

## **Corporate Governance/King III and Companies Act reviews**

*[King III's "apply or explain" approach will be addressed below]*

✓ Compliant

★ Under review

X Non-compliant

# Partially compliant

## **ETHICAL LEADERSHIP AND CORPORATE CITIZENSHIP**

THE BOARD PROVIDES EFFECTIVE LEADERSHIP BASED ON AN ETHICAL FOUNDATION: ✓

The Board leadership is underpinned by its unequivocal commitment to fairness, transparency and integrity which underlies all facets of the Group's operations. Adcock Ingram's Board, assisted by its various committees, is responsible for setting the ethical tone "at the top" and monitors its implementation, including training of employees regarding the Code of Ethics, to ensure that business is conducted in a manner that is beyond reproach at all levels in the Group. Refer to page 13 of the Integrated report.

THE BOARD ENSURES THAT THE COMPANY IS AND IS SEEN TO BE A RESPONSIBLE CORPORATE CITIZEN: ✓

The Board has committed the Company to: achieving the highest standards of transparency, accountability and integrity in all aspects of its operations and in its dealings with stakeholders and the community at large; providing stakeholders and the investor community with clear, meaningful and timely information about the Company's operations and results; conducting its business on the basis of fair commercial and competitive practice; building business relationships with suppliers and customers who endorse ethical business practices and who comply with the laws of the jurisdictions where they operate; actively pursuing transformation and ensuring employment practices which are non-discriminatory and which seek to maximise the potential of all its employees through training and skills development; and proactively accepting responsibility for, and managing the environmental and sustainability issues associated with its business.

THE BOARD ENSURES THAT THE COMPANY'S ETHICS ARE MANAGED EFFECTIVELY: ✓

Management and employees operate in terms of a Code of Ethics approved by the Board of directors. The Code requires compliance with all applicable laws and maintenance of the highest levels of integrity in the conduct of all aspects of the business. Training initiatives relating to ethics include training of employees on ethics by one of the two Certified Ethics Officers employed by the Group, one also being a certified fraud examiner. Employees are encouraged to report any suspected inappropriate, unethical, or illegal activity, or misconduct, through an independently operated Speak Up line (Tip-Offs Anonymous). This whistle-blowing facility is available 24 hours per day, 365 days per year. All complaints lodged through this service are investigated and reported to the Board of directors through the Social, Ethics and Transformation Committee. In addition disciplinary action is taken when appropriate

## **BOARD AND DIRECTORS**

THE BOARD ACTS AS THE FOCAL POINT FOR AND CUSTODIAN OF CORPORATE GOVERNANCE: ✓

The Board reviews the policies of the Company when a need arises for it to do so. Some of the policies of the Company have provision to be reviewed annually.

THE BOARD APPRECIATES THAT THE STRATEGY, RISK, PERFORMANCE AND SUSTAINABILITY ARE INSEPARABLE: ✓

The Board is ultimately responsible to shareholders for the performance of the Group. The Board broadly gives strategic direction to the Group; approves and regularly reviews business plans, budgets and policies; appoints the Chief Executive Officer and ensures that power and authorities delegated to management are clearly and comprehensively documented and regularly reviewed; and that the governance framework and strategic direction of the Group remain appropriate and relevant. The Board retains control over the Group, monitors risk and oversees the implementation of approved strategies through a structured approach to reporting and accountability. The Board, through the Risk and Sustainability Committee, monitors the Group's risk tolerance and appetite and approves the enterprise risk management plan which is in the process of being implemented by management. The Risk and Sustainability Committee reports to the Board on a quarterly basis.

## **THE BOARD**

THE BOARD AND ITS DIRECTORS ACT IN THE BEST INTERESTS OF THE COMPANY: ✓

Issues of conflicts of interest are regulated and dealt with regularly in terms of the Board Charter and section 75 of the Companies Act. The directors' register of interests is circulated at scheduled meetings of the Board for directors to confirm its contents and the subject matter is a standing item on the Board agenda. In line with the Board's commitment to implementing the highest practicable standards of corporate governance within the Company, the Board Charter incorporates the principles of the King III Report wherever appropriate.

