APPLICATION OF KING IV REPORT

2018

GROUP FIVE
structured ingenuity

APPLICATION OF KING IV REPORT ON GOVERNANCE FOR SOUTH AFRICA 2016 (KING IV)

THIS DOCUMENT HAS BEEN PREPARED IN TERMS OF THE JSE LISTINGS REQUIREMENTS AND SETS OUT THE APPLICATION OF THE 17 CORPORATE GOVERNANCE PRINCIPLES BY GROUP FIVE LIMITED (GROUP FIVE) AS RECOMMENDED BY THE KING REPORT ON CORPORATE GOVERNANCE FOR SOUTH AFRICA 2016 (KING IV). THE POSITIONS DISCLOSED HEREIN REFLECT AN ASSESSMENT GOVERNED FROM THE GROUP'S PERFORMANCE ON THE KING VI PRINCIPLES.

PRINCIPLE 1:

THE GOVERNING BODY SHOULD LEAD ETHICALLY AND EFFECTIVELY

The board of Group Five was reconstituted in July 2017 following shareholder action. The board is committed to the good corporate governance principles as outlined in King IV, as these are the overarching principles for an ethical foundation at Group Five. The board collectively, and each director individually, subscribes to the ethical characteristics of integrity, competence, responsibility, accountability, fairness and transparency. The Group Five Code of Conduct is the cornerstone that guides us on how we do business, how we conduct ourselves and how we engage with our stakeholders. This policy framework applies to all directors to ensure that Group Five maintains the highest level of integrity and ethical conduct, of which the application thereof and other arrangements are monitored. The Code of Conduct covers the following areas:

- Anti-competitive behaviour
- People and safety
- The environment and communities
- Ethical business practices
- Use of Group Five assets and resources
- Stakeholder engagement

The board charter documents the board's roles, responsibilities, and accountability (including those relating to corporate governance). Each board and executive committee (exco) member is appointed, subject to legislative fit and proper criteria and is required to regularly declare conflicts of interest.

PRINCIPLE 2:

THE GOVERNING BODY SHOULD GOVERN THE ETHICS OF THE ORGANISATION IN A WAY THAT SUPPORTS THE ESTABLISHMENT OF AN ETHICAL CULTURE

The board is responsible for the governance and monitoring of ethics through its transformation & sustainability committee. The committee was established with documented terms of reference and reviewed to align with King IV. Through consideration of appropriate documents and agenda items, the TASC satisfies itself that corruption, criminal activities and unethical employee behaviour is appropriately and effectively detected and managed within the organisation. Group Five is a values-based organisation and has developed various policies to maintain its commitment to high standards of integrity. The adopted Group Five Code of Conduct is published on the corporate website.

PRINCIPLE 3:

THE GOVERNING BODY SHOULD ENSURE THAT THE ORGANISATION IS AND IS SEEN TO BE A RESPONSIBLE CORPORATE CITIZEN

The transformation & sustainability committee primarily oversees the group's approach to corporate citizenship, as well as the policies governing corporate citizenship.

As a responsible corporate citizen, the group is committed to adherence with all legislation and regulations, and aspires to apply and comply with codes of good practice. The TASC ensures that measurable programmes and policies are developed and implemented. The TASC does not only consider financial performance, but also the impact of the group's operations on society and the environment. Careful consideration is given to the utilisation of energy, water and other environmental resources to ensure an effective contribution to sustain the environment for the future. In line with this, the group has voluntarily submitted information to the Carbon Disclosure Project (CDP) for the last ten years.

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

The weak trading environment of the local construction industry vis-à-vis the challenges in performance experienced by the group has necessitated increased focus on strategy and the allocation of capital. Several strategy engagements have therefore been held in the period under review where the closure of unsustainable businesses in the Construction cluster and the disposal of businesses that are not aligned to the new strategic intent of the group was approved. Exco is the custodian of the Group Five strategy and is tasked with the execution of the strategy by the board. It is envisaged that the overall business performance and sustainability wil be measured against the execution of the strategy, which will form the foundation upon which executive performance will be measured.

