

King IV™ Report by Principle - Preview

Adcock Ingram Holdings Limited

Prepared by: Lucky Phalafala

Registration Number: 2007/016236/06

<p>Principle 1</p>	<p>The governing body should lead ethically and effectively.</p> <p>The Board, as the custodian of Adcock Ingram’s ethical leadership and corporate governance, is committed to lead ethically and effectively and strives to govern in accordance with the letter and spirit of good corporate governance. The Board governs the ethics of the Company in a way that supports and promotes an ethical culture within the Company. Consequently, the Company has a zero-tolerance approach to unethical behaviour. Instilling an ethical culture is a business imperative, as it is about consistency and always doing the right thing.</p> <p>The Board’s commitment to governance and best practices constantly drives improvement in the way the business is managed and ensures decisions are taken openly and transparently within an ethical framework and Company values. The Group’s business model is underpinned by a governance philosophy that supports the creation of measurable value for all our stakeholders.</p>	<p>IAR page number</p> <p>Pages 18 and 19</p>
<p>Principle 2</p>	<p>The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.</p> <p>The Board controls the Company and has ensured that a code of conduct and ethics and a Conflict of-Interest Policy are in place to “set the tone from the top”. The Board further (1) oversees the process of disclosure and communications; (2) ensures that appropriate systems for financial controls and for reporting and monitoring risk are in place; (3) appoints and evaluates the performance of the executive directors; and (4) balances the potential for conflict between the interests of management and the wider interests of the Company and its shareholders. This ensures that the management of ethics results in the outcomes envisaged by King IV, namely an Ethical Culture, Good and sustainable Performance, Effective Control and Legitimacy.</p> <p>Adcock Ingram also subscribes to The Ethics Institute of South Africa’s recommended ethics framework. Ethics are the foundation of Adcock Ingram’s business and an unequivocal commitment to fairness, transparency and integrity inspire all facets of Adcock Ingram’s operations. Adcock Ingram’s Board, assisted by its sub-committees, is responsible for setting the ethical tone “from the top” and monitors its implementation to ensure that business is conducted in a manner that is beyond reproach at all levels within Adcock Ingram.</p>	<p>IAR page number</p> <p>Page 18 and 19</p>

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	<p>The Social, Ethics and Transformation Committee (SET) plays a key role in exercising oversight of the Company’s ethics, ensuring that the Board is sufficiently equipped to deliver on its goal of maintaining a sustainable ethical culture within the Company. Although this responsibility has been delegated to management, the Board remains ultimately accountable for the way in which this function is discharged by regularly reviewing and approving the following policies, amongst other things:</p> <ul style="list-style-type: none"> <li>• Whistleblower Policy;</li> <li>• Conflict-of-Interest Policy, which includes dealing in the Company’s shares; and</li> <li>• Code of Conduct &amp; Ethics, that provides relevant guidance to Board members and employees.</li> </ul>	
<p>Principle 3</p>	<p>The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.</p>	
	<p>Adcock Ingram conducted a review of its strategy to ensure relevance to all its stakeholders. In the main, the three-pillar strategy was found to be fit for purpose, though some enhancements were made. The Transformation pillar was expanded to “Responsible Corporate Citizen” recognising that, to better address the wider requirements of ESG, the focus needs to be broadened into areas beyond B-BBEE. Focus areas now include environmental efforts, making a positive social impact on the communities we serve and ensuring our governance structures continues to comply with the highest standards.</p>	<p><b>IAR page number</b> Pages 17, 36, 37, 39, 45, 65, and 100</p>
<p>Principle 4</p>	<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>The integrated thinking in our business model disclosure illustrates how all the different elements are linked as inseparable elements of the combined value creation process.</p> <p>Pages 28 to 35 and 37 highlight the key risks, indicate which strategic pillar can mitigate this risk, as well as any opportunities identified as a result of the identified risk.</p>	<p><b>IAR page number</b> Pages 28 to 35 and 37</p>

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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.	<b>IAR page number</b>
	The performance is detailed from page 44 onwards and each section contains a section on focus areas.	Pages 44 onwards
Principle 6	The governing body should serve as the focal point and custodian of corporate governance in the organisation.	<b>IAR page number</b>
	<p>The Board continues to demonstrate its commitment to adhere to good corporate governance, including the structures, processes and practices used to direct and manage the Company's operations. As the custodian of corporate governance, the Board is aware of its responsibility to lead the Group competently with integrity, fairness, accountability, and transparency.</p> <p>The Board is committed to ensure that Adcock Ingram has appropriate governance structures, processes and practices that entrench ethical, effective, and responsible leadership at Board and executive level as well as throughout the Group.</p> <p>Each Committee promotes strong principles of integrity within the Company, while the Board remains the overall custodian of good corporate governance. There is a culture of delegation and trust by the Board with respect to the committees and the role they play in providing the Board with the necessary support and oversight of the Company. The Board is satisfied that the arrangements for delegation within its own structures promote independent judgement and assists with the balance of power and the effective discharge of its duties. The Board is comfortable that the established committees are appropriate, relevant and adequate for the Group.</p> <p>An account of the Board's activities during FY2022, outlining how the Board applied principles of good governance to enable and support the Group's value creation process is set out on page 22.</p>	Pages 21 and 22