THE BOARD ENSURES THAT THE COMPANY'S ETHICS ARE MANAGED EFFECTIVELY: ✓

Management and employees operate in terms of a code of ethics approved by the Board of directors. The code requires compliance with all applicable laws and maintenance of the highest levels of integrity in the conduct of all aspects of the business. Training initiatives relating to ethics include training of employees on ethics by one of the two Certified Ethics Officers employed by the Group, one also being a certified fraud examiner. Employees are encouraged to report any suspected inappropriate, unethical, illegal activity or misconduct through an independently operated Speak Up line (Tip-Offs Anonymous). This whistle-blowing facility is available 24 hours per day, 365 days per year. All complaints lodged through this service are investigated and reported to the Board of directors through the Human Resources, Remuneration and Nominations Committee. In addition disciplinary action is taken when appropriate.

THE BOARD ENSURES THAT THE COMPANY HAS AN EFFECTIVE AND INDEPENDENT AUDIT COMMITTEE: ✓

The Audit Committee of the Board of directors is composed entirely of independent non-executive directors (i.e. they are not involved in the day to day running of the Company) and is elect by shareholders at every annual general meeting as set out in the Companies Act.

THE BOARD IS RESPONSIBLE FOR INFORMATION TECHNOLOGY (IT) GOVERNANCE: ✓

The Board, through its Audit Committee, ensures that the Company's IT systems and processes are audited by independent auditors and these auditors report their findings to the Audit Committee and which in turn reports to the Board.

ENSURE THAT THE COMPANY COMPLIES WITH APPLICABLE LAWS AND CONSIDERS ADHERENCE TO NON-BINDING RULES, CODES AND STANDARDS: ✓

Management and employees of the Company operate in terms of a Code of Ethics approved by the Board of directors. In turn, the Code requires compliance with all applicable laws and maintenance of

the highest levels of integrity in the conduct of all aspects of the business. Compliance is one of the must win battles as identified by the CEO and is monitored by the Legal Department.

FRAMEWORK FOR THE DELEGATION OF AUTHORITY HAS BEEN ESTABLISHED: ✓

The framework for delegation of authority has been established, which sets out general principles of what can and cannot be done, monetary limits and other limits as required by law at various levels within the organisation. The limits also provide for upward referral of certain decisions and the notifiable decisions as well as residual authority of the Board. It is reviewed by the Board annually or more regularly when there is a need.

THE BOARD SHOULD CONSIDER BUSINESS RESCUE PROCEEDINGS OR OTHER TURNAROUND MECHANISMS AS SOON AS THE COMPANY IS FINANCIALLY DISTRESSED AS DEFINED IN THE COMPANIES ACT: ✓

The Company is not in this position. However, the directors have considered the status of the Company and Group, including the sustainability of their business models, available financial resources at 30 September 2013, the current regulatory environment and potential changes thereto and are satisfied that the Group will be able to continue as a going concern for the foreseeable future. The Board also conducted a similar exercise during the preparation and review of the half year results in June 2013 and conducts liquidity and solvency tests whenever required in terms of the Act.

CHAIRMAN OF THE BOARD IS AN INDEPENDENT NON-EXECUTIVE DIRECTOR: ✓

This statement is correct please refer to page 10 of the Integrated report.

THE CHIEF EXECUTIVE OFFICER OF THE COMPANY SHOULD NOT ALSO FULFIL THE ROLE OF CHAIRMAN OF THE BOARD: ✓

This statement is correct. Please refer to page 10 for the composition of the Board and page 14 of the Integrated report for confirmation that the Chief Executive Officer does not fulfil the role of Chairman.

THE BOARD COMPRISES A BALANCE OF POWER, WITH A MAJORITY OF NON-EXECUTIVE DIRECTORS INDEPENDENT: ✓

This statement is correct, please refer to pages 10 and 11 of the Integrated report to confirm the composition of the directors. Of 10 directors, eight are independent non-executives.

DIRECTORS ARE APPOINTED THROUGH A FORMAL PROCESS: ✓

Adcock Ingram's Memorandum of Incorporation (MOI), which was approved by shareholders in January 2013, sets out a formal process for the appointment of directors to the Board. Criteria used in the selection of the directors of the Company include leadership qualities, depth of experience, skills, independence, business acumen and personal integrity beyond reproach.

