to the board.

None of the non-executive directors has served on the board for longer than nine years.

The following board committees were established:

- Audit and risk committee
- Remuneration and nominations committee
- Social, ethics and transformation committee

The committees are pertinent to overseeing the Group's business and its core operations. The non-executive directors are included across the various committees, with many sitting on more than one committee to ensure that there is effective collaboration across the committees and an integrated approach is adopted in relation to the execution and evaluation of all strategic projects and plans. The committees regularly provide feedback to the board, which facilitates the execution of its responsibilities. The independent directors provide an objective assessment of the Company's projects, plans and initiatives.

The composition of the board committees contributes to effective collaboration, balanced distribution of power and the board's effectiveness in fulfilling its duties.

There is a clearly defined delegation of authority matrix for all executives and senior managers of the Group.

Significant matters addressed by the audit and risk committee have been addressed in the report of the committee contained in the Integrated Report.

- Significant matters that the audit committee has considered in relation to the AFS and how these were addressed by the committee
- The audit committee's view on the quality of the external audit, with reference to audit quality indicators such as those that may be included in inspection reports issued by external audit regulators.
- The audit committee's view on the effectiveness of the chief audit executive and the arrangements for internal audit
- Its views on the effectiveness of the design and implementation of internal financial controls, and on the nature and extent of any significant weaknesses in the design, implementation or execution of internal financial controls that resulted in material financial loss, fraud, corruption or errors
- The audit committee's views on the effectiveness of the chief financial officer and the finance function
- Arrangements in place for combined assurance and the committee's views on the effectiveness thereof.

**Adherence level: High**

**Reasons for non-adherence: N/A**

## PRINCIPLE 9

The governing body should ensure that the evaluation of its performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness

### Disclosure requirement in Code

The governing body should ensure disclosure on:

- A description of the performance evaluations undertaken during the reporting period, including the scope, whether formal or informal and whether in-house or facilitated externally
- An overview of results and remedial actions taken, and
- Its views on whether the evaluation process is effective in improving the performance and effectiveness of the governing body.

**Adherence level: High**

**Reasons for non-adherence: N/A**

The members of the board are evaluated annually regarding their performance, processes and procedures by the remuneration and nominations committee, and the executive directors' performance is assessed by the committee by way of an annual performance review for purposes of short-term incentives. Non-executive directors are evaluated by the committee annually to determine eligibility for election and re-election. The chief financial officer and company secretary are evaluated annually by the audit committee and board respectively.

The evaluations assess individual and committee performance against the specific terms of reference, the board charter and best governance practices. As recorded in the annual financial statements, the chief financial officer and the company secretary were declared competent and have the necessary expertise and experience to carry out their functions and duties on behalf of the Company. Bonuses and remuneration of the executive directors are linked to their performance reviews.

Zarclear is cognisant that the performance of the board and committees is essential considering the increased focus on accountability, transparency and adding value.

## PRINCIPLE 10

The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effectiveness of authority and responsibilities

### Disclosure requirement in Code

The governing body should ensure disclosure on:

- In relation to the CEO:
  - Notice period in employment contract and contractual conditions related to termination
  - Other professional commitments of the CEO, including membership of governing bodies outside the organisation
  - Whether succession planning is in place for the CEO position
- In relation to delegation:
  - Statement on whether the governing body is satisfied that the delegation of authority framework contributes to role clarity and the effective exercise of authority and responsibilities
- In relation to the company secretary:
  - Arrangements in place for accessing professional corporate governance services and a statement on whether the governing body believes those arrangements are effective.

**Adherence level: High**

**Reasons for non-adherence: N/A**

The board has the authority to exercise all of the powers and perform any of the functions, except as otherwise provided in the Companies Act of 2008 or the Memorandum of Incorporation. Specific authority and powers of the board have been delegated to management and such delegation is captured in a formal delegation-of-authority framework that is reviewed by the board on a regular basis. The board is comfortable and satisfied that the delegation-of-authority framework provides for effective exercise of authority and responsibilities.

