

King IV™ Summary Report by Principle at 25 Oct 2019

Adcock Ingram Holdings Limited

Registration Number: 2007/016236/06

Run Date: 10/25/2019 3:04:51 PM

Principle 1	The governing body should lead ethically and effectively.		
		King IV™ Outcome	King IV™ Reference
	The Board acts in good faith and in the best interest of the Company. For example, The Board recently reviewed the Board Charter and the Memorandum of Incorporation (MOI) to introduce a 9 year term limit for non executive directors. Once a non executive director reaches 9 year tenure, he/she retires automatically. The Board is of the view that it would be in best interest of the Company to periodically invigorate skills and experience on the Board with directors.		
Principle 2	The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.		
		King IV™ Outcome	King IV™ Reference
	Ethics are the foundation of Adcock Ingram's business and an unequivocal commitment to fairness, transparency and integrity inspire all facets of the Group's operations. The Board has approved the Code of Conduct and Ethics (the Code) which inter alia directs, its members, employees and other stakeholders (when dealing with Adcock Ingram) to model their conduct in accordance with its provisions and to report any suspected inappropriate, unethical and illegal activity or misconduct. The Code is reviewed annually or when a need arises to ensure it remains relevant. The Social, Ethics and Transformation is also responsible for providing oversight on the Company's Ethics.		
Principle 3	The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.		

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Principle 3		King IV™ Outcome	King IV™ Reference
	<p>The social and relationship capital pillar is embedded within the Adcock Ingram business strategy that has a defined stakeholder engagement approach. As a pharmaceutical manufacturing Company, we act at all times with integrity and transparency, and promote open communication with all our stakeholders. The Board recently approved a policy that articulates and gives effect to its set direction on stakeholder relations management. The Integrated report also sets out how the Company manages its relations with stakeholders.</p>		
Principle 4		King IV™ Outcome	King IV™ Reference
	<p>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.</p> <p>Adcock Ingram recognises the inherent exposure, with regards to the broad range of risks the Group faces, in pursuing and achieving sustainable growth. This has cultivated a philosophy which is not to entrench a compliance-driven process, but rather to develop a culture which views Enterprise Risk Management (ERM) as a strategic enabler and ensures proactive and appropriate action is taken in mitigating risk exposure and taking advantage of opportunities. The Board is responsible for the Group's risk governance which is achieved through its oversight committee being the Risk and Sustainability Committee. The ERM outcomes are presented to the Committee on quarterly basis and in turn reported to the Board.</p> <p>The Board is updated on key risks and considers their residual level when formulating strategy, approving budgets and operational plans, and monitoring progress against business plans. The Board ensures that an adequate level of assurance is provided on control processes related to significant risks.</p>		

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<p>Principle 5</p>	<p>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.</p>	<p>King IV™ Outcome</p>	<p>King IV™ Reference</p>
	<p>The Board is accountable to shareholders for creating, protecting and enhancing the wealth and resources of the Company and reporting to them on the Company's performance in a timely and transparent manner, and to stakeholders to ensure that the Company acts as an ethical, responsible corporate citizen. The Board is not involved in the day-to-day management of the Company as that is the responsibility of management. The Board is satisfied that the delegation of authority framework of the Company contributes to role clarity and effective exercise of authority and responsibilities.</p>		
<p>Principle 6</p>	<p>The governing body should serve as the focal point and custodian of corporate governance in the organisation.</p>	<p>King IV™ Outcome</p>	<p>King IV™ Reference</p>
	<p>The Board directs the Company by formulating and reviewing the Company's policies, strategies and major plans of action. It reviews risks and risk policies; approves annual budgets and business plans; and sets performance objectives. It also monitors the implementation of approved strategies and oversees corporate performance; approves major capital expenditure, acquisitions and divestitures, and ensures compliance with applicable laws.</p>		
<p>Principle 7</p>	<p>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.</p>		

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Principle 7		King IV™ Outcome	King IV™ Reference
	<p>The Board continually reviews the composition of its various committees to ensure that they are effective and appropriately constituted. During the review of its structures and practices, the Board concluded that, following Dr Manning’s resignation from the PIC Board, and in the case of Dr Mokgokong, the termination of the BEE scheme, there is absence of an interest, association or relationship which, when judged from the perspective of a reasonable and informed third party, is likely to unduly influence or cause bias in decision-making and accordingly declared them independent. The Chairmen of the Board and Risk and Sustainability Committee retired from the Board after having served for more than 10 years. Although the Board will be led by a non-independent Chairman, the Board appointed a Lead Independent Director to achieve a balance of power and reinforce accountability mechanisms on the Board.</p>		
Principle 8		King IV™ Outcome	King IV™ Reference
	<p>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.</p> <p>The Board is accountable to shareholders for creating, protecting and enhancing the wealth and resources of the Company and reporting to them on the Company’s performance in a timely and transparent manner, and to stakeholders to ensure that the Company acts as an ethical, responsible corporate citizen. The Board is not involved in the day-to-day management of the Company as that is the responsibility of management. The Board operates in terms of the its Charter and Committees’ terms of reference, which set out the roles and responsibilities of the Board and its committees. The Company also has a Delegation of Authority Framework which clearly set out the authority levels delegated to management and those reserved for the Board. The Board is satisfied that the delegation of authority framework of the Company contributes to role clarity and effective exercise of authority and responsibilities.</p>		

