

ANALYSIS OF THE APPLICATION OF THE 75 CORPORATE GOVERNANCE PRINCIPLES AS RECOMMENDED IN THE KING III REPORT

CHAPTER 1: ETHICAL LEADERSHIP AND CORPORATE CITIZENSHIP

	King III Principle	Status	Comment
1.1	The board should provide effective leadership based on an ethical foundation.	Applied	The role and responsibilities of the Board are regulated by the company's Memorandum of Incorporation and the Board Charter. Its deliberations, decisions and actions are based on ethical values of responsibility, accountability, fairness and transparency.
1.2	The board should ensure that the company is and is seen to be a responsible corporate citizen.	Applied	Wearne's environmental policy states its commitment to operating as an environmentally responsible company, and its belief that the integrated actions of its operations to conserve natural resources and protect the environment make business sense. Wearne's Social and Ethics reflects and effects the company's commitment to responsible corporate citizenship.
1.3	The board should ensure that the company's ethics are managed effectively.	Applied	The Board has established the Social and Ethics and Committee. The Code of Business Conduct is on the intranet, and is widely communicated to all employees and is an annual agenda item for re-confirmation at all Board meetings. A Whistleblowing facility is available and all reports are escalated to the Social and Ethics Committee.

CHAPTER 2: BOARD AND DIRECTORS

	King III Principle	Status	Comment
2.1	The board should act as the focal point for and custodian of corporate governance.	Applied	The governance role and responsibilities of the Board are regulated by the company's Memorandum of Incorporation and the Board Charter.
2.2	The board should appreciate that strategy, risk, performance and sustainability are inseparable.	Applied	The Board sets and annually reviews the long-term and short-term strategies of the company and monitors their implementation by management. As part of this process, the Board considers material implications from a risk, performance and sustainability point of view. The board, in accordance with the board charter, and all committee terms of reference reviewed in line with King III, is responsible for aligning the strategic objectives, vision and mission with performance and sustainability considerations. The group's formalised risk management process takes into account the full range of risks including strategic and operational risk, as well as performance and sustainability.
2.3	The board should provide effective leadership based on an ethical foundation.	Applied	Refer to item 1.1 above.

2.4	The board should ensure that the company is and is seen to be a responsible corporate citizen.	Applied	Refer to item 1.2 above.
2.5	The board should ensure that the company's ethics are managed effectively.	Applied	Refer to item 1.3 above.
2.6	The board should ensure that the company has an effective and independent audit committee.	Explained	Refer to chapter 3 below.
2.7	The board should be responsible for the governance of risk.	Applied	Refer to chapter 4 below.
2.8	The board should be responsible for information technology (IT) governance.	Applied	Refer to chapter 5 below.
2.9	The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	Applied	Refer to chapter 6 below.
2.10	The board should ensure that there is an effective risk-based internal audit.	Explained	Due to the financial constraints of the Group, the Board has delegated the responsibility for ensuring that a system of internal controls are implemented and assessed regularly to management. The Group Finance department regularly reviews the internal controls at the various operations. The Audit Committee and Risk Committee also play an important role in monitoring the credibility of internal controls and risk management processes.
2.11	The board should appreciate that stakeholders' perceptions affect the company's reputation.	Applied	Refer to chapter 8 below.
2.12	The board should ensure the integrity of the company's integrated report.	Applied	Refer to chapter 9 below.
2.13	The board should report on the effectiveness of the company's system of internal controls.	Applied	A report expressing the board's assessment of the integrity of internal controls is included in the Directors' Report forming part of the annual financial statements.
2.14	The board and its directors should act in the best interests of the company.	Applied	This statutory and fiduciary duty of directors is confirmed in the Board Charter and fully appreciated by all directors.
2.15	The board should consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the Act.	Not Applicable	The financial performance and position of the company is continuously monitored by the Audit Committee and Risk Committee as well as the board to ensure that application of business rescue provisions will be timeously identified.
2.16	The board should elect a chairman of the board who is an independent non-executive director. The CEO of the company should not also fulfill the role of chairman of the board.	Applied	The chairman of the board is an independent non-executive director and the positions of board chairman and CEO have been separated as recommended.