FORMAL INDUCTION AND ONGOING TRAINING AND DEVELOPMENT OF DIRECTORS IS CONDUCTED THROUGH FORMAL PROCESSES: #

All directors are required to attend a formal annual governance training session, which is scheduled in the Board's annual calendar, to ensure their knowledge of governance remains relevant. In addition, all directors are provided with an induction file containing important legislation and the Group's governance framework (including the Board committee governance structure, the Board Charter, terms of reference of all Board committees and key Company policies, as well as recent financial statements and a list of relevant legislation). Formal meetings with the executives are arranged where the executives present their business plans and strategies to a newly appointed director. Ongoing director training sessions are held where changes in the legislative, regulatory or business

environment of the Group warrant specific focus. All directors are encouraged to attend external director development. In the year under review directors were unable to attend formal training, normally offered by the Group, due to corporate action which has kept the directors occupied for the better part of the year. The normal Board program will resume after the completion of the corporate action.

THE BOARD IS ASSISTED BY A COMPETENT, SUITABLY QUALIFIED AND EXPERIENCED COMPANY SECRETARY:

✓

The Board of directors has confirmed that it has considered and satisfied itself with regard to the competence, qualifications and experience of the Company Secretary. The Company Secretary was evaluated by all of the directors and some of his internal colleagues. The evaluation questionnaires were collated and analysed by independent advisors and the results thereof shared with the Board of directors. The confirmation is contained on page 15 of the Integrated report.

ANNUAL PERFORMANCE EVALUATION OF THE BOARD, ITS COMMITTEES AND THE INDIVIDUAL DIRECTORS: ✓

A formal process to evaluate the performance of the Board, its committees, the Chairman, and three retiring Board members is in place and was instituted. The Board and its Chairman as well as three retiring directors were evaluated in 2011. In 2012 the performance of the committees and their respective chairmen, and the retiring directors were evaluated. In the year under review, the performance of the retiring directors and Company Secretary were evaluated. The results of the evaluation were discussed at the meeting of the Board in November 2013. The performance of the Executive Directors is evaluated through quarterly independent performance contracts, and annual performance evaluation questionnaires as well as 360 degree evaluations. In addition, the Financial Director's suitability for the role and competence is evaluated by the Audit Committee annually.

THE BOARD DELEGATES CERTAIN FUNCTIONS TO WELL-STRUCTURED COMMITTEES BUT WITHOUT ABDICATING ITS OWN RESPONSIBILITIES: ✓

It is correct that certain functions are delegated to the Committees of the Board but the Committees of the Board do not have the power to approve but to rather recommend to the Board, unless expressly granted the authority to approve.

APPOINTMENT OF WELL-STRUCTURED COMMITTEES AND AN OVERSIGHT OF KEY FUNCTIONS: ✓

There are four Committees that have been established i.e. Audit; Risk and Sustainability; Social, Ethics and Transformation; and HR, Remuneration and Nominations Committees. Please refer to page 12 of the Integrated report for more details.

AN AGREED GOVERNANCE FRAMEWORK BETWEEN THE GROUP AND ITS SUBSIDIARY BOARDS: ★

Whilst the Group and its subsidiary Boards do not have a written governance framework between them as defined in statutes, the subsidiaries have their own governance documents such as MOIs which define the powers and responsibilities of the subsidiaries. The subsidiaries are also audited as part of the Group. The Company Secretary conducts governance review of the subsidiaries at least twice a year to ensure compliance. The international operations within the Group are governed in accordance with their own statutes.

DIRECTORS AND EXECUTIVES ARE REMUNERATED FAIRLY AND RESPONSIBLY: ✓

The Directors and executives remuneration is benchmarked against the industry or other similar listed companies. Based on this exercise it is the Board's view that directors and executives are remunerated fairly and responsibly.

REMUNERATION OF DIRECTORS AND CERTAIN SENIOR EXECUTIVES IS DISCLOSED: ✓

This information is disclosed from page 54 – 59 of the Integrated report.

THE COMPANY'S REMUNERATION POLICY IS APPROVED BY ITS SHAREHOLDERS: ✓

The policy is set out on page 50 of the Integrated report and the resolution regarding the approval of the policy is set out as ordinary resolution in the notice of the annual general meeting for the consideration of and approval by of the shareholders. The current policy was approved at a shareholders meeting held in January 2013.