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<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>				
	<table border="1"> <thead> <tr> <th data-bbox="371 571 1977 643"></th> <th data-bbox="1977 571 2224 643">IAR page number</th> </tr> </thead> <tbody> <tr> <td data-bbox="371 643 1977 1489"> <p>As a pharmaceutical and healthcare company, we require a unique range of skills set to ensure there is a balance of technical knowledge, operational and commercial skills, and experience. The Board, with the assistance of the Nominations Committee, determines the required composition of skills in response to the changing environment and shifts in the industry and Adcock Ingram's strategic objectives. Having the appropriate mix of knowledge, skills and experience ensures that the Board members, as a collective, are well-equipped to guide the Company.</p> <p>The Nominations Committee plays an important role in the nomination and appointment of new and suitable directors as well as the identification and removal of underperforming or unsuitable directors. Before nominating a candidate for election, the Nominations Committee considers the collective knowledge, skills, qualifications and experience required from the vacancy, the current diversity profile of the Board and whether the candidate meets the desired fit and criteria. The Board considers its composition holistically whilst procedures for appointments to the Board are formal, transparent and conducted by the Nominations Committee.</p> <p>The Nominations Committee is also responsible for assessing the independence of the directors. Independence is determined in accordance with the Companies Act, JSE Listings Requirements and the recommendations of King IV.</p> <p>The Board is constituted in terms of the Company's Memorandum of Incorporation (MOI) and in line with King IV. The majority of board members are independent, non-executive directors who bring diversity to Board deliberations and create sustained value by constructively challenging management.</p> <p>As the Board is led by a non-independent non-executive Chairperson, in the objective and effective discharge of its governance role and responsibilities, a lead independent director is appointed to achieve a balance of power and reinforce accountability mechanisms on the Board.</p> <p>A clear separation of power exists between the Chairperson of the Board and the Chief Executive Officer</p> </td> <td data-bbox="1977 643 2224 1489"> <p>Pages 17 to 18 and 20 to 22</p> </td> </tr> </tbody> </table>		IAR page number	<p>As a pharmaceutical and healthcare company, we require a unique range of skills set to ensure there is a balance of technical knowledge, operational and commercial skills, and experience. The Board, with the assistance of the Nominations Committee, determines the required composition of skills in response to the changing environment and shifts in the industry and Adcock Ingram's strategic objectives. Having the appropriate mix of knowledge, skills and experience ensures that the Board members, as a collective, are well-equipped to guide the Company.</p> <p>The Nominations Committee plays an important role in the nomination and appointment of new and suitable directors as well as the identification and removal of underperforming or unsuitable directors. Before nominating a candidate for election, the Nominations Committee considers the collective knowledge, skills, qualifications and experience required from the vacancy, the current diversity profile of the Board and whether the candidate meets the desired fit and criteria. The Board considers its composition holistically whilst procedures for appointments to the Board are formal, transparent and conducted by the Nominations Committee.</p> <p>The Nominations Committee is also responsible for assessing the independence of the directors. Independence is determined in accordance with the Companies Act, JSE Listings Requirements and the recommendations of King IV.</p> <p>The Board is constituted in terms of the Company's Memorandum of Incorporation (MOI) and in line with King IV. The majority of board members are independent, non-executive directors who bring diversity to Board deliberations and create sustained value by constructively challenging management.</p> <p>As the Board is led by a non-independent non-executive Chairperson, in the objective and effective discharge of its governance role and responsibilities, a lead independent director is appointed to achieve a balance of power and reinforce accountability mechanisms on the Board.</p> <p>A clear separation of power exists between the Chairperson of the Board and the Chief Executive Officer</p>	<p>Pages 17 to 18 and 20 to 22</p>
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Principle 8	The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with the balance of power and the effective discharge of its duties.	
		<b>IAR page number</b>
	<p>The Company's delegation of authority framework provides role clarity by clearly delineating roles and areas of accountability and recognises the independent roles and duties required to effectively govern the Company. The authority and responsibility delegated to the lowest prudent management level is in accordance with the Company's values. 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>The Board is, <i>inter alia</i>, governed by an approved Board Charter and the Company's MOI. The Charter regulates the parameters within which the Board operates and ensures the application of the principles of good corporate governance in all its dealings. The Charter sets out the roles and responsibilities of the Board and individual directors, the composition and relevant procedures of the Board, including the powers delegated to various board committees and the relevant principles of the Group's approval limits and delegations of authority. The Charter ensures that there is a clear division of roles and responsibilities on the Board and that no Chairperson has a casting vote. The Charter is aligned with the provisions of relevant statutory and regulatory requirements, including, the Companies Act, the JSE Listings Requirements, King IV, and the MOI.</p>	Pages 17 and 21
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.	
		<b>IAR page number</b>
	<p>In line with its Board Charter and King IV, the Board and its committees conduct evaluations every alternative year. The Board conducted a comprehensive evaluation in 2021 which was designed to identify areas of governance improvement and was facilitated by an independent service provider. It involved a qualitative assessment of structures of leadership including the effect of the recent changes at the Board, dynamics in the boardroom including culture, governance, nature of the relationship with stakeholders and efficacy of reporting. The Board has addressed the actions identified from the evaluation (refer to page 23 for the details).</p> <p>During the year under review, the Board focused on addressing the key findings raised in the 2021 evaluations and the Board is comfortable with its progress in ensuring these are adequately addressed.</p>	Page 23