The chief executive was appointed by the board and the nominations committee considers executive succession planning. The chief executive's performance is evaluated annually by the board chairman and the remuneration committee. There are no other conditions relating to termination of employment for the CEO which are not standard employment conditions in the Group. The performance of the company secretary is also assessed on a regular basis. No major issues of concern have been identified.

## PRINCIPLE 11

The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives

### Disclosure requirement in Code

The governing body should ensure disclosure of the nature and extent of the risks and opportunities the organisation is willing to take without compromising sensitive information.

The governing body should ensure disclosure on:

- Overview of arrangements for governing and managing risk
- Key focus areas during the reporting period, including objectives, key risks as well as undue, unexpected or unusual risks and risks taken outside of risk tolerance levels
- Actions taken to monitor the effectiveness of risk management and how the outcomes were addressed, and
- Planned areas of future focus.

**Adherence level: High**

**Reasons for non-adherence: N/A**

The governance and oversight of risk management has always been a material item on the board's workplan. This function is fulfilled with the assistance of the audit and risk committee. The committee's responsibilities in respect of risk include:

- Developing an integrated risk management strategy for approval by the board
- Assisting the board in setting the levels of risk tolerance and appetite
- Ensuring effective communication of all risk-related information, instructions and recommendations throughout the Group
- Monitoring the effectiveness of implementation of risk controls and mitigation measures to ensure that an effective control environment is in place.

A comprehensive risk framework is in place for identifying, evaluating and monitoring the nature and extent of risks affecting the business. Risk is assessed on an ongoing basis in a "bottom-up and top-down" approach.

The executive evaluates the process for managing key operational, financial and compliance risks, reviews the Group risk register on a continuous basis and submits a report at each meeting of the audit and risk committee. Risk reporting is included in the Integrated Report. The risk report elaborates on the arrangements for governing and managing risk.

## PRINCIPLE 12

The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives

### Disclosure requirement in Code

The governing body should, with regards to technology and information, ensure disclosure on:

- Overview of arrangements for governing and managing technology and information
- Key focus areas during the reporting period, including objectives, significant changes in policy, significant acquisitions and remedial action taken as a result of major incidents
- Actions taken to monitor the effectiveness of technology and information management and how the outcomes were addressed, and
- Planned areas of future focus.

**Adherence level: High**

**Reasons for non-adherence: N/A**

Technology and information governance is ultimately the responsibility of the board. An IT governance framework is in place which is customised to our environment, integrated into our key business objectives and monitored for compliance and performance. The key aims of the framework are to standardise business processes across the Group, reduce internal costs and ensure sound governance.

IT governance is managed by the executive management team which provides regular feedback to the audit and risk committee.

The IT governance policy has taken into account the material issues affecting all relevant stakeholders including the board, employees and specific departments, for instance, finance.

All IT risks presented in the year were deemed to be within defined tolerance levels and not considered material.

## PRINCIPLE 13

The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes, and standards in a way that supports the organisation being ethical and a good corporate citizen

### Disclosure requirement in Code

The governing body should with regards to compliance ensure disclosure on:

- Overview of arrangements for governing and managing compliance
- Key focus areas during the reporting period
- Actions taken to monitor the effectiveness of compliance management and how the outcomes were addressed, and
- Planned areas of future focus

The governing body should also ensure disclosure on:

- Material or repeated regulatory penalties, sanctions or fines for contraventions of, or non-compliance with, statutory obligations – whether imposed on the organisation or on members of the board or officers in relation to the organisation
- Details of monitoring and compliance inspections by environmental regulators, findings of non-compliance with environmental laws or criminal sanctions and prosecutions for such non-compliance

**Adherence level: High**

**Reasons for non-adherence: N/A**

The board is ultimately responsible for the governance of compliance with applicable laws and adopted, non-binding rules, codes and standards by setting the direction for how compliance should be approached and addressed. The board's approach to compliance is addressed in the board charter and confirms that the Group is expected to be a law-abiding corporate citizen of the country.