### **COMPANY SECRETARY**

THE BOARD MUST CONSIDER AND SATISFY ITSELF ON THE COMPETENCE, QUALIFICATION AND EXPERIENCE OF THE COMPANY SECRETARY: ✓

The Board of directors confirmed that it has considered and satisfied itself with regard to the competence, qualifications and experience of the Company Secretary. The Company Secretary was evaluated by all of the directors and some of his internal colleagues. The evaluation questionnaires were collated and analysed by independent advisors and the results thereof shared with the Board of directors. Based on the results of the evaluation, the Board of directors can confirm that the Company Secretary is suitably qualified for this role, competent and has relevant experience to discharge his duties. This information is disclosed on page 15 of the Integrated report.

COMPANY SECRETARY SHOULD MAINTAIN AN ARMS-LENGTH RELATIONSHIP WITH THE BOARD: ✓

The Board of Directors has confirmed that the Company Secretary is suitably qualified for this role, maintains an arm's length relationship with the Board of directors and is not a director. Please refer to page 15 of the Integrated report for the confirmation.

THE COMPANY SECRETARY SHOULD IDEALLY NOT BE A DIRECTOR: ✓

The Company Secretary is not a director as confirmed on pages 10 and 11 of the Integrated report.

### **AUDIT COMMITTEE**

EFFECTIVE AND INDEPENDENT: ✓

The Audit Committee is effective in that it regulates the external auditors, including the approval of the terms of engagement and remuneration for the external audit engagement, the determination of the fees to be paid to the external auditor; monitoring and reporting on the independence of the external auditor in the annual financial statements; defining a policy for the nature and extent of non-audit services provided by the external auditor and approving the contracts for non-audit services to be rendered by the external auditor. The Audit Committee is also responsible for reviewing the method of preparation and the appropriateness of the annual financial statements as well as the assessment of the internal audit function and the internal controls of the Company. The Audit Committee also reports to the Board on how it discharges its duties and the resolutions it has taken. The Audit Committee of the Board of directors is composed entirely of independent non-executive directors (i.e. they are not involved in the day to day running of the Company) and is elect by shareholders at every annual general meeting as required by the Companies Act. In addition, the Audit Committee also exercise oversight over the internal audit function and is responsible for the appointment, performance assessment and or dismissal of the chief audit executive. It also considers and approve the internal audit plan; ensures that the internal audit function is subject to an independent quality review, as and when the committee deems it appropriate and meet with internal auditors at least once a year without management being present.

ACADEMIC QUALIFICATIONS OR EXPERIENCE IN ECONOMICS, LAW, CORPORATE GOVERNANCE, FINANCE, ACCOUNTING, COMMERCE INDUSTRY, PUBLIC AFFAIRS OR HUMAN RESOURCES MANAGEMENT: ✓

Please refer to pages 10 and 11 for confirmation hereof.

SUITABLY SKILLED AND EXPERIENCED INDEPENDENT NON-EXECUTIVE DIRECTORS: ✓

Please refer to pages 10 and 11 for confirmation hereof.

CHAired BY AN INDEPENDENT NON-EXECUTIVE DIRECTOR: ✓

Please refer to pages 10 and 11 for confirmation hereof.

OVERSEES INTEGRATED REPORTING: ✓

The Integrated Report is first presented to the Audit Committee for consideration and comments before it is recommended to the Board for approval.

A COMBINED ASSURANCE MODEL IS APPLIED TO PROVIDE A COORDINATED APPROACH TO ALL ASSURANCE ACTIVITIES: ✓

The Audit Committee in conjunction with other committees and the internal auditors have developed a risk-based approach in signing off and monitoring a comprehensive system of internal controls. The Audit Committee ensures that the combined assurance received from both external and internal assurance providers appropriately addresses the identified Company risks. The Audit Committee also monitors the activities of management in their role as the custodians of business processes to ensure the effective implementation, review and maintenance of internal controls as well as alignment with other assurance providers. Management holds quarterly risk management meetings which is attended by external and internal auditors as well as the company insurers where risk, health and safety matters are discussed and the outcome thereof is reported to the Executive Committee; Audit Committee, Risks and Sustainability Committee and the Social, Ethics and Transformation Committee.

