

# APPLICATION OF KING III CORPORATE GOVERNANCE PRINCIPLES 2016

This table is a useful reference to each of the King III principles and how, in broad terms, they have been applied by the Group.

KING III REFERENCE	KING III PRINCIPLE	APPLY	DO NOT APPLY	APPLICATION OF PRINCIPLE
<b>ETHICAL LEADERSHIP AND CORPORATE CITIZENSHIP</b>				
1.1	The board should provide effective leadership based on an ethical foundation	✓		All board members are bound by the code of good ethical conduct. Staff members are also bound by this and "ethics" is an item on the agenda of the social and ethics committee, which meets twice a year and performs its function on behalf of TFG as a whole.
1.2	The board should ensure that the company is, and is seen to be, a responsible corporate citizen	✓		TFG has a long history of focusing on corporate social responsibility. Being a responsible corporate citizen is an agenda item of the social and ethics committee. Refer to pages 109 to 115 of the Integrated Annual Report (IAR) for more information.
1.3	The board should ensure that the company's ethics are managed effectively	✓		The code of good ethical conduct was recently reviewed and approved by the social and ethics committee. At these committee meetings, reports are given as to the status of ethics in the business, including tip-offs made to the alert-line/whistle-blowing telephone facility. This is also included as an agenda item at the board risk committee meetings.
<b>BOARD AND DIRECTORS</b>				
2.1	The board should act as the focal point for, and custodian of, corporate governance	✓		The board of directors is the custodian of corporate governance for TFG and has adopted the principles in King III.
2.2	The board should appreciate that strategy, risk, performance and sustainability are inseparable	✓		The board has adopted a holistic view of sustainability, and in so doing, recognises that strategy, risk, performance and sustainability are inter-linked and inseparable. This broad view of sustainability is considered at social and ethics committee meetings. A sustainability overview report is published each year on TFG's website. This is in addition to sustainability being reported on in various parts of the IAR.
2.3	The board should provide for effective leadership based on an ethical foundation	✓		See principle 1.1 above
2.4	The board should ensure that the company is, and is seen as, a responsible corporate citizen	✓		See principle 1.2 above
2.5	The board should ensure that the company's ethics are managed effectively	✓		See principle 1.3 above
2.6	The board should ensure that the company has an effective and independent board audit committee	✓		See principle 3.1 below
2.7	The board should be responsible for the governance of risk	✓		See principle 4.1 below
2.8	The board should be responsible for information technology/IT governance	✓		See principle 5.1 below
2.9	The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards	✓		See principle 6.1 below
2.10	The board should ensure that there is an effective risk-based internal audit	✓		See principle 7.1 below

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2.11	The board should appreciate that stakeholders' perceptions affect the company's reputation	✓		See principle 8.1 below
2.12	The board should ensure the integrity of the company's integrated report	✓		See principle 9.1 below
2.13	The board should report on the effectiveness of the company's internal controls	✓		See chapter 7 and 9 principles below
2.14	The board and its directors should act in the best interests of the company	✓		The board and each director is aware of this requirement as found in the Companies Act and in common law. An annual disclosure request ensures that all directors are given an opportunity to disclose any potential conflicts of interest and at the start of each board meeting, directors are required to give any updates on, or changes to, their previous disclosures.
2.15	The board should consider business rescue proceedings or other turnaround mechanisms as soon as the company may be financially distressed as defined in the Company's Act	n/a		The board has not had to consider business rescue proceedings or turnaround mechanisms because the Group is not financially distressed. The board has ensured that the company complies with the solvency and liquidity test as found in section 4 of the Companies Act.
2.16	The board should elect a chairman of the board who is an independent non-executive director. The CEO of the company must not also fulfil the role of chairman of the board	✓		The chairman of the board, Mr M Lewis, is an independent non-executive director, meeting the King III requirements for independence. The CEO, Mr A D Murray, does not also fulfil the functions of the chairman, and as such the roles are kept separate.
2.17	The board should appoint the CEO and establish a framework for the delegation of authority	✓		The board has appointed a CEO (as stated above) who is responsible for overseeing the day-to-day management of TFG. The CEO's responsibilities are contained in the board charter.
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 a majority of non-executive directors who are also independent. Refer to pages 86 to 89 of the IAR.
2.19	Directors should be appointed through a formal process	✓		There is a formal process in place for the appointment of directors and this can be found at page 94 of the IAR.
2.20	The induction of, and ongoing training, as well as the development of directors should be conducted through a formal process	✓		There is an induction programme in place for new board directors and it is adjusted to meet the needs of the new appointee. The ongoing training needs of all directors are determined at the start of each calendar year and training sessions are arranged to fit-in with board and committee meeting schedules. Directors are free however to request training at any time in the year and site visits are also arranged.
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. This is assessed every year as part of the individual director, board and committee assessment process.
2.22	The evaluation of the board, its committees and individual directors should be performed every year	✓		Each individual director, the board and each committee forms part of an annual assessment process whereby directors are required to assess and give comment on the effectiveness of the board, its various committees, individual director performance, as well as an assessment of the company secretary as stated above. The chairman interviews each director after having received this feedback and feedback, with action points, is given at the following board meeting.

