

REGISTER OF APPLICATION OF THE KING IV™ PRINCIPLES IN THE  
REPORT ON CORPORATE GOVERNANCE FOR SOUTH AFRICA 2016

# 2019

 **AFROX**  
A Member of The Linde Group



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Online reference icon

Afrox website: [www.afrox.co.za](http://www.afrox.co.za)

## Glossary

Afrox	African Oxygen Limited
AFS	Afrox's 2019 annual financial statements
Board	Afrox Board of directors
Group	Afrox and its subsidiaries

# Chapter 1 /// Leadership, ethics and corporate citizenship

Principle <sup>1</sup>	Application of the principle by Afrox
<b>LEADERSHIP</b>	
1. The governing body should lead ethically and effectively.	<p>The Linde Code of Business Integrity is the foundation for ethical leadership and serves as a reference point to guide the standards of integrity, accountability and fairness in the Group.</p> <p>The Board sets the ethical tone in the Group consistent with the Company values.</p> <p>The Board recognises that sound corporate governance practices effect value creation for all stakeholders and exercises effective and ethical leadership based on the requirements of the Company's Memorandum of Incorporation (MOI), Board Charter, the Companies Act 71, 2008 and the JSE listings requirements.</p> <p>Afrox is committed to the highest standard of corporate governance.</p>
<b>ORGANISATIONAL ETHICS</b>	
2. The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.	<p>The Board Charter and the Linde Code of Business Integrity confirm the principles by which the Board defines and leads the ethical culture in the Company.</p> <p>The Board has delegated the responsibility for implementation and execution of the Code to management, which reports to the Social, Ethics and Transformation (SET) Committee of the Board. The SET Committee monitors the implementation of the Code and a culture of ethical leadership in the Company. Executives and senior management are required to acknowledge the content of the Code and compliance thereof in writing annually. Training on the Code feature in the on-boarding of new employees and is refreshed on a regular basis.</p>
<b>RESPONSIBLE CORPORATE CITIZENSHIP</b>	
3. Ensure that the organisation is and is seen to be a responsible citizen.	<p>Good corporate citizenship is intrinsic to Afrox. The Company's commitment to responsible corporate and is seen to be a responsible citizenship is reflected through the work undertaken primarily by Corporate Social Development Division citizen. (CSDD) and monitored and supported by the Board through the SET Committee, Security and Site Governance Committee and the Nominations Governance and Management of Resources (NGMR) Committee.</p> <p>The SET Committee oversees the Company's sustainability and performance through the adoption of good corporate citizenship practices as the mechanism to create value for all stakeholders.</p> <p>The Company's integrated annual report discloses the focus areas and progress against these sustainability priorities. Afrox's commitment to responsible corporate citizen is also entrenched in its business strategy.</p>

<sup>1</sup> Principle 17 is not applicable to Afrox as it relates to the governing body of an institutional investor which Afrox is not.

# Chapter 2 /// Strategy, performance and reporting

Principle <sup>1</sup>	Application of the principle by Afrox
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## STRATEGY AND PERFORMANCE

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.	<p>The Board is responsible for aligning the strategic objectives, vision and mission with performance and sustainability considerations, in line with the legitimate expectations of its stakeholders.</p> <p>The Company's strategic imperatives are the drivers for sustainable and profitable growth.</p> <p>The Board has approved key performance measures and targets for management. With the support of its Committees, the Board monitors the implementation and execution of the strategy by management. Board and executive strategic sessions are conducted annually to assess the relevance and performance of the organisational strategy.</p>
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## REPORTING

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.	<p>The integrated annual report provides a consolidated view of Afrox's financial, social and environmental performance, prospects and strategy in the context of our operating environment to enable stakeholders to make an informed assessment of the Company's value creation in the short, medium and long-term.</p> <p>The Audit and Risk Committee and Board ensure the integrity of the Afrox's reporting publications, in the form of the annual financial statements and integrated report, which are published on the Company's website for easy access by our stakeholders.</p>
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## PRIMARY ROLES AND RESPONSIBILITIES OF THE GOVERNING BODY