OVERSEES INTERNAL AUDIT: ✓

The Committee:

- evaluates the effectiveness and performance of KPMG Services (Pty) Limited (KPMG), the outsourced internal audit function, and compliance with its mandate;
- reviews the effectiveness of the Group's system of internal financial control including receiving assurance from management and a written assessment on the effectiveness of internal control and risk management from the internal auditors;
- reviews significant issues raised by the internal audit process and the adequacy of the corrective actions in response to significant internal audit findings; and
- reviews policies and procedures for preventing and detecting fraud.

INTEGRAL TO THE RISK MANAGEMENT PROCESS: ✓

The Audit Committee reviews the effectiveness of the Group's system of internal financial control including receiving assurance from management and a written assessment on the effectiveness of internal control and risk management from the internal auditors.

RESPONSIBLE FOR RECOMMENDING THE APPOINTMENT OF THE EXTERNAL AUDITOR AND OVERSEEING THE EXTERNAL AUDIT PROCESS: ✓

In the execution of its duties, the Audit Committee recommends the appointment of the external auditors and is responsible for establishing the terms of engagement as well as monitoring the services provided by the external auditors, both audit and non-audit services. The Audit Committee also assesses the effectiveness of the external auditors, by reviewing the external auditors' progress against and fulfilment of the agreed audit plan, including any variations from the plan and provides oversight to the external audit process.

REPORTS TO THE BOARD AND SHAREHOLDERS ON HOW IT HAS DISCHARGED ITS DUTIES: ✓

The Audit Committee formally reports to the Board subsequent to all its meetings and reports to shareholders through its report as set out on page 66 of the Integrated Report.

### **THE GOVERNANCE OF RISK**

THE BOARD IS RESPONSIBLE FOR THE GOVERNANCE OF RISK AND SETTING LEVELS OF RISK TOLERANCE: ✓

In terms of the Board Charter, one of the Board's responsibilities is to review and evaluate on regular basis the governance of risk within the Company and ensure the existence of comprehensive, appropriate internal controls to mitigate such risks. The Risk and Sustainability Committee reports to the Board on risk governance and has recently adopted an Enterprise Risk Management plan to enhance to risk governance.

THE RISK COMMITTEE OR AUDIT COMMITTEE ASSISTS THE BOARD IN CARRYING OUT ITS RISK RESPONSIBILITIES: ✓

Both these Committees discuss and evaluate risks related to their functions and report to the Board.

THE BOARD DELEGATES THE RESPONSIBILITY TO DESIGN, IMPLEMENT AND MONITOR THE RISK MANAGEMENT PLAN TO MANAGEMENT: ✓

This statement is correct. The Board is satisfied that the executive management team is constantly aware of risk factors and actively seeks ways in which to overcome controllable risks and those that can be influenced, and to minimise the impact of the uncontrollable risks.

RISK ASSESSMENTS AND MONITORING IS PERFORMED ON A CONTINUAL BASIS: ✓

Please refer to the statement above.

FRAMEWORKS AND METHODOLOGIES ARE IMPLEMENTED TO INCREASE THE PROBABILITY OF ANTICIPATING UNPREDICTABLE RISKS: ★

Currently the Board utilises the risk matrix developed in conjunction with the internal audit function, following a workshop with senior management to identify and rate risk. An Enterprise Risk Management system is being implemented to enhance the Company's ability to anticipate unpredictable risk. Frameworks and methodology have been implemented. Management and the Board still require to be trained on the methodology.

MANAGEMENT CONSIDERS AND IMPLEMENTS APPROPRIATE RISK RESPONSES: ✓

The Board is satisfied that the executive management team is constantly aware of risk factors and actively seeks ways in which to overcome controllable risks and those that can be influenced, and to minimise the impact of the uncontrollable risks.

THE BOARD RECEIVES ASSURANCE ON THE EFFECTIVENESS OF THE RISK MANAGEMENT PROCESS: ✓

As part of discharging its responsibilities, the Audit Committee reviews the effectiveness of the Group's system of internal financial control including receiving assurance from management and a written assessment on the effectiveness of internal controls and risk management process from the internal auditors. Based on the assessments obtained from management and the internal auditor, the Committee believes that the internal financial controls and risk management process effective and that there were no material breakdowns in internal controls. For confirmation please refer to page 67 of the Integrated Report.