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2.23	The board should delegate certain functions to well-structured committees without abdicating from its own responsibilities	✓		The board has delegated certain functions to very well-structured and well-functioning committees, which report in to the board on matters falling within their mandates. Details of the committees can be found in the IAR, pages 95 to 99.
2.24	A governance framework should be agreed upon between the group and its subsidiary boards	✓		The board has a delegation of authority framework in place which considers subsidiary companies. The operating board is responsible for adopting and implementing corporate governance practices. The governance framework is continuously being reviewed to ensure that it is still appropriate given the changing landscape of governance and statutory regulations both in South Africa and internationally.
2.25	The company should remunerate directors and executives fairly	✓		In making decisions regarding remuneration, the remuneration committee considers the mix of remuneration components between base pay, short-term incentives and long-term incentives. The remuneration committee considers both executive and non-executive directors' remuneration every year and benchmarking exercises are carried-out to ensure that remuneration is market-related. At each AGM, a non-binding advisory vote is put to shareholders on TFG's remuneration policy. This year's policy may be found in the IAR at pages 119 to 137 as part of the remuneration report.
2.26	The company should disclose the remuneration of each individual director and prescribed officer	✓		Directors' and prescribed officers' remuneration are disclosed in the remuneration report and the Annual Financial Statements.
2.27	The shareholders should, by way of a non-advisory vote, approve the company's remuneration policy	✓		As stated above, the shareholders have a non-binding advisory vote on the remuneration policy at each AGM. At the last AGM, which was in 2016, the policy was approved as required.
<b>BOARD AUDIT COMMITTEE</b>				
3.1	The board should ensure that the company has an effective and independent board audit committee	✓		The board has ensured that TFG has an independent and effective board audit committee that performs the functions of all its subsidiaries. For further information on the board audit committee, refer to pages 97 and 103 to 109 of the IAR.
3.2	Board audit committee members should be suitably skilled and experienced independent non-executive directors	✓		All members are independent non-executive members. R Stein attends as an invitee.
3.3	The board audit committee should be chaired by an independent non-executive director	✓		The board audit committee is chaired by Mr S E Abrahams, an independent non-executive director.
3.4	The board audit committee should oversee integrated reporting	✓		The board audit committee members review the draft IAR and recommend its approval to the board. All directors of the board are also given a opportunity to review the draft IAR prior to its publication.
3.5	The board audit committee should ensure that a combined assurance model has been applied which provides a coordinated approach to all assurance activities	✓		A combined assurance model has been adopted and the board audit committee ensures that it obtains regular and comprehensive assurance from external audit, internal audit and/or management in relation to matters such as financial reporting, legal compliance, adequacy of internal controls and risk management processes.
3.6	The board audit committee should be satisfied with the expertise, resources and experience of the company's finance function	✓		The board audit committee assesses the finance function(s) within TFG every year and in particular, assesses the performance of the CFO. Further information on this can be found in the IAR at page 107.