6. The governing body should serve as the focal point and custodian of the corporate governance in the organisation.	<p>The Board is committed to the highest standards of corporate governance. Its roles and responsibilities, and the way it executes its duties and decision-making are set out in the Board Charter and terms of reference of its Committees.</p> <p>Through the Delegation of Authority, the Board has set the direction and parameters for the powers which are to be reserved for itself, and those that are to be delegated to management via the executive directors.</p>
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## COMPOSITION OF THE GOVERNING BODY

7. The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance roles and responsibilities objectively and effectively.	<p>The NGMR Committee is responsible for the succession planning of the Board and the executive. It assesses the Board's range of skills, knowledge, experience, diversity and independence to enable it to discharge its governance roles and responsibilities. The Board comprises 8 (eight) directors, 4 (four) independent non-executive directors, 2 (two) non-executive directors and 2 (two) executive directors.</p> <p>The Board approved the Gender and Race Diversity Policy which will be implemented through the SET and NGMR Committees.</p> <p>The Board is satisfied that there is a balance of skills, experience, independence, diversity and knowledge required to discharge its roles and responsibilities. The Board composition is set out on page 68 of the 2019 integrated report.</p>
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Principle <sup>1</sup>	Application of the principle by Afrox
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## COMMITTEES OF THE GOVERNING BODY

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.	<p>The composition of the Board and its Committees is in line with King IV Report on Corporate Governance™ for South Africa, 2016 (King IV™)<sup>2</sup> There is a clear balance of power to ensure that no individual has undue decision-making powers.</p> <p>The Committees of the Board comprise the Audit and Risk Committee, NGMR Committee, SET Committee and the SHEQ Committee.</p> <p>The Board has delegated certain responsibilities to its Committees to assist the Board in discharging its oversight responsibilities. Each Committee operates under the Board approved terms of reference which set out the Committee's roles, responsibilities, authority and composition.</p> <p>The Board annually reviews the Board Charter and Committees' terms of references.</p>
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## EVALUATION OF THE PERFORMANCE OF THE GOVERNING BODY

9. The governing body should ensure that the evaluation of its own performance and that of its committee, its chair and its individual members, support continued improvement in its performance and effectiveness.	<p>The Board's performance and effectiveness assessment is conducted regularly, either internally in the form of self-assessment or externally by an external service provider.</p> <p>The NGMR Committee, assisted by the Group Company Secretary, drives the internal performance assessment of the Board, its Chairman and Committees, as well as that of individual directors.</p> <p>The Chairman of the NGMR Committee and the Lead Independent Director conduct an assessment process in respect of the Board Chairman.</p> <p>The outcomes from this assessment and relevant action plans are monitored by the Board.</p> <p>Where required, the Board Chairman also engages with individual directors to address any areas of improvement highlighted in the assessment feedback.</p>
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## APPOINTMENT AND DELEGATION TO MANAGEMENT

10. The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and effective exercise of authority and responsibilities.	<p>The Board is responsible for the appointment of the Managing Director and Group Financial Director and evaluates the performance of these officers annually against agreed performance measures and targets.</p> <p>The Board has approved a Delegation of Authority framework, which details the powers and matters reserved for itself and those to be delegated to management through the executive directors.</p> <p>The executive directors are responsible for leading the implementation and execution of the Group's strategy, policies and operational plans and reports to the Board.</p> <p>The Board ensures that key management functions are led by a competent and appropriately authorised individual and are adequately resourced.</p>
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<sup>2</sup> Copyright and trademarks are owned by the Institute of Directors in South Africa NPC and all of its rights are reserved.