ENSURE THAT THERE ARE PROCESSES IN PLACE ENABLING COMPLETE, TIMELY, RELEVANT, ACCURATE AND ACCESSIBLE RISK DISCLOSURE TO STAKEHOLDERS: ✓

The Company has processes in place to disclose timely, complete, relevant, accurate information to its stakeholders through SENS announcements and/or media releases as well as posting of relevant information on its website. Furthermore, where appropriate the recall of products is also communicated to the medical professionals via "Dear Professional" letters.

### **THE GOVERNANCE OF INFORMATION TECHNOLOGY**

THE BOARD IS RESPONSIBLE FOR INFORMATION TECHNOLOGY (IT) GOVERNANCE: ✓

In conjunction with the Risk and Sustainability committee, the Audit committee oversees amongst others IT risk. This responsibility is set out in the Committees' terms of reference. Both these Committees report to the Board on management and auditors (external and internal) feedback on IT governance.

IT IS ALIGNED WITH THE PERFORMANCE AND SUSTAINABILITY OBJECTIVES OF THE COMPANY: ✓

Yes it is aligned and performs an integral part in the performance and sustainability objectives of the Company.

MANAGEMENT IS RESPONSIBLE FOR THE IMPLEMENTATION OF AN IT GOVERNANCE FRAMEWORK:

The Audit committee does not assume the functions of management, which remain the responsibility of the executive directors, officers and other members of senior management. Please refer to the Committee's terms of reference, which are summarised on page 12 of the Integrated Report.

THE BOARD MONITORS AND EVALUATES SIGNIFICANT IT INVESTMENTS AND EXPENDITURE: ✓

The Limits of Authority framework requires management to notify the Board on certain investments and expenditures. It also requires investments and expenditures which exceed a certain threshold to be approved by the Board.

IT IS AN INTEGRAL PART OF THE COMPANY'S RISK MANAGEMENT: ✓

Yes, external and internal auditors report to the Audit Committee on any IT related risk as part of the Company's risk management. Management also focuses on IT risk management through various interventions.

IT ASSETS ARE MANAGED EFFECTIVELY: ✓

Yes. Tracking mechanisms and systems are in place to manage IT assets.

THE RISK COMMITTEE AND AUDIT COMMITTEE SHOULD ASSIST THE BOARD IN CARRYING OUT ITS IT RESPONSIBILITIES: ✓



In conjunction with the Risk and Sustainability Committee, the Audit Committee oversees amongst others IT risk. This responsibility is set out the Committees' terms of reference.

### **COMPLIANCE WITH LAWS, CODES, RULES AND STANDARDS**

THE BOARD ENSURES THAT THE COMPANY COMPLIES WITH APPLICABLE LAWS: ✓

The Board, through the Risk and Sustainability Committee, mandated management to implement a legislative compliance programme to ensure the Group conforms to all applicable South African laws. 21 Acts and regulations have been prioritised. The process commenced with a pilot project, the formation and training of Compliance teams and the installation of appropriate software to facilitate communication across all areas of the business. The Board also ensures that the international operations within the Group comply with laws of the countries in which the Company operates.

THE BOARD AND DIRECTORS HAVE A WORKING UNDERSTANDING OF THE EFFECT OF THE APPLICABLE LAWS, RULES, CODES AND STANDARDS IMPLICATIONS ON THE COMPANY AND ITS BUSINESS: ✓

The Board, in consultation with the Risk and Sustainability Committee and the Company Secretary, has considered the effectiveness of the system for monitoring compliance with laws and regulations and for finding and investigating instances of non-compliance and is satisfied with the effectiveness thereof. Please refer to page 67 for confirmation. The Board is also trained on relevant legislative and regulatory developments that affect the Company.

COMPLIANCE FORMS AN INTEGRAL PART OF THE COMPANY'S RISK MANAGEMENT PROCESS: ✓

This statement is correct. The Company is in the process of implementing an electronic compliance system which is overseen by internal auditors. The internal auditors report their findings to the Risk and Sustainability Committee.