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3.7	The board audit committee should oversee the internal audit function	✓		TFG's internal audit function reports to the board audit committee (which meets 3 times a year), with the head of internal audit attending all board audit committee meetings. Major internal audit findings are brought to the attention of the board audit committee and each year, the board audit committee approves the audit plan for the year ahead. Further information on this can be found in the IAR at page 104 and 105.
3.8	The board audit committee should be an integral component of the risk management process	✓		The board audit committee's first meeting of each calendar year focuses on significant risks to the business. At the 2 meetings thereafter, the main focus of the board audit committee is on financial risks, internal financial controls, financial reporting risks and any other risks that could affect TFG's financial position. To ensure that there is consistency of risk consideration and reporting, risks discussed at the board audit committee are brought to the attention of the board risk committee (many of its members are also members of the board audit committee).
3.9	The board audit committee should be responsible for recommending the appointment of the external auditor and overseeing the external audit process	✓		The board audit committee is responsible for recommending to the Shareholders the appointment of the external auditor as well as the designated partner each year, which is currently KPMG and Mr P Farrand respectively. In so doing, the board audit committee assesses the independence of the external auditor, non-audit fees and the external audit function. More on this is found in the IAR on pages 103 and 108.
3.10	The board audit committee should report to the board and shareholders as to how it has discharged its duties	✓		The board audit committee reports to the board at each supervisory board meeting held after a board audit committee meeting. This is in addition to including the minutes of all board audit committee meetings in the board meeting packs, thereby allowing directors the opportunity to ask questions. There is an extensive report-back in the IAR by the chairman of the board audit committee and it can be found at pages 103 to 108 of the IAR. At every AGM, the chairman of the board audit committee is available to answer questions from shareholders during the meeting.
<b>GOVERNANCE OF RISK</b>				
4.1	The board should be responsible for the governance of risk	✓		The board is responsible for the governance of risk for TFG and is assisted by the board risk committee in order to fulfil this risk oversight role.
4.2	The board should determine the levels of risk tolerance	✓		The board, initially via the board risk committee, determines the risk appetite of TFG and requires feedback from a dedicated enterprise risk management department to ensure that suitable risk mitigation measures are in place.
4.3	The board risk committee and/or board audit committee should assist the board in carrying out its risk responsibilities	✓		Together the board risk and board audit committees assist the board in carrying out its risk responsibilities.
4.4	The board should delegate to management the responsibility to design, implement and monitor the risk management plan	✓		Refer to comments on principle 4.1 and 4.2 above.
4.5	The board should ensure that risk assessments are performed on a continual basis	✓		Refer to comments on principle 4.2 above.