2.17	The board should appoint the chief executive officer and establish a framework for the delegation of authority.	Applied	The board is responsible for the appointment of the CEO. A formal delegation of authority framework is in place and is reviewed on an annual basis.
CHAPTER 3: AUDIT COMMITTEES			
	King III Principle	Status	Comment
3.1	The Board should ensure that the Company has an effective and independent Audit Committee.	Explained	The company has an effective Audit Committee. The shareholders of the company at an annual general meeting elect an Audit Committee, comprising the non-executive directors who are named and recommended for appointment in the notice of the annual general meeting. Following the resignation of Mr. M Salanje as non-executive director and Audit Committee chairman on 10 March 2014, Mr. WP van der Merwe was appointed acting chairman of the Audit Committee. The Audit Committee comprises further of two non-executive directors Mr. M Khwinana and Mr. MM Patel. Although Mr. MM Patel as Chairman of the board and Mr. M Khwinana as a non-independent director should not be members of the Audit Committee in terms of the King III Report, the directors believe this is ameliorated by their qualifications and experience and the limited number of available non-executive directors to take their place. The Group is currently looking to recruit another two independent non-executive directors that will form part of the Audit Committee.
3.2	Audit committee members should be suitably skilled and experienced independent non-executive directors.	Explained	All members of the Audit Committee are suitably skilled and experienced non-executive directors. Please refer to 3.1 as to why not all members of the Audit Committee are independent.
3.3	The Audit Committee should be chaired by an independent non-executive director.	Applied	The Audit Committee is chaired by an independent non-executive director.
3.4	The Audit Committee should oversee integrated reporting.	Applied	The Audit Committee discharges its responsibilities in terms of section 94(7) of the Companies Act No 71 of 2008, and as contained in the committee's charter, including overseeing integrated reporting.
3.5	The Audit Committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities.	Applied	The assurance activities of management, internal and external audit are coordinated with each other, with the relationship between the external assurers and management being monitored by the Audit Committee.
3.6	The Audit Committee should satisfy itself of the expertise, resources and experience of the Company's finance function.	Applied	The Audit Committee annually evaluates the expertise, experience and adequacy of resources in the company's finance function.
3.7	The Audit Committee should be responsible for overseeing internal audit.	Explained	Refer to item 2.10 above.

3.8	The Audit Committee should be an integral component of the risk management process.	Applied	The chairman of the Audit Committee and other Audit Committee members attend and participate in the Board Risk committee meetings thereby ensuring the robustness of the risk management process.
3.9	The Audit Committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process.	Applied	The Audit Committee annually reviews the independence of the external auditors and recommends their appointment to shareholders at the annual general meeting and is responsible for oversight of the external audit process.
3.10	The Audit Committee should report to the Board and shareholders on how it has discharged its duties.	Applied	The Audit Committee reports to the Board and to shareholders at the annual general meeting on the discharge of its functions as well as in the integrated report.

CHAPTER 4: THE GOVERNANCE AND RISK

	King III Principle	Status	Comment
4.1	The Board should be responsible for the governance of risk.	Applied	The Board is the ultimate custodian of risk governance.
4.2	The board should determine the levels of risk tolerance.	Applied	The Board Risk Committee recommends levels of risk tolerance to the Board. These are subject to final approval by the Board.
4.3	The risk committee or audit committee should assist the board in carrying out its risk responsibilities.	Applied	The Risk Committee and wherever necessary, the Audit Committee, assists the Board in carrying out risk responsibilities.
4.4	The board should delegate to management the responsibility to design, implement and monitor the risk management plan.	Applied	The Board has delegated to management the responsibility to design, implement and monitor the Risk Management Plan. A risk management framework setting out the process has been approved by the Board and implemented by management.
4.5	The board should ensure that risk assessments are performed on a continual basis.	Applied	Risk assessments are performed on a quarterly basis. Risk and opportunities form part of relevant discussions at all board meetings.
4.6	The board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks.	Applied	The Board has approved the Risk Management Framework and the Audit Committee and Risk Committee interrogate the quality of the identified risks at the quarterly meetings.
4.7	The board should ensure that management considers and implements appropriate risk responses.	Applied	The Board, via the Risk Committee, reviews management's risk responses and suggests changes when considered appropriate.
4.8	The board should ensure continual risk monitoring by management.	Applied	The Audit Committee and Risk Committee ensure that management monitors and addresses issues related to risk and reports back to the Board at least half-yearly.

4.9	The board should receive assurance regarding the effectiveness of the risk management process.	Applied	The Group Risk Management function has set in place a group risk management framework of what the Operating Groups and their Risk Officers should adhere to. Reports on the effectiveness of the process are submitted to the Risk Committee on a regular basis.
4.10	The board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders.	Applied	Reports on Wearne's risk management process and the key strategic risks facing the group, are addressed in the Integrated Report.