Compliance is considered by the board not only for the obligations it creates but also the rights and protection it affords.

The regulatory universe is continually monitored by management to identify changes and developments that may have an impact on the Group. New legislation that impacts the Group is discussed at board meetings.

There were no material or repeated regulatory penalties, sanctions or fines for contraventions of, or non-compliance with, statutory obligations save for the late announcement of the disposal of shares in Stenprop Limited on 12 June 2020.

## PRINCIPLE 14

The governing body should ensure that the organisation remunerates fairly, responsibly, and transparently, so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.

### Disclosure requirement in Code

The governing body should ensure that remuneration is reported on in three parts: (i) background statement; (ii) an overview of the organisation's policy on remuneration; and (iii) an implementation report in terms of the Companies Act, if applicable, which contains details of all remuneration and benefits paid and awarded to individual members of the board and prescribed officers during the reporting period.

**Adherence level: High**

**Reasons for non-adherence: N/A**

The remuneration and nominations committee supports the board with the governance of remuneration throughout the Group and ensuring fair and responsible remuneration practices.

Detailed disclosure regarding remuneration is contained in the Integrated Report.

In accordance with the principles of the King IV Code and the JSE Listings Requirements, we will seek approvals at the forthcoming AGM (through non-binding advisory votes), of the remuneration policy and implementation report as detailed in the Integrated Report.

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## PRINCIPLE 15

The governing body 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 organisation's external reports

### Disclosure requirement in Code

- External reports should disclose information about the type of assurance process applied to each report, in addition to the independent external audit opinions provided in terms of legal requirements. The information should include:
  - A brief description of the nature, scope and extent of the assurance functions, services and processes underlying the preparation and presentation of the report; and
  - A statement by the governing body on the integrity of the report and the basis for this statement, with reference to the assurance applied.

Refer to audit committee disclosures for recommended disclosure by the committee concerning:

- Application of combined assurance
- Internal audit arrangements and the internal control environment

**Adherence level: Medium**

**Reasons for non-adherence:**

**The audit and risk committee has deemed that there is no need for an internal audit function, due to the low level of complexity inherent in the Group's business model and reliance on the external auditors.**

Additional disclosure on the integrated assurance process can be found in the report of the audit and risk committee as well as the disclosure under Principle 8 above.

## PRINCIPLE 16

In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time

### Disclosure requirement in Code

The governing body should with regards to stakeholder relationships ensure disclosure on:

- Overview of arrangements for governing and managing stakeholder relationships
- Key focus areas during the reporting period
- Actions taken to monitor the effectiveness of stakeholder management and how the outcomes were addressed, and
- Planned areas of future focus

Minutes of AGMs of listed companies should be publicly available.

A holding company should disclose an overview of the Group governance framework that is implemented across the Group.

**Adherence level: High**

**Reasons for non-adherence: N/A**

The board has identified material stakeholders of the Group and considers the legitimate and reasonable needs, interests and expectations of such stakeholders on an ongoing basis as part of the decision-making process and in acting in the best interest of the Company. Regular stakeholder engagement ensures the board is advised of all material matters that may impact the Company. The board fully recognises the separate legal existence of each subsidiary as well as the statutory and fiduciary duties of the directors of such subsidiaries.

The audit and risk committee as well as the social and ethics committee fulfil oversight functions also in respect of relevant subsidiaries. Group policies are applied in all subsidiaries unless regarded as not being in the interest of a subsidiary in which event the directors of the subsidiary may recommend appropriate amendments to such policy.

The group has adopted a Performance Accountability to Stakeholders policy.

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## PRINCIPLE 17

The governing body of an institutional investor organisation should ensure that responsible investment is practised by the organisation to promote good governance and the creation of value by the companies in which it invests

### Disclosure requirement in Code

The responsible investment code adopted by the institutional investor and the application of its principles and practices should be disclosed

**Adherence level: N/A**

**Reasons for non-adherence: N/A**

We are not an institutional investor.