WESCOAL

WESCOAL HOLDINGS LIMITED KING III COMPLIANCE ANALYSIS 2017

As a regulated mining company, the application of the King III corporate governance principles the group's ability to operate. The company therefore strives to apply these principles.

1. *ETHICAL LEADERSHIP AND CORPORATE CITIZENSHIP*

1.1 The board should provide effective leadership based on an ethical foundation.

The Board is responsible for the development of the group's strategy and is continuously monitoring the execution thereof. Great emphasis is placed on operating in an ethical and sustainable manner to promote the long term interests of all stakeholders of the group and the board requires that all employees of the group act ethically at all times. The adherence to ethical values is also monitored by the social and ethics committee which is a statutory committee of the Board.

1.2 The board should ensure that the company is and is seen to be a responsible corporate citizen.

The Social and Ethics Committee of the board monitors the group's activities and the impact thereof on stakeholders and the environment. It strives to protect and invest in the well-being of the stakeholders in the business including the communities in which Wescoal operates and the environment.

1.3 The board should ensure that the company's ethics are managed effectively.

The board aims to ensure that the group's ethical standards are clearly articulated and supported as an integral part of conducting its business. Management is required to report on the group's activities in relation to the group's ethics at the Social and Ethics Committee of the board. The board continuously monitors the group's standard of ethical behavior and accountability by management and all employees of the group. Wescoal has introduced a whistle-blowing hotline, which is independently monitored by a service provider. Incidents reports are provided to the Social and Ethics Committee and the Audit and Risk Committee.

2. *BOARDS AND DIRECTORS*

2.1 The board should act as the focal point for and custodian of corporate governance.

The board assumes ultimate responsibility for compliance with the corporate governance principles as stipulated in the King Report. The charter of the board is based on these principles. The board meets at least once every quarter. The board provides a comprehensive corporate governance report to stakeholders its Integrated Report.

2.2 The board should appreciate that strategy, risk, performance and sustainability are inseparable.

The risk management policy is reviewed annually and monitored quarterly by the audit and risk committee. The risk management strategy takes cognizance of inherent risks of the group's business and the need to achieve sustainable outcomes.

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2.6 **The board should ensure that the company has an effective and independent audit committee.**

An effective and independent audit and risk committee is in place. The committee's charter outlines the roles, power, responsibilities and membership. See principle 3 below for more detail.

2.7 **The board should be responsible for the governance of risk.**

The audit and risk committee assists the board in executing its responsibilities in terms of the governance of risk. See principle 4 below for more detail.

2.8 **The board should be responsible for information technology (IT) governance.**

The board has assumed the responsibility for the governance of IT. (See principle 5 below for more detail)

2.9 **The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards.**

The audit and risk committee assists the board in ensuring that a relevant compliance framework is maintained and that applicable laws and regulations are complied with. Refer to principle 6 below for more detail.

2.10 **The board should ensure that there is an effective risk-based internal audit.**

An outsourced internal audit function has been put in place. Please see principle 7 below for more detail.

2.11 **The board should appreciate that stakeholders' perceptions affect the company's reputation.**

The board acknowledges the importance of the perception of its stakeholders on its reputation and continuously proposes initiatives on how to strengthen existing and build new relationships with key stakeholders. Please see principle 8 below for more detail.

2.12 **The board should ensure the integrity of the company's integrated report.**

The audit and risk committee of the board is delegated to approve the integrated report after satisfying itself with respect to the accuracy and integrity of the report. Please see principle 9 below for more detail.

2.13 **The board should report on the effectiveness of the company's system of internal controls.**

The audit and risk committee is responsible for monitoring the effectiveness of the company's system of internal controls. It reports to the board and its findings are summarized in the report of the chairperson of the audit committee in the group's integrated report. Please see principles 7 and 9 below for more details.

2.14 **The board and its directors should act in the best interests of the company. The board acts in the best interests of the group by aiming to ensure that each director:**

- Adhere to legal standards of conduct as set out in the Companies Act;
- Exercises their fiduciary duties with the best interest of the group at heart;
- Are permitted to take independent advice in connection with his or her duties following an agreed procedure;
- Disclose real or perceived conflicts to the board and deal with them accordingly;
- Deal in securities only in accordance with the policy adopted by the board;
- Are encouraged to attend all board and board committee meetings in an effort to better understand the business and to add benefit to the group.

2.15 **The board should consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the Act.**

The audit and risk committee of the group considers the "going concern" status of the group at each meeting (held quarterly) and receives a report from the external auditors on the "going concern" status of the group at financial year end.