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4.6	The board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks	✓		The board, with the guidance of the board risk committee, ensures that there are frameworks in place as well as methodologies to ensure that TFG can anticipate unexpected or unpredictable risks. TFG's enterprise risk department has implemented new risk processes which are robust and investigative. For more information on this, refer to the risk report in the IAR at pages 116 to 118.
4.7	The board has ensured that management has considered and implemented appropriate risk responses	✓		TFG's enterprise risk management department reports to the board risk committee 5 times a year. Included on the agenda of these meetings, is whether management has considered and adopted appropriate risk responses. As above, please refer to pages 116 to 118 of the IAR.
4.8	The board has ensured the continual risk monitoring by management	✓		Risk is continuously monitored by management with each area of the business having its own documented risk assessments detailing (inter alia) key risks, mitigating measures, responsibility and risk ratings.
4.9	The board has received assurance regarding the effectiveness of the risk management process	✓		The board, via the board risk committee, receives input and guidance that the risk management process is operating effectively. Internally, and before each board risk committee meeting, a management risk committee meets; there is representation from all areas of the business and feedback is given on new risks, and ongoing significant risks.
4.10	The board has ensured that there are processes in place which enable complete, timely, relevant, accurate and accessible risk disclosure to stakeholders	✓		The IAR contains details of enterprise risk management within TFG. This can be found at pages 116 to 118 of the IAR.
<b>GOVERNANCE OF IT</b>				
5.1	The board should be responsible for IT governance	✓		The board reviews IT strategy every year at its strategic meetings and oversees IT governance, with guidance from the risk and board audit committees, an IT Steering Committee and TFG's chief information officer ("CIO"). The agenda of monthly operating board meetings includes IT and IT governance as a set agenda item. The IT function presents its annual strategy to the operating and supervisory boards.
5.2	IT should be aligned with the performance and sustainability objectives of the company	✓		IT spend and development is aligned with the performance and sustainability objectives of TFG. The operating board member who is responsible for IT is also the CIO, which ensures IT receives the necessary consideration from a sustainability point of view.
5.3	The board should delegate to management the responsibility for the implementation of an IT governance framework	✓		The board has delegated responsibility for an IT governance framework to the operating board and CIO (supported by an IT Steering Committee). Large IT projects are continuously monitored by senior management with report-backs being given at the monthly operating board meetings and at main board meetings, particularly where the expenditure falls within a certain level and thus main board oversight is required.
5.4	The board should monitor and evaluate significant IT investments and expenditure	✓		As stated above, the board and its operating board, receives feedback from the CIO and CEO on major IT investments and expenditure. As part of the board risk committee's agenda, IT gives assurance that TFG has suitable disaster recovery plans in place should a disaster occur.

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5.5	IT should be an integral part of the company's risk management plan	✓		TFG has an all encompassing enterprise risk management focus and IT is an integral part of this. This includes disaster recovery, protection of the privacy of employee and consumer data, security of TFG's IT infrastructure and the timeous access of stored data which includes ensuring the integrity thereof. Furthermore, cyber security is an ongoing agenda item.
5.6	The board should ensure that information assets are managed effectively	✓		The board, with the assistance of the board risk committee and the board audit committee ensures that information assets are managed effectively. As already stated, IT and IT governance are set agenda items at monthly operating board meetings. The internal audit department and enterprise risk management department in turn ensure that the internal controls and risk management of IT assets are entrenched in TFG's risk management processes.
5.7	A risk committee and board audit committee should assist the board in carrying out its IT responsibilities	✓		See 5.1 to 5.6 above

<b>COMPLIANCE WITH LAWS, RULES, CODES AND STANDARDS</b>				
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6.1	The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards	✓		Legislative compliance is managed by Head of Legal Compliance assisted by legal compliance officers; reports are given at each audit committee meeting and the legal compliance team is finalising its 3 year strategy plan, accompanied by its legal compliance monitoring programme for the ensuing calendar year. Ultimately however, it is the board that assumes overall responsibility for TFG's legal compliance, and based on the guidance of the Head of Legal Compliance, determines which non-binding rules, codes and standards TFG should (voluntarily) comply with.
6.2	The board and each individual director have a working understanding of the effect of applicable laws, rules, codes and standards on the company and its business	✓		The board is kept updated on applicable laws, rules, codes and standards by way of quarterly compliance packs forming part of meeting packs. The board audit committee is also kept updated on legislative developments via the standard agenda item, being a report-back by the Head of Legal Compliance on current legal compliance, legal compliance status, monitoring of legal compliance and a legislative radar of upcoming legislative developments.
6.3	Compliance risk should form an integral part of the company's risk management process	✓		Legal compliance forms an integral part of the enterprise risk management process, which includes identifying and rating legal compliance risks across TFG. For further information, refer to page 101 of the IAR.
6.4	The board should delegate to management the implementation of an effective compliance framework and processes	✓		The board audit committee approved a legal compliance policy when King III became operative and has approved updated versions thereof. In this policy, the board acknowledges that it must delegate to management the implementation of an effective compliance framework and processes. The legal compliance team assists management with this and performs monitoring to assess where there are any legal compliance areas that require management focus. Management is kept up-to-date with all legislative changes through various means, such as via daily alerts, legal compliance guidance and monitoring reports.