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 IT'S SHORT, MEDIUM AND LONG TERM PROSPECTS

The board is committed to communicating openly and transparently to all stakeholders through various engagements held during the year, as well as through its integrated annual report. The board is assisted by the audit committee to review the integrity of the integrated annual report issued by Group Five. This report includes all relevant information to enable stakeholders to make an informed assessment of Group Five's performance in the short, medium and long term.

PRINCIPLE 6:

THE GOVERNING BODY SHOULD SERVE AS THE FOCAL POINT AND CUSTODIAN OF CORPORATE GOVERNANCE IN THE ORGANISATION

The board serves as the focal point and custodian of corporate governance in the organisation, and acts in the best interests of Group Five and its stakeholders. The board is supported by five standing committees which have delegated responsibility to assist it to fulfil certain and/or specific functions. The chairperson of each board committee is required to account on the execution of its, committee's responsibilities to the board at every quarterly meeting.

The board charter and board committees' terms of reference underpin the board's responsibility for good corporate governance. In the current year, an independent board working group was created to assist the independent board with the evaluation and appropriate management of expressions of interests received. This committee focused on evaluating expressions in an aim to ensure the best interests of the company and shareholders.

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

The board was reconstituted in July 2017 following shareholder action which the group communicated at the time. The nominations committee and board are pleased with the diversity of the new board, in particular the newly-appointed independent board chairperson who is a woman. She is only one of very few women chairing JSE-listed companies. All new directors underwent a formal, independent fit and proper evaluation at the time of nomination and appointment. The terms of their appointment are detailed in a formal letter of appointment and they have completed detailed induction sessions, which enabled them to contribute optimally to the group.

PRINCIPLE 8:

THE GOVERNING BODY 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

The board acknowledges the need to delegate certain matters to board committees to ensure more comprehensive oversight of all governance matters. However, despite the delegation, the board retains full accountability for all oversight, other than in respect of the risk and audit committees' statutory responsibilities. The board has delegated the operational responsibility of the group to the exco, which, under the stewardship of the CEO, is accountable for the ongoing management of the business.

The board is confident that the establishment of the existing standard and ad hoc committees assists in ensuring good performance and effective control over legislated and material issues. Formal terms of reference have been established for all board committees.

During any particular quarterly board cycle, committee meetings are held over the first two days, culminating in the board meeting on the third day. Where possible, draft committee minutes are included in the board meeting that immediately follows.

Notwithstanding inclusion of the minutes, all committee chairpersons report back on matters dealt with at the committees, in particular on any matters recommended to the board for approval. There is significant overlap of directors on the various committees and particularly independent non-executive directors. This ensures matters are not considered in isolation, but also in the broader context of other matters delegated by the board.

All committees consist of at least three directors. Non-committee directors, as well as appropriate management representatives, are standing invitees. Composition and attendance disclosures are included in the integrated annual report.

PRINCIPLE 9:

THE GOVERNING BODY 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

In terms of the board charter, all directors are required to participate in the annual internal evaluation of the board's performance. This is a questionnaire-based process that covers specific performance areas that are deemed critical to promoting efficiencies of the board's governance processes. This includes assessments of the performance of the chairperson, chief executive officer and the company secretary. In last year's report we indicated that an independent evaluator will be used to facilitate the board evaluation process. Due to the recent reconstitution of the board and its focus on the immediate pressures on the group, the inaugural performance evaluation of the board and its committees was not conducted.

This will be completed in the coming year.

PRINCIPLE 10:

THE GOVERNING BODY SHOULD ENSURE THAT THE APPOINTMENT OF, AND DELEGATION TO, MANAGEMENT CONTRIBUTE TO ROLE CLARITY AND THE EFFECTIVE EXERCISE OF AUTHORITY AND RESPONSIBILITIES

The appointment of the CEO is a matter for consideration by the board as a whole. The board defines the group's levels of authority, reserving specific powers for the board, whilst delegating others to management. The collective responsibility of the executive management vests with the CEO, who regularly reports to the board on the group's objectives and strategy. The CEO is mandated to appoint executives who will serve as ex officio members of the governing body of major subsidiaries and to make other executive appointments. The nominations committee is mandated to oversee a formal succession plan for the board, CEO and certain senior executive appointments. The board maintains oversight on the group's key management functions through the committees that are mandated to perform annual competence assessments and that account to the board.