2.16 **The board should elect a chairman of the board who is an independent non executive director.**

The CEO of the company does not also fulfill the role of chairman of the board. The Board acknowledges the Chairman Robinson Ramaite, to not be independent and appointed Teresita van Gaalen as lead independent non-executive director to strengthen the Board. The roles of the chairman of the board and the chief executive officer are separate and there is a clear division of responsibilities at the head of the company, which ensures a balance of power and authority, such that no one individual has unfettered powers of decision-making.

2.17 **The board should appoint the chief executive officer and establish a framework for the delegation of authority.**

The board is responsible for the appointment of the chief executive officer. A delegation of authority matrix has been approved by the board. The matrix describes specific levels of authority and required approvals for all major decisions at both group and business level. The matrix is evaluated and updated on a regular basis.

2.18 **The board should comprise a balance of power, with a majority of non-executive directors.**

The majority of non-executive directors should be independent. The board comprises eight directors. Five are non-executive directors and three are executive directors. The independence of the independent non-executive directors is assessed at least once a year by the board.

2.19 **Directors should be appointed through a formal process.**

The Remuneration and Nomination Committee assists the board with the assessment, recruitment and nomination of new directors. The board is responsible for appointing new directors and board members are invited to interview potential appointees. Shareholders approve the initial appointment of each new director at the first annual general meeting following that director's appointment. A third of the directors retire by rotation annually and, if eligible and available, their names are submitted for re-election at the annual general meeting.

2.20 **The induction of and ongoing training and development of directors should be conducted through formal processes.**

Directors attend director training programmes and are encouraged to remain abreast of major governance and regulatory developments.

2.21 **The board should be assisted by a competent, suitably qualified and experienced company secretary.**

The board is assisted by a competent, suitably qualified and experienced company secretary, who has an arms length relationship with the board.

2.22 **The evaluation of the board, its committees and the individual directors should be performed every year.**

Board and committee assessments are conducted annually. The chairman's assessment and chief executive's assessment are conducted by the board. The results of the evaluation are used to identify training and development needs for directors and action plans are put in place to address such needs.

2.23 **The board should delegate certain functions to well-structured committees but without abdicating its own responsibilities.**

The board has appointed the following committees to assist it in discharging its responsibilities:

- Audit and risk committee
- Social and ethics committee
- Remuneration and nominations committee
- Project and Investment Committee

Specific responsibilities have been delegated to the board committees and they operate under written terms of reference approved by the board. The board committees report back to the board regularly.

2.24 **A governance framework should be agreed between the group and its subsidiary boards.**

All subsidiaries apply the policies and procedures of the holding company.

2.25 **Companies should remunerate directors and executives fairly and responsibly.**

The board has approved a remuneration policy applicable to executive directors and senior management.

2.26 **Companies should disclose the remuneration of each individual director and certain senior executives.**

Non-executive and executive directors' remuneration are disclosed in the integrated report.

2.27 **Shareholders should approve the company's remuneration policy.**

The remuneration policy is tabled to shareholders at the annual general meeting for a non-binding advisory vote which is taken into consideration by the board when considering the company's remuneration policy and determining the remuneration of executive directors.

3. AUDIT COMMITTEE

3.1 **The board should ensure that the company has an effective and independent audit committee.**

The board appointed an audit and risk committee and approved the committee's charter. The committee meets at least four times a year and operates according to an approved structure and in terms of a board approved Charter.

3.2 **Audit committee members should be suitably skilled and experienced independent non-executive directors.**

The Committee comprises three independent non-executive directors who have the requisite financial and commercial skills and experience to contribute to the committee's deliberations.

3.3 **The audit committee should be chaired by an independent non-executive director**.

The audit and risk committee is chaired by Kabela Maroga. Kabela is an independent non-executive director and is a qualified chartered accountant. She participates actively in setting and agreeing the agenda for the committee's meetings.

3.4 **The audit committee should oversee integrated reporting.**

The audit and risk committee reviews and comments on the contents of the integrated report and also reviews the disclosure of sustainability issues therein to ensure that it is reliable. The committee also reviews interim and year-end financial results and recommends these for approval to the Board.

3.5 **The audit committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities.**

The audit and risk committee is provided with a thorough review of the group's assurance activities at each meeting. These reports include the principles of combined assurance through reports from management, internal and external audit. External auditor representatives attend every audit committee meeting.

3.6 **The audit committee should satisfy itself of the expertise, resources and experience of the company's finance function.**

The audit and risk committee considers the appropriateness of the expertise and experience of the chief financial officer on an annual basis and its opinion is noted in the annual financial statements.