THE BOARD HAS DELEGATED TO MANAGEMENT THE IMPLEMENTATION OF AN EFFECTIVE COMPLIANCE FRAMEWORK AND PROCESSES: ✓

Yes the Board has delegated to management and as stated above the framework is in the process of being implemented.

### **INTERNAL AUDIT**

EFFECTIVE RISK-BASED INTERNAL AUDIT: ✓

The internal audit function in consultation with management and the Board has conducted risk workshops to identify risks related to the Company and to rate them accordingly. An Enterprise Risk Management system is being implemented. The Based on the processes followed by the Audit Committee as outlined on page 67 of the Integrated Report and the assessments obtained from management and KPMG, the Committee believes that the internal financial controls are effective and that there were no material breakdowns in internal controls.

THE BOARD REPORTS ON THE EFFECTIVENESS OF THE COMPANY'S SYSTEM OF INTERNAL CONTROLS: ✓

This statement is correct, please refer to page 67 for confirmation.

Internal audit is strategically positioned to achieve its objectives: ✓

The internal audit function has full access to management, and Company records and systems. It reports to the Audit Committee and based on its reporting lines is strategically positioned to achieve its objectives.

## **GOVERNING STAKEHOLDER RELATIONSHIPS**

APPRECIATE THAT STAKEHOLDERS' PERCEPTIONS AFFECT A COMPANY'S REPUTATION ✓

The Company recognises its responsibility to present a balanced and comprehensive assessment of the Group to all its stakeholders, as long term sustainability objectives are supported through engaging with stakeholders to address matters of mutual interest. Stakeholder support, or lack thereof, may influence the Group's performance. Refer to page 48 of Integrated Report.

MANAGEMENT PRO-ACTIVELY DEALS WITH STAKEHOLDER RELATIONSHIPS ✓

The Company has employed an executive who is responsible for government relations, a senior manager responsible for investor relations as well as a CRM executive to look after the interest of the customers. These functions are supported by the CEO and Deputy CEO and Financial Director. Furthermore, the CEO and the Deputy CEO also have two scheduled roadshows following half year results and year-end results announcements during which they interact with shareholders to answer their questions about the Company.

Management has frequent interaction with our customers through personal visits by our sales personnel. Our employees are updated through various communication mechanisms, including but not limited to the intranet, LCD screens, newsletters, performance reviews and briefings.

THERE IS AN APPROPRIATE BALANCE BETWEEN ITS VARIOUS STAKEHOLDER GROUPINGS ✓

The Company is dedicated to engaging with all stakeholders to address matters of mutual interest. There is a dedicated personnel dealing with shareholders, the investment community, customers, business partners and suppliers, the regulatory authorities and communities. Our employees share equal importance as do our communities, the media and our industry associates.

EQUITABLE TREATMENT OF SHAREHOLDERS ✓

Management and the Board keep shareholders and the investment community updated on the Company financial and operational performance, strategy, risks and opportunities in a transparent way. The CEO and the Deputy CEO have two scheduled roadshows following half year results and end year results announcements during which they interact with shareholders to answer their questions about the Company. This is supported throughout the year by equitable sharing of information through various communication mechanisms, including but not limited to SENS and media announcement.

TRANSPARENT AND EFFECTIVE COMMUNICATION WITH STAKEHOLDERS ✓

The Company uses, amongst others, the Integrated Report to communicate with various stakeholders. For example, the Company's Integrated Report has in the previous year received accolades and recognition for corporate reporting and for referencing and usability. This fact is disclosed in the Integrated Report.

The Company has a system to solicit feedback from all our stakeholders, for example from customers with regards to our products and services and their needs. Management supports the use of the Company products through education and information sharing in accordance with the law and applicable regulations to promote responsible usage.

DISPUTES ARE RESOLVED EFFECTIVELY AND EXPEDITIOUSLY ✓

Disputes are investigated and resolved effectively and expeditiously. All disputes related to employees are reported to the Social, Ethics and Transformation Committee as part of the Ethics

report and to the Board. Feedback on these investigations is also provided to employees through various platforms such as senior management quarterly meetings, Human Capital Review meetings and during the Executive committee meetings.

## **INTEGRATED REPORTING AND DISCLOSURE**

THE BOARD ENSURES THE INTEGRITY OF THE COMPANY'S INTEGRATED REPORT ✓

The Board ensures that the Group's Integrated Report subscribes to high ethical standards and principles of corporate governance through a rigorous internal process which includes review by management and the Audit Committee.