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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.	
		<b>IAR page number</b>
	<p>The Board is not involved in the day-to-day running 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.</p> <p>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>	Page 21
Principle 11	The governing body should govern risk in a way that supports the organisation in setting and achieving strategic objectives.	
		<b>IAR page number</b>
	Refer to pages 24 and 25 in respect of how the Board ensures that risk management is embedded in key decision-making processes and that such processes incorporate and consider strategy, governance, compliance, and performance.	Pages 24 and 25
Principle 12	The governing body should govern technology and information in a way that supports the organisation in setting and achieving its strategic objectives.	
		<b>IAR page number</b>
	<p>IT governance focuses on the performance, resource and risk management processes regarding technology and information. It includes the process used to monitor and control key decisions around technology and information for alignment with the overall business strategy and to ensure the delivery of value to key stakeholders.</p> <p>Both the Risk and Sustainability Committee and the Audit Committee promote the awareness of an ethical IT governance and management culture and provide transparency through regular reporting to the Board, with internal audit providing independent assurance on the implemented frameworks, strategy, policy, procedures, and standards.</p> <p>The Risk and Sustainability Committee considers the technology and information risk register on a regular basis.</p>	Page 28

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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 an ethical and good corporate citizen.	
		<b>IAR page number</b>
	<p>The Board subscribes to the compliance with applicable laws and regulations in all jurisdictions in which the Group operates. The Board 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>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 tabled and discussed in the respective Committees and later presented to the Board.</p>	Pages 1 and 20
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.	
		<b>IAR page number</b>
	<p>The Human Resources and Remuneration Committee has been delegated the responsibility for overseeing the Group’s approach to remuneration, including policy, to ensure fair, transparent, equitable and responsible remuneration in support of the Group’s strategy. Adcock Ingram remains focussed on developing and implementing robust remuneration strategies and plans that best serve shareholder interests through sustainable growth.</p> <p>The Company continually monitors developments and trends in the healthcare and fast-moving consumer goods sectors, best practice and related changes in the market that may have an impact on our approach to remuneration, and regularly canvasses input from stakeholders for consideration. The Group regularly engages an independent external remuneration consultant to ensure that our remuneration practices remain relevant and fit for purpose in a dynamic and changing environment and aligned to the achievement of our strategies. Our remuneration policy is key to our ability to attract, motivate, develop, and retain talent in a market where the war for talent, particularly industry specialists and pharmacist is fierce.</p>	Pages 17, 102, 104 and 118

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	<p>Adcock Ingram’s remuneration philosophy is aligned to relevant policy and to business strategy and priorities, as well as 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>	
<p>Principle 15</p>	<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> <p>The Board is responsible for the Group’s risk governance, which is achieved through its oversight committee, being the Risk and Sustainability Committee. The Board ensures that an adequate level of assurance is provided on control processes related to significant risks. The chairperson of the Audit Committee is also a member of the Risk and Sustainability Committee. 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.</p> <p>The combined assurance model and process aims to optimise the assurance coverage obtained regarding key risk categories as well as key risks affecting the Company. Issues related to combined assurance are tabled and discussed during Audit Committee meetings. The combined assurance process aims to optimise the assurance coverage obtained regarding key risk categories as well as key risks affecting the Company. Assurance is obtained from:</p> <ul style="list-style-type: none"> <li>▪ management;</li> <li>▪ management appointed assurance providers; and</li> <li>▪ external assurance providers.</li> </ul>	<p><b>IAR page number</b></p> <p>Page 17, 24, 27</p>

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<p>Principle 16</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>	
	<p>The Board has adopted a stakeholder-inclusive approach in the execution of its governance role and responsibilities and is guided continuously by its commitment to the principles of King IV. Adcock Ingram continuously examines its stakeholders' needs and expectations concomitant with its aspirations and formulates mutually satisfying responses. Hence, the Company developed a comprehensive stakeholder management relations policy, as a framework for upholding its commitment to social and relationship capital.</p> <p>Its valuable partnerships with employees, customers, and consumers, healthcare professionals, industry associations, licence and technology partners, and suppliers, are built to last. Healthy, trusting relationships with government, regulatory authorities, fence-line communities, NGOs and trade unions are well established. This instils confidence for investors, shareholders, and the media in the Adcock Ingram value proposition. Key stakeholder groupings are identified and mapped according to either their level of influence on the Company, or vice versa. Adcock Ingram's approach to stakeholder engagement is based on the level of influence by the Company on the stakeholder, and/or influence by the stakeholder on the Company.</p>	<p><b>IAR page number</b></p> <p>Pages 17, 23, 40</p>