

# 2021 KING IV™ CORPORATE GOVERNANCE COMPLIANCE REPORT

Since the release of King IV™ in November 2016, an annual King IV™ gap analysis is performed which enables the board to assess the effectiveness of its current processes, practices and structures which it uses to direct and manage the Group's operations.

The Group's governance framework is based on the application of the principles and practices recommended by King IV™.

This 2021 King IV™ corporate governance compliance report details how Pan African complies with each of the King IV™ principles.



## GOVERNANCE OUTCOME: ETHICAL CULTURE

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| <p><b>PRINCIPLE 1: Ethical leadership</b><br/>The governing body should lead ethically and effectively</p>  | <ul style="list-style-type: none"> <li>• The board charter and board committee charters are reviewed periodically as and when necessary to ensure relevance. The most recent review and update of these charters took place in the 2020 financial year</li> <li>• The audit and risk committee reviews compliance with King IV™ annually</li> <li>• Directors are appointed after assessing their skills and competence and performing a thorough background check</li> <li>• The board and committee meetings are set in advance to ensure the attendance of all members</li> <li>• Board packs and minutes of previous meetings are distributed approximately a week in advance to afford all members sufficient time to prepare</li> </ul> |
| <p><b>PRINCIPLE 2: Organisation values, ethics and culture</b><br/>The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture</p> | <ul style="list-style-type: none"> <li>• Directors set the overall tone for ethical leadership of the board</li> <li>• The code of ethics and values statement are reviewed periodically to provide relevant guidance on ethical conduct across all activities of the Group. The most recent review took place in November 2020</li> <li>• Contracts with third parties include a provision on the adherence to Pan African's code of ethics</li> <li>• The Group's social and ethics committee ensures that the Group's ethics are managed effectively</li> </ul>  |
| <p><b>PRINCIPLE 3: Responsible corporate citizenship</b><br/>The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen</p>                          | <ul style="list-style-type: none"> <li>• The board's SHEQC committee assists the board in discharging its responsibility to ensure that the Group's conduct is congruent with it being a responsible corporate citizen</li> <li>• The SHEQC committee monitors the progress of CSI and LED programmes</li> <li>• Sustainability key performance indicators (KPIs) are used to track the achievement of the Group's sustainability objectives and are monitored by the SHEQC committee</li> <li>• Sustainability KPIs include health, safety, environmental, social and compliance elements</li> </ul>   |

## GOVERNANCE OUTCOME: PERFORMANCE AND VALUE CREATION

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| <p><b>PRINCIPLE 4: Strategy, implementation and performance</b><br/>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> | <ul style="list-style-type: none"> <li>• The board oversees the Group's strategy and its execution</li> <li>• The board considers sustainability to be a business opportunity and guides the strategy to ensure sustainable outcomes</li> <li>• Material matters are reviewed and approved annually by the board to ensure that they are aligned with the strategy and used to measure performance</li> <li>• KPIs are reviewed and approved annually by the board</li> <li>• Strategic risks are assessed annually by the board</li> <li>• The board oversees the risk management process and is guided by the audit and risk committee</li> <li>• The board takes account of the legitimate interests and expectations of its stakeholders in its decision-making in the best interests of the Company</li> </ul> |
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**GOVERNANCE OUTCOME: PERFORMANCE AND VALUE CREATION** continued

**PRINCIPLE 5: Reports and disclosure**

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

- Integrated thinking is fundamental in developing the Group's strategy, managing the business and is a cornerstone of the integrated reporting process which underpins the integrated annual report
- The integrated annual report sets out the Group's strategic initiatives, business model, material matters and its risks and opportunities
- Pan African engages in an annual externally facilitated materiality assessment to determine the Group's material matters
- Material matters are reviewed annually by the board
- The integrity of the integrated annual report is reviewed by the audit and risk committee
- The integrated annual report, including the annual financial statements, is approved annually by the board after applying its collective mind
- Engagement with shareholders and the local and international investment community takes place through roadshows, conferences and investor presentations which are published on our website. These events have taken place virtually since travel restrictions were put in place as a result of the COVID-19 pandemic

**GOVERNANCE OUTCOME: ADEQUATE AND EFFECTIVE CONTROL**

**PRINCIPLE 6: Role of the governing body**

The governing body should serve as the focal point and custodian of corporate governance in the organisation