SUSTAINABILITY REPORTING AND DISCLOSURE IS INTEGRATED WITH THE COMPANY'S FINANCIAL REPORTING

This statement is correct as both sustainability reporting and financial reporting are contained in the Integrated Report.

SUSTAINABILITY REPORTING AND DISCLOSURE IS INDEPENDENTLY ASSURED

Sustainability reporting and disclosure is not independently assured. However, the Integrated Report, including sustainability reporting and disclosures is reviewed by the Board.

## **SOCIAL AND ETHICS COMMITTEE**

*[Note: This is a newly established committee, constituted in May 2012 following the introduction of the Companies Act 2008. The Committee has adopted terms of reference and is in the process of crafting its strategy which will inform its priorities. In the meantime, the progress made by the Committee so far is highlighted below.]*

ALL NOTICES OF AND OTHER COMMUNICATIONS RELATING TO ANY GENERAL MEETING SENT TO THE COMMITTEE: ✓

Yes, all notices and other communication relating to any general meeting are sent to the Committee.

NOT LESS THAN THREE DIRECTORS OR PRESCRIBED OFFICERS: ✓

Yes, please refer to page 12 of the Integrated report for confirmation.

AT LEAST ONE OF THE MEMBERS IS A NON-EXECUTIVE DIRECTOR ✓

Yes, please refer to page 12 of the Integrated report for confirmation.

MONITORS THE COMPANY'S ACTIVITIES HAVING REGARD TO THE RELEVANT LEGISLATION, OTHER LEGAL REQUIREMENTS OR PREVAILING CODES OF BEST PRACTICE: ✓

Yes, please refer to the Social Ethics and Transformation Committee's report on the Company's website to confirm the work done to date.

Monitors social and economic development ★

This item is still under consideration and will be addressed once the policy is approved.

Monitors Company's goals and purposes of: ★

- the 10 principles set out in the United Nations Global Compact Principles
- the OECD recommendations regarding corruption

- the Employment Equity Act
- the Broad-Based Black Economic Empowerment Act

These matters are dealt with holistically as part of the ethics report and human capital report to the Committee.

GOOD CORPORATE CITIZENSHIP INCLUDING: ✓

- promotion of equality, prevention of unfair discrimination and reduction of corruption ✓

Human Capital executive reports to the Committee on the progress made by the Company on these issues.

- contribution to development of communities within its sphere of activities
- Record of sponsorship, donations and charitable giving

This responsibility is discharged by the Company's corporate communications office through significant donations and sponsorships to charity organisations. Please refer to the website for more information.

- the Broad-Based Black Economic Empowerment Act ✓

The Company recently implemented an owner driver scheme by converting some of its drivers into truck owners and contracting their companies as service providers. The Company has a level 3 BBBEE rating which demonstrates its commitment to the BBBEE Act. In addition, the following plans are in place to ensure that the Company maintain its position of being a leading empowerment player in the healthcare Industry: attraction and retention of black talent, particularly black females at management level; appointment of learners with disabilities; expansion of owner driver programme to other facilities and development of strategies and tactics to address the requirements of the revised BBBEE codes.

Environment, health and public safety ✓

The Company complies with the above and recently reported to the Committee that:

- The 2013 grading audits have been completed at all the Company's operations and the outcome thereof demonstrates that the respective operations met the required threshold target of 95% compliant risk grading scores, notwithstanding some non-compliance issues identified; and
- The minimum target score required for acceptable compliance in environmental management is a minimum threshold of 90%. All the Adcock sites in South Africa achieved the compliance score of 90%.

Consumer relationships ✓

The Company has a dedicated Pharmacovigilance division which deals with all consumer related queries and there is a Speak Up line, which is managed by an independent service provider, which consumers are encouraged to use to lodge comments/complaints.

Labour and employment

- Company's standing in terms of the International Labour Organization Protocol
- Employment relationships

- Contribution toward educational development of employees

Draw matters within its mandate to the attention of the Board: ✓

The Committee reports to the Board after every scheduled meeting held.

Report to shareholders at Annual General Meetings: ✓

This Committee will be reporting for the first time to the shareholders in January 2013.