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<b>INTERNAL AUDIT</b>				
7.1	The board should ensure that there is an effective risk-based internal audit	✓		The board audit committee ensures that there is an effective risk-based internal audit department within TFG which is well staffed and has the technical skills to carry out its functions. The board audit committee reviews high risk internal audit findings and approves the annual internal audit plan.
7.2	Internal audit should follow a risk-based approach to its plan	✓		Internal audit follows a risk-based approach to its annual internal audit plan but does also receive input from other areas of the business before the plan is presented to the board audit committee for approval. This means that the annual internal audit plan also takes into account TFG's strategy.
7.3	Internal audit should provide a written assessment of the effectiveness of the company's system of internal controls and risk management	✓		Internal audit provides an annual written report to the board audit committee on the effectiveness of TFG's system of internal controls, particularly financial controls, and this enables the board audit committee to reach a decision on whether TFG's internal financial controls form a sound basis for the preparation of financial statements.
7.4	The board audit committee should be responsible for overseeing internal audit	✓		TFG's head of internal audit reports to the board audit committee and attends all board audit committee meetings, in addition to meeting with the chairman of the board audit committee on a regular basis to discuss matters relating to the internal audit department, its functioning, recent and emerging risks, internal controls and other related matters.
7.5	Internal audit should be strategically positioned to achieve its objectives	✓		It is important that internal audit is an independent department within TFG, thereby ensuring the veracity of its reports. Whilst the head of internal audit reports to the chairman of the board audit committee, this is a functional reporting line and the head of internal audit retains his independence and objectivity. The board audit committee regularly reviews the resource capacity of internal audit to ensure that it can carry-out its functions within TFG.

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<b>GOVERNING STAKEHOLDER RELATIONSHIPS</b>				
8.1	The board should appreciate that stakeholders' perceptions affect a company's reputation	✓		The board recognises that perceptions of its key stakeholders can impact on the Group's reputation and further acknowledges the importance of proactive engagement. "Reputation" is an agenda item of the social and ethics committee, and this committee receives feedback on matters that could affect TFG's reputation both positively and negatively.
8.2	Pro-actively dealing with stakeholder relationships should be delegated by the board to management	✓		A list of all stakeholders is found in the IAR on page 40. Senior management engages with these key stakeholders and the approach is based on the principle of shared value.
8.3	The board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the company.	✓		The legitimate interests of all stakeholders are taken into account by TFG, thereby ensuring an appropriate balance between stakeholders.
8.4	Companies should ensure the equitable treatment of shareholders	✓		In compliance with its memorandum of incorporation, the JSE's listings requirements and the Companies Act, the board treats all shareholders equally.
8.5	Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence	✓		TFG believes that its communications with stakeholders are responsible and appropriate.
8.6	The board should ensure that disputes are resolved effectively and expeditiously as possible	✓		The board encourages management to resolve disputes with stakeholders in an effective and reasonable manner. Although there is no formal external dispute resolution process in place, disputes are dealt with on a case by case basis. Disputes with employees are subject to a formal process.
<b>INTEGRATED REPORTING AND DISCLOSURE</b>				
9.1	The board should ensure the integrity of the company's integrated report	✓		The board, assisted by the board audit committee, reviews the IAR before it is published and ensures that it fairly represents the performance of TFG.
9.2	Sustainability reporting and disclosure should be integrated with the company's financial reporting	✓		Sustainability is dealt with in the IAR under various appropriate headings. A separate sustainability overview report is on the Group's website.
9.3	Sustainability reporting and disclosure should be independently assured		✓	The financial statements are independently assured. At this stage, the board audit committee does not believe that independent assurance on sustainability will provide significant benefit to stakeholders. Sustainability is dealt with in the IAR under appropriate headings. A separate sustainability overview report is on the group's website.