PRINCIPLE 11:

THE GOVERNING BODY SHOULD GOVERN RISK IN A WAY THAT SUPPORTS THE ORGANISATION IN SETTING AND ACHIEVING ITS STRATEGIC OBJECTIVES

The board's responsibility for risk governance is expressed in the board charter, the terms of reference of the risk and audit committees, as well as the risk policy and plan. The risk committee is primarily responsible for governing risk in a manner that ensures operations' adherence to the approved risk management framework and supports Group Five in achieving its strategic objectives. The audit committee is on the other hand, responsible for signing off risk processes insofar as these have a bearing on the group's internal control environment and/or financial performance. In the period under review, the group risk register and combined assurance plan were tabled to the risk and audit committees for consideration and approval. The group risk function continues to facilitate the combined assurance efforts across clusters and business units to ensure a coordinated approach. The volatile conditions during the year continued to indicate that the performance of defined risk governance systems is underplayed by the poor adherence to stated policies and procedures of employees. The risk committee has assessed and considered the effectiveness of the group's risk-bearing capacity model and has requested management to revise this to take cognisance of the operational challenges of the current trading environment. The board approved the amalgamation of the roles of internal audit and risk into a governance, risk and compliance (GRC) function. This will ensure a more focused approach to risk and compliance going forward.

PRINCIPLE 12:

THE GOVERNING BODY SHOULD GOVERN TECHNOLOGY AND INFORMATION IN A WAY THAT SUPPORTS THE ORGANISATION SETTING AND ACHIEVING ITS STRATEGIC OBJECTIVES

The board is assisted by the audit committee to oversee the governance of Information and Technology (IT) by, inter alia, reviewing the group's IT governance process, including information security, disaster recovery plans (and testing) and data governance. Further to this, an IT steering committee has also been established and is governed by its charter.

The primary duty and responsibility of this committee is to optimise Group Five's investment in IT, as well as data management and protection.

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

The board is assisted by the transformation & sustainability committee to oversee the governance of compliance. The board has delegated compliance management, through this committee, to the newly-appointed governance risk compliance and assurance officer (GRCA officer) who facilitates management of compliance through analysing regulatory requirements, and monitoring their implementation and execution together with compliance functions of the various business units. The Group Five compliance function is responsible for the compliance strategy of the group and is accountable for managing and reporting identified compliance risks.

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

The board is assisted by the remuneration committee to oversee the governance of all remuneration matters with the objective of ensuring that directors and employees are remunerated fairly, responsibly, transparently and in line with industry standards. This committee ensures that the group's remuneration policy is aligned with its strategy and that this policy, together with the implementation report, is tabled at the annual general meeting for separate non-binding advisory votes.

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

The audit committee, with the assistance of the GRCA officer and the outsourced internal audit function, reviews Group Five's combined assurance approach. Both the internal audit department and the external auditors observe the highest standards of business and independence. The GRCA Officer reports functionally to the chairperson of the audit committee and administratively to the CEO. In line with the internal audit charter, the function of the internal audit department is approved by the audit committee. In the period under review, the board endorsed the outsourcing of the group's internal audit function in line with its cost reduction drive to improve the operational efficiencies of the group. This function will continue to be managed by the GRCA officer. Internal audit forms an integral part of the combined assurance model and focuses on adding value to the operations of Group Five. The GRCA officer attends audit committee meetings to deliver the quarterly executive summary on internal audit.

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

The board understands the risk of reputation, and there is regular engagement with Group Five stakeholders through various platforms and forums. Stakeholder engagement was impacted, as the board and management had to focus on business-critical crises. The board was required to focus on certain immediate challenges, such as the Kpone contract and various group-wide funding partners to ensure it remains a going concern. The board has committed to review the group's stakeholder engagement processes to formulate a framework that promotes improved communication.

PRINCIPLE 17:

THE GOVERNING BODY OF AN INSTITUTIONAL INVESTOR ORGANISATION SHOULD ENSURE THAT RESPONSIBLE INVESTMENT IS PRACTISED BY THE ORGANISATION TO PROMOTE THE GOOD GOVERNANCE AND THE CREATION OF VALUE BY THE COMPANIES IN WHICH IT INVESTS

Not applicable. Group Five Limited is not an institutional investor.

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