- Corporate governance remains the responsibility of the board as a whole
- The Group's corporate policy plan was reviewed by the audit and risk committee in February 2020
- An internal King IV™ gap analysis is conducted annually and reviewed by the audit and risk committee
- The board charter was independently reviewed in 2019 and updated in 2020
- All directors have the right to independent professional advice at the Group's expense to ensure that they fulfil their roles in terms of the governance principles
- The company secretary is pivotal to ensuring good corporate governance

**PRINCIPLE 7: Composition of the governing body**

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

- Non-executive directors on the board perform the function and responsibility of the nomination committee
- The nomination committee ensures that the board comprises an appropriate level of skills, experience, diversity and independence
- The nomination committee charter was independently reviewed in 2019 and amended in 2020 to ensure compliance with good corporate governance
- The board comprises five non-executive directors (all independent) and two executive directors (not independent)
- The executive directors are the chief executive officer and the financial director
- Race and gender targets are set and approved by the board
- Pursuant to the articles of association of the Company, one-third of directors, excluding any director appointed since the previous AGM, must retire from office at each AGM on a rotational basis
- The directors to retire are those who have been longest in office since their last election or re-election. Retiring directors may make themselves available for re-election if they remain eligible, as required by the constitutional documents and in compliance with the AIM Rules and the JSE Listings Requirements
- In the event of a non-executive director having served more than nine continuous years, he/she is subject to an annual re-election and an annual independence assessment
- A formal letter of appointment is provided to newly appointed directors

**GOVERNANCE OUTCOME: ADEQUATE AND EFFECTIVE CONTROL** continued

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| <p><b>PRINCIPLE 7: Composition of the governing body</b> continued</p>  | <ul style="list-style-type: none"> <li>• Before nominating a candidate for election, the board takes into account the following aspects of the board as a whole: <ul style="list-style-type: none"> <li>– Knowledge, skills and experience</li> <li>– Ratio of executive and non-executive directors</li> <li>– Sufficient number of directors to serve on committees</li> <li>– Sufficient number of directors to secure a quorum</li> <li>– Regulatory requirements</li> <li>– Diversity targets</li> </ul> </li> <li>• A formal induction programme is established for new directors. Inexperienced directors are assisted by a mentorship programme</li> <li>• A declaration of all financial, economic and other interests is made by each director annually</li> <li>• Declarations are also made at inception of board meetings</li> <li>• A board of directors' conflict of interest policy was approved in 2020</li> <li>• The board has considered the independence of its non-executive members who hold securities in the Company, and has concluded that they are independent as the value of their shares is considered immaterial to their personal wealth</li> <li>• A lead independent director is appointed by the board</li> <li>• The role and responsibilities of the chairman of the board and the chief executive officer are separate</li> </ul> |
| <p><b>PRINCIPLE 8: Committees of the governing body</b></p> <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> | <ul style="list-style-type: none"> <li>• The board has delegated certain powers to the audit and risk committee, SHEQC committee, remuneration committee, nomination committee and the social and ethics committee</li> <li>• The Group's committees assist the board in discharging its corporate governance responsibilities and report to the board on a regular basis</li> <li>• All board committees have formal charters which were independently reviewed in 2019 and updated in 2020 to ensure that they comply with good corporate governance principles</li> <li>• The composition of the board's committees (which are assessed annually) complies with the South African Companies Act, Pan African's memorandum of incorporation and each committee's charter</li> </ul>  |
| <p><b>PRINCIPLE 9: Performance evaluation</b></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>   | <ul style="list-style-type: none"> <li>• The board chairman's performance evaluation is performed annually and is led by the lead independent director</li> <li>• An annual effectiveness self-evaluation assessment is undertaken by the board and its subcommittees for the year under review; the board is satisfied that it and its subcommittees operated effectively</li> <li>• The board is satisfied that the evaluation process is improving its performance and effectiveness</li> <li>• The audit and risk committee performs an annual performance assessment of the financial director</li> </ul>   |
| <p><b>PRINCIPLE 10: Delegation to management</b></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>                                 | <ul style="list-style-type: none"> <li>• The role and responsibilities of the chairman of the board and the chief executive officer are separate</li> <li>• The chief executive officer is not a member of the audit and risk committee or the nomination committee</li> <li>• The performance of the chief executive officer is monitored by the board and the remuneration committee</li> <li>• The company secretary is appointed by the board</li> <li>• The audit and risk committee reviews the company secretary's qualifications, competence and performance and provides recommendations to the board</li> <li>• All responsibilities delegated to management are reviewed and reported on to the relevant committees</li> </ul>  |