3.7 **The audit committee should be responsible for overseeing of internal audit.**

An internal auditing consultant has been appointed to fulfill the internal auditing function within the company and to report to the audit and risk committee.

The consulting firm has unfettered access to the chairman of the committee and the other non-executive directors. The audit and risk committee will annually approve the internal audit plan and will monitor progress accordingly.

3.8 **The audit committee should be an integral component of the risk management process.**

The audit and risk committees has a dual role and is also responsible for the evaluation of the risk management process of the company. The committee specifically has oversight of financial reporting risks, internal financial controls, fraud risks and IT risks as it relates to financial reporting.

3.9 **The audit committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process.**

The audit and risk committee is responsible for recommending the appointment of the proposed external auditor to shareholders at the annual general meeting, based on an assessment of the firm and the individuals' qualifications, experience, resources, effectiveness and independence. The committee also considers the external audit plan and approves the audit fees. The external auditors regularly confirm their independence, which opinion is considered by the committee and reported on in the integrated report.

3.10 **The audit committee should report to the board and shareholders on how it has discharged its duties.**

The audit and risk committee meets at least four times a year and the chairman reports formally to the board on its proceedings after each meeting and attends the annual general meeting to respond to any questions from shareholders regarding the committee's areas of responsibility. A summary is also provided in the integrated report of the role, composition and activities of the audit committee. Specific feedback is provided to shareholders on how its duties were carried out, whether the committee is satisfied with the independence of the external auditors, the committee's view on the financial statements and the accounting practices and whether the internal financial controls are effective.

4. THE GOVERNANCE OF RISK

4.1 **The board should be responsible for the governance of risk.**

The board accepts responsibility for the governance of risk within the group.

4.2 **The board should determine the levels of risk tolerance**.

An appropriate enterprise risk management (ERM) system, developed for Wescoal and approved by the Board is currently being implemented.

4.3 **The risk committee or audit committee should assist the board in carrying out its risk responsibilities.**

The audit and risk committee oversees the group's risk management system. The committee meets at least four times a year. The committee reports back to the board regularly.

4.4 **The board should delegate to management the responsibility to design, implement and monitor the risk management plan.**

The board has mandated the audit and risk committee to oversee the design, implementation, maintenance and reporting of a sound risk management system.

4.5 **The board should ensure that risk assessments are performed on a continual basis.**

The groups' risk management profile and system forms part of the quarterly agenda of the audit and risk committee. Risks are also indirectly reported through reports of the chief risk officer and the head internal audit on a continual basis.

4.6 **The board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks.**

The board is aware of the importance of risk management and monitors the risk management plan in order to ensure that adequate frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks.

4.7 **The board should ensure that management considers and implements appropriate risk responses.**

The risk management strategy, currently being implemented, includes a report submitted to the audit and risk committee at every meeting, indicating actions taken and required to be taken to ensure that risk remains within a level acceptable to the board.

4.8 **The board should ensure continual risk monitoring by management.**

Management reports on its implementation of the risk management plan at every audit and risk committee meeting.

4.9 **The board should receive assurance regarding the effectiveness of the risk management process.**

Management reports to the audit and risk committee, responsible to monitor that the company's risks are managed effectively.

4.10 **The board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders.**

Any undue, unexpected or unusual risks and the audit and risk committee's view on the effectiveness of the risk management system are disclosed to shareholders in the integrated report.

5. THE GOVERNANCE OF INFORMATION TECHNOLOGY

5.1 **The board should be responsible for information technology (IT) governance.**

The board has assumed the responsibility for the governance of IT and monitors IT activities through the audit and risk committee.

5.2 **IT should be aligned with the performance and sustainability objectives of the company.**

The board recognizes the importance of aligning the company's IT strategy.

5.3 **The board should delegate to management the responsibility for the implementation of an IT governance framework.**

The executive committee is responsible for the design, implementation and operation of the structures and processes required for IT governance.

5.4 **The board should monitor and evaluate significant IT investments and expenditure.**

Where a significant IT project is undertaken, information is provided to the board to enable it to monitor and evaluate the project.

5.5 **IT should form an integral part of the company's risk management**.

The management of IT risk is included in the group's Risk Management

Framework, which is currently being reviewed. The board and management are fully alert to the vulnerability of the group's operations to the proper functioning of all key IT equipment and processes and the management of IT risk will receive special attention in the review of the Risk Management Framework.

5.6 **The board should ensure that information assets are managed effectively.**

The executive committee has been tasked with ensuring that information assets are managed effectively and will report thereon to the board.