CHAPTER 5: THE GOVERNANCE OF INFORMATION TECHNOLOGY

King III Principle		Status	Comment
5.1	The board should be responsible for information technology (IT) governance.	Applied	The board understands the importance, relevance and inherent risks in IT and has delegated the management thereof to executive management. An IT Governance Framework is in place and is reviewed regularly. The Risk Committee assists in ensuring appropriate compliance structures are in place.
5.2	IT should be aligned with the performance and sustainability objectives of the company.	Applied	The board understands the importance, relevance and inherent risks in IT and has delegated the management thereof to executive management. An IT Governance Framework is both in place and is reviewed regularly. The Risk Committee assists in ensuring appropriate compliance structures are in place.
5.3	The board should delegate to management the responsibility for the implementation of an IT governance framework.	Applied	The board understands the importance, relevance and inherent risks in IT and has delegated the management thereof to executive management. An IT Governance Framework is both in place and is reviewed regularly. The Risk Committee assists in ensuring appropriate compliance structures are in place.
5.4	The board should monitor and evaluate significant IT investments and expenditure.	Applied	IT Investment is managed through the corporate capital expenditure process
5.5	IT should form an integral part of the company's risk management.	Applied	IT Risk management is incorporated in the overall company risk management framework, overseen by the Risk Committee.
5.6	The board should ensure that information assets are managed effectively.	Applied	The Chief Financial Officer oversees the effective management of all IT projects and assets.

5.7	A risk committee and audit committee should assist the board in carrying out its IT responsibilities.	Applied	IT is a standard agenda item on the Audit Committee's agenda. Where necessary, matters are referred to the Board or another Board committee for consideration. IT Risk management is incorporated in the overall company risk management framework, overseen by the Risk Committee.
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CHAPTER 6: COMPLIANCE WITH LAWS, CODES, RULES AND STANDARDS

King III Principle		Status	Comment
6.1	The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules codes and standards.	Applied	Wearne is committed to conducting its business in compliance with all applicable laws and regulations and with honesty in its dealings with stakeholders. In pursuit of that goal, Wearne maintains effective compliance programmes.
6.2	The board and each individual director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the company and its business.	Applied	Wearne has a formal induction policy. This provides for new directors to visit key sites, meet with group management and to be provided with copies of relevant documentation, including the charters of the Board and its committees, minutes of recent meetings, company policies and recent annual reports. Legal compliance matters falls within the scope of significant risks and is addressed as part of the risk management process.
6.3	Compliance risk should form an integral part of the company's risk management process.	Applied	Non-compliance to applicable and material laws, rules, codes and standards is reported to the Audit Committee as well as to the Risk Committee.
6.4	The board should delegate to management the implementation of an effective compliance framework and processes.	Explained	The group is in the process of implementing an overarching compliance framework.

CHAPTER 7: INTERNAL AUDIT

King III Principle		Status	Comment
7.1	The Board should ensure that there is an effective risk based internal audit.	Explained	Refer to item 2.10 above.
7.2	Internal review should follow a risk-based approach to its plan.	Applied	Refer to item 2.10 above.
7.3	Internal audit should provide a written assessment of the effectiveness of the Company's system of internal control and risk management.	Applied	Refer to item 2.10 above.
7.4	The Audit Committee should be responsible for overseeing internal audit.	Applied	Refer to item 2.10 above.

7.5	Internal audit should be strategically positioned to achieve its objectives.	Applied	Refer to item 2.10 above.
CHAPTER 8: GOVERNING STAKEHOLDER RELATIONSHIPS			
King III Principle		Status	Comment
8.1	The Board should appreciate that stakeholders' perceptions affect a Company's reputation.	Applied	The Board is conscious of the impact of stakeholder perceptions on the company's reputation and continuously monitors stakeholder engagement.
8.2	The Board should delegate to management to proactively deal with stakeholder relationships.	Applied	The Board has delegated to management to proactively deal with stakeholder groupings and to provide feedback where necessary.
8.3	The Board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the Company.	Applied	The Board considers the balance of engagement with each stakeholder grouping and endeavours to achieve a climate of respect with constructive debate.
8.4	Companies should ensure the equitable treatment of shareholders.	Applied	The company and board are fully aware of this recommendation as well as the JSE Limited requirement that all shareholders should be treated equally. Relevant processes are in place to ensure that no shareholder is advantaged in any way to the disadvantage of any other shareholder.
8.5	Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence.	Applied	Wearne's guiding principles behind stakeholder engagement include equality, transparency, effectiveness, balance and accurate and relevant information.
8.6	The Board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible.	Applied	The Board is informed of material issues and disputes and provides input to enable resolution as effectively, efficiently and expeditiously as possible.
CHAPTER 9: INTEGRATED REPORTING AND DISCLOSURE			
King III Principle		Status	Comment
9.1	The Board should ensure the integrity of the Company's integrated report.	Applied	The integrated report of the company is tabled at the Audit Committee for review and approval on behalf of the Board prior to being published.
9.2	Sustainability reporting and disclosure should be integrated with the Company's financial reporting.	Applied	Sustainability reporting and disclosure is being integrated with the company's financial reporting in a progressive manner.
9.3	Sustainability reporting and disclosure should be independently assured.	Explain	Due to financial constraints the Board has agreed on a three year strategy regarding sustainability reporting and the independent assurance thereof.