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<p>Principle 9</p>	<p>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.</p>	<p>King IV™ Outcome</p>	<p>King IV™ Reference</p>
	<p>The Board approaches its evaluation and that of its Committees in a manner that will allow it to meaningfully engage with its outcomes to support continued improvement in its performance and effectiveness. The Board has conducted its performance evaluation and that of the Audit and Risk and Sustainability Committees. The Board will attend to the outcome of these evaluations in the coming year. The next evaluation of the performance of the Board and the remaining Committees is due in 2021.</p>		
<p>Principle 10</p>	<p>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.</p>	<p>King IV™ Outcome</p>	<p>King IV™ Reference</p>
	<p>The Board is not involved in the day-to-day management of the Company as that is the responsibility of management. The Company has a delegation of Authority Framework which clearly defines the authority levels of the Board and management and is reviewed annually to ensure that it remains relevant. The Board is satisfied that the delegation of authority framework of the Company contributes to role clarity and effective exercise of authority and responsibilities.</p>		
<p>Principle 11</p>	<p>The governing body should govern risk in a way that supports the organisation in setting and achieving strategic objectives.</p>		

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Principle 11		King IV™ Outcome	King IV™ Reference
	<p>Adcock Ingram recognises the inherent exposure, with regards to the broad range of risks the Group faces, in pursuing and achieving sustainable growth. This has cultivated a philosophy which is not to entrench a compliance-driven process, but rather to develop a culture which views Enterprise Risk Management (ERM) as a strategic enabler and ensures proactive and appropriate action is taken in mitigating risk exposure and taking advantage of opportunities.</p> <p>Processes have been designed and implemented to identify, assess, manage, monitor and report on the significant risks faced by each business segment individually and the Group as a whole, on a continual basis. The Group views this approach as core in terms of achieving the appropriate balance between risk and reward. This enables management to protect the Group against avoidable risks and develop mitigating controls and plans related to unavoidable risks.</p>		
Principle 12		King IV™ Outcome	King IV™ Reference
	<p>The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.</p> <p>The Board embraces the principle that technology and information should be governed in a way that supports the Company in setting and achieving the Group's strategic objectives. The Board, through this Committee, is responsible for the governance of technology and information but the implementation and execution of effective technology and information management is delegated to management. The Head of Information Technology (IT) regularly presents reports to the Committee on how these risks are approached and managed across the Group.</p> <p>Adcock Ingram has implemented a number of arrangements governing and managing information and technology. These are listed in the Integrated Report. The effectiveness of technology and information management is monitored through a variety of internal systems and these are also disclosed in the Integrated Report.</p>		

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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.		
		King IV™ Outcome	King IV™ Reference
	<p>The Board is regularly kept informed of any material changes to the relevant existing legislation and regulations by the Company Secretary and where a need arises external counsel or relevant service providers are also invited to provide in depth advice related to the relevant subject matter. Compliance issues are also tabled and discussed in the respective Committees and later presented to the Board. Group Quality Assurance, local and international regulatory bodies also conduct assessment of our manufacturing standards. Any findings are presented to the Board and are acted on. In addition, our manufacturing sites are designated National Key Points which places even more responsibility on the Board to ensure that compliance is prioritised.</p>		
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.		

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Principle 14		King IV™ Outcome	King IV™ Reference
	<p>The background against which Adcock Ingram’s Remuneration philosophy is set, is continuously evolving, driven by macro and socio-economic factors, regulations and practical considerations. The Board, through the HR, Remuneration and Nominations Committee continues to use independent external remuneration consultants (21st Century) for advice on remuneration and market benchmarking.</p> <p>Remuneration for management was benchmarked against the national market data incorporating size and complexity. The outcome was compared to data from a group of JSE listed companies of similar size and complexity to Adcock Ingram, as well as to available data from an industry comparator group.</p> <p>A bias towards variable pay is intended to drive extraordinary performance, shareholder value, employee engagement and retention. Participation in the short term incentive (STI) and (long term incentive) LTI schemes are dependent on individual performance, criticality of the role and the level within the organisation.</p> <p>Adcock Ingram's remuneration philosophy is aimed at driving a high-performance culture by ensuring that our employees are motivated and committed to the success of our business. It is designed to attract, develop, motivate, deploy and retain talented employees who enable the business to pursue and achieve its strategic objectives and enhance shareholder value. The remuneration philosophy is transparent and based on the principles of market competitiveness, internal equity, transformation imperatives and includes pay for performance.</p>		
Principle 15	<p>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.</p>		

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Principle 15		King IV™ Outcome	King IV™ Reference
	<p>The Audit Committee, in conjunction with the Risk and Sustainability Committee, have formulated a broad risk matrix for appropriate risk assessment and deduction. All risks are ranked and rated by category and importance. Internal Audit substantially coordinates this discipline in parallel with its internal audit function, the assessment and management of the more material risks being reported on where relevant and appropriate in each case. The aim is to provide management, the Audit Committee and the Board with a clear understanding of all business risks, how each are managed, controlled and/or mitigated and the consequences and cogency of such actions. The Audit Committee can confirm that it has satisfied itself that the combined assurance model is effective and sufficiently robust for the Board to be able to place reliance on it.</p>		
	<p>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.</p>		

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Principle 16		King IV™ Outcome	King IV™ Reference
	<p>The Board recently approved a policy that articulates and gives effect to its set direction on stakeholder relations management. Accordingly, the social and relationship capital pillar is embedded within the Adcock Ingram business strategy that has a defined stakeholder engagement approach. As a pharmaceutical manufacturing Company, we act at all times with integrity and transparency, and promote open communication with all our stakeholders.</p> <p>Having to operate in an ever-changing environment, compels us to constantly refine our business approach to nurture our relationships with key stakeholders in a mutually beneficial manner. Our operating business divisions function on a model that allows them flexibility, while at the same time remaining accountable and responsive to their relevant stakeholder groups. Our business model is reinforced by strategic pillars of building on a solid platform, growth and expansion; and transformation; that cements the focus on our customers and consumers, employees, partners, suppliers and service providers, shareholders, the investor community, industry bodies, the media, regulatory authorities and government.</p>		

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