**GOVERNANCE OUTCOME: ADEQUATE AND EFFECTIVE CONTROL** continued

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| <p><b>PRINCIPLE 11: Risk and opportunity governance</b><br/>The governing body should govern risk in a way that supports the organisation in setting and achieving strategic objectives</p>   | <ul style="list-style-type: none"> <li>• The board oversees the Group's risk management process and is guided by the audit and risk committee</li> <li>• The risk management policy was reviewed in 2018 and again in 2020</li> <li>• The board monitors that operational and financial risks are consistent with the Group's risk philosophy and are within the Group's risk appetite</li> </ul>   |
| <p><b>PRINCIPLE 12: Information and technology (IT) governance</b><br/>The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives</p>   | <ul style="list-style-type: none"> <li>• IT governance is formally delegated to the audit and risk committee and is governed by the IT governance charter, which was independently reviewed in 2019</li> <li>• The IT steering committee is responsible for directing, controlling and measuring the IT activities and processes of the Group and keeps the board apprised of the Group's technology and information performance and requirements</li> <li>• The risk management process considers risks associated to IT</li> </ul>  |
| <p><b>PRINCIPLE 13: Compliance governance</b><br/>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</p>                         | <ul style="list-style-type: none"> <li>• The board has delegated compliance governance to the audit and risk committee</li> <li>• The board approves policies that give direction on compliance and ensures that adopted non-binding rules, codes and standards are aligned to applicable laws and regulations</li> <li>• The chief executive officer and financial director oversee the implementation and execution of compliance management</li> <li>• The compliance management policy was approved and implemented in 2021</li> </ul>  |
| <p><b>PRINCIPLE 14: Remuneration governance</b><br/>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</p>    | <ul style="list-style-type: none"> <li>• In 2019, the board and remuneration committee mandated an independent remuneration firm to review the Group's remuneration framework and policies</li> <li>• Formal engagement with shareholders on remuneration policies was undertaken</li> <li>• The remuneration policy and implementation report are reviewed annually by the remuneration committee and approved by the board</li> <li>• The remuneration policy and implementation report are disclosed in the integrated annual report and approved annually by the shareholders at the AGM</li> </ul>   |
| <p><b>PRINCIPLE 15: Assurance</b><br/>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> | <ul style="list-style-type: none"> <li>• The internal audit charter was independently reviewed in 2019</li> <li>• The external and internal audit plans are approved annually by the audit and risk committee and both follow a risk-based approach</li> <li>• The external and internal audit findings are monitored by the audit and risk committee</li> <li>• The external and internal audit functions contribute to combined assurance, thereby giving comfort of the Group's ability to achieve the objectives of an effective control environment and the integrity of its information and reports</li> <li>• The chief audit executive function is performed by the audit and risk committee under the leadership of the audit and risk committee chairperson, with this function's independence defined in the audit and risk committee charter</li> <li>• The audit and risk committee approved the appointment of an independent firm as the Group's internal auditor</li> </ul> |

**GOVERNANCE OUTCOME: TRUST, GOOD REPUTATION AND LEGITIMACY**

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| <p><b>PRINCIPLE 16: Stakeholders</b><br/>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> | <ul style="list-style-type: none"> <li>• Stakeholder relations are managed by the chief executive officer, the financial director and chief operations officer to ensure that an inclusive approach is followed in achieving the best outcomes for all stakeholders in the execution of the Group's strategy</li> <li>• The chairperson of the audit and risk committee and the designated partner of the external audit firm attend the AGM</li> <li>• At an operational level, stakeholder engagement is the responsibility of the general and human resources managers</li> <li>• The board approved the Group policy statement for stakeholder relationships and engagement and the Group policy statement for community development and CSI during November 2020</li> </ul> |
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