## Chapter 3 /// Governance functional areas

Principle	Application of the principle by Afrox
<b>RISK GOVERNANCE</b>	
11. The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.	<p>The Board is the ultimate custodian of risk governance. To this end, the Board has approved the Risk Management Policy and framework upon the recommendations by the Audit and Risk Committee.</p> <p>Management continuously identify, assess, mitigate and manage risks within the existing operating environment. Mitigating controls are put in place and actions are taken to address these risks.</p> <p>The Board is apprised of the Group's top risks, the Audit and Risk Committee is responsible for ensuring a comprehensive risk register and mitigation plan is tabled at board meetings. Lessons learnt are considered when formulating measures to address potential positive and negative impacts of the top risks on the Group's ability to meet its strategic objectives.</p> <p>We also disclose our risks and mitigating strategies as well as material issues and our response in the context of the strategy. See the risk management disclosure in the 2019 integrated report, pages 23 to 25 and material issues, pages 30 to 33.</p>
<b>TECHNOLOGY AND INFORMATION GOVERNANCE</b>	
12. The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.	<p>The Board understands the importance, relevance and inherent risks in information technology (IT) and oversees the governance of IT.</p> <p>The Board delegated the Audit and Risk Committee with authority to ensure appropriate IT compliance structures are in place.</p> <p>The Audit and Risk Committee monitors IT governance, approves the IT strategy and reports to the Board on its monitoring of the IT governance of risk and compliance. On an annual basis, a deep-dive on IT governance is presented to the Board.</p> <p>The Audit and Risk Committee reviews IT risks as they relate to financial reporting and the going concern assessment.</p> <p>The Head of IT is responsible for implementing and executing effective IT management systems.</p>
<b>COMPLIANCE GOVERNANCE</b>	
13. The governing body should govern compliance with applicable laws and adopted non-binding rules, codes and standards in a way that it supports the organisation being ethical and a good corporate citizen.	<p>The Company has identified all of the laws, regulations, codes and standards that impact and apply to its operations.</p> <p>Legal compliance systems and processes are continuously being put in place, to mitigate the risk of non-compliance with the laws in various jurisdictions in which Afrox does business.</p> <p>A library of policies provides the necessary guidance to employees on the acceptable levels of conduct.</p> <p>The policy library is updated on a continuous basis with policies being amended to reflect the changes in the external environment, e.g. legislative updates.</p> <p>The Board is kept abreast of material legislative updates by the Afrox Legal function. It has delegated the responsibility for implementing compliance to management.</p> <p>The Afrox Legal function and the Company Secretary review the adequacy of controls to ensure full compliance coverage of legal and regulatory responsibilities, with input from the Group Compliance Manager.</p>

Principle	Application of the principle by Afrox
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## REMUNERATION AND GOVERNANCE

14. The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives in short, medium and long-term.	<p>The NGMR Committee assists the Board to ensure the Group's reward and remuneration policies and practices are aligned to Afrox's objectives of value creation, fairness, performance and competitiveness in a sustainable manner.</p> <p>The Company discloses the remuneration of each director in the integrated annual report.</p> <p>The remuneration report, including the implementation report and the remuneration policy are set out on page 85 of the 2019 integrated report.</p>
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## COMBINED ASSURANCE

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.	<p>The Board has delegated to the Audit and Risk Committee the responsibility for overseeing that structures are in place for achieving an effective internal control environment. To this end, the Audit and Risk Committee delegates this responsibility to the internal audit function to maintain robust controls enabling effective internal control environment.</p> <p>The internal audit is responsible for identifying and evaluating controls to determine the reliability and integrity of the information used for decision-making by management, the Board and its Committees. The Security and Governance Committee (sub-committee of EXCO) ensures that there is an integrated approach across all governance and assurance functions which further strengthens the effectiveness and robustness of the internal financial controls.</p>
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# Chapter 4 /// Stakeholder relationships

Principle	Application of the principle by Afrox
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## STAKEHOLDERS

16. In the execution of its governance roles 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>Afrox recognises that robust stakeholder relationships and engagement, both within and outside of Afrox are key to creating and unlocking real stakeholder value. The Linde Code of Business Integrity guides on how these stakeholder relationships may be established and managed.</p> <p>An overview of our stakeholder relationships and engagement are provided on page 26 of the 2019 integrated report.</p>
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