5.7 **A risk committee and audit committee should assist the board in carrying out its IT responsibilities.**

The audit and risk committee plays an essential role in assisting the board with its IT responsibilities.

6. COMPLIANCE WITH LAWS, RULES, CODES AND STANDARDS

6.1 **The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards.**

The board is committed to complying with all legislation, regulations and best practices relevant to its business.

6.2 **The board and each individual director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the company and its business.**

Directors are encouraged to remain abreast of major governance and regulatory developments.

6.3 **Compliance risk should form an integral part of the company's risk management process.**

Compliance risk forms part of the groups' risk management plan and material compliance issues are reported to the board through the audit and risk committee.

6.4 **The board should delegate to management the implementation of an effective compliance framework and processes.**

Management is expected to implement and manage the code of ethics of the company and ensure that an effective legal compliance framework is in place.

7. INTERNAL AUDIT

7.1 **The board should ensure that there is an effective risk based internal audit.**

The internal auditing function has been outsourced to a consulting firm and the audit and risk committee is responsible to ensuring that the outsourced firm has the appropriate expertise and resources. The effectiveness of the internal audit function remains the responsibility of the committee with the aim of improving the systems of internal controls.

7.2 **Internal audit should follow a risk based approach to its plan.**

The internal auditing consulting firm prepares an internal audit plan which is considered and approved by the audit and risk committee. The plan will take into consideration a risk based approach to the identification of risks.

7.3 **Internal audit should provide a written assessment of the effectiveness of the company's system of internal controls and risk management.**

The audit and risk committee assesses the effectiveness of the group's internal financial controls and risk management and notes it findings in the company's Integrated Report.

7.4 **The audit committee should be responsible for overseeing internal audit**.

The audit committee will consider the internal audit plan and monitor the executing of the plan.

7.5 **Internal audit should be strategically positioned to achieve its objectives.**

The board is satisfied that the internal auditing consulting firm is able to maintain its independence and that the function is sufficiently independent. The internal auditing consulting firm is sufficiently skilled and has access to resources as is appropriate for the complexity and volume of work required to meet the assurance needs of the company.

8. GOVERNING STAKEHOLDER RELATIONSHIPS

8.1 **The board should appreciate that stakeholders' perceptions affect a company's reputation**.

The board acknowledges the importance of the perception of its stakeholders and continuously proposes initiatives on how to strengthen existing and build new relationships with key stakeholders.

8.2 **The board should delegate to management to proactively deal with stakeholder relationships.**

Management is delegated to pro-actively interact with its key stakeholders on a regular basis. Management reports back to the social and ethics committee on its stakeholder activities.

8.3 **The board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the company.**

The board appreciates the inherent conflict between the demands of the various stakeholders of the company and strives to achieve a position of sustainable compromise which balances the demands of all stakeholders.

8.4 **Companies should ensure the equitable treatment of shareholders.**

The board is careful to treat all shareholders equitably and strives to ensure that minority stakeholders are protected. The executive directors meet periodically with major institutional shareholders at their request but this does not preclude any other shareholder requesting a meeting with them.

8.5 **Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence**.

The Board is committed to strictly adhere to the JSE's Listing Requirements pertaining to disclosure in order to ensure fair treatment of its shareholders at all times.

8.6 **The board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible.**

An informal dispute resolution process is currently being revised and formalized to take clear recognition of the expanding stakeholder framework. There is a process to regulate the relationship with labour stakeholders, including dispute management. The policy will make provision for alternative dispute resolution (ADR) mechanisms and identify individuals to represent the company in these mechanisms. At the heart of this policy will be the intent to enable credible stakeholder advocacy within the framework of dispute resolution and managing conflict.

9. INTEGRATED REPORTING AND DISCLOSURE

9.1 **The board should ensure the integrity of the company's integrated report.**

The audit and risk committee annually approves the company's integrated report. The committee is careful to ensure that the report includes all the key matters and is a true reflection of the business and operations of the company.

9.2 **Sustainability reporting and disclosure should be integrated with the company's financial reporting.**

The board and specifically the audit and risk committee focuses closely on full and objective disclosure of all important aspects of its strategies, operations and financial performance in its integrated report. The report also includes commentary from the chairman of the board and the chairman of the audit and risk committee on the company's financial results.

9.3 **Sustainability reporting and disclosure should be independently assured**.

The integrated report is approved by the audit and risk committee. To date, the board has not considered it necessary to obtain independent assurance for sustainability reporting as it is comfortable with the accuracy of the sustainability reporting.