

Sovereign Food Investments Limited

Supplementary Governance Information: Integrated Report 2017

Levels of Compliance: King III Principles

Executive Summary

The King III Code of Good Corporate Governance requires that companies apply the principles or explain why they do not. In addition the JSE Listings Requirements have made some of the King III principles compulsory and requires that issuers provide a summary of their level of compliance with each of the principles. A full summary of the company's level of compliance is provided in the second part of this report.

The Company is largely compliant with the King III principles and this section provides a summary of the principles which require an explanation in terms of the King III Report.

The full commentary on each of the King III principles is set out in the relevant sections in the report that follows this summary.

Below is a summary of the two principles which the company needs to provide an explanation. None of these principles falls within the JSE's schedule of compulsory compliance.

Principle	Explanation
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5.3	The board should delegate to management the responsibility for the implementation of an IT governance framework
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Of the four elements listed under this principle the company does not comply with the two relating to the appointment of a CIO and the company has adopted the "explain" principle, to clarify its position:

The CFO is currently managing the IT process, as the CIO position is vacant. He has the backing of a strong IT support team, which reports to him. The IT function is closely monitored by the Audit and Risk Committee and the possible appointment of a CIO has been considered. However, it has been decided that the company does not functionally require a CIO at this stage and the matter will be reviewed annually.

9.3	The Audit & Risk Committee should be responsible for overseeing internal audit
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Of the three elements listed under this principle the company does not comply with the one relating to the audit committee overseeing the provision of assurance over sustainability issues and the company has adopted the "explain" principle, to clarify its position:

The requirement of the King III Report which states that an independent assurance over sustainability issues be done was considered. This was not regarded as a priority due to the fact that the sustainability issues were reviewed by the non-executive directors and internal audit.

Sovereign Food Investments Limited
Supplementary Governance Information: Integrated Report 2017
Levels of Compliance: King III Principles

No	Principles	% Compliant	Comment
1.	Ethical leadership and corporate citizenship		
	Responsible Leadership		
1.1	The board should provide effective leadership based on an ethical foundation	100%	<p>The Sovereign Board places a strong emphasis on operating as a responsible corporate citizen and takes the view that working within an ethical corporate environment underpins sound corporate governance.</p> <p>The board sets the tone for the executive committee (Exco) and staff to act ethically and reviews the Code of Ethics annually.</p> <p>The Board and its Executive Committee are committed to a strategy that ensures on-going sustainable business practices, which are driven by our core values. This is demonstrated in the 2015 Integrated Report.</p> <p>The Social and Ethics Committee is tasked with the oversight of ethical practices.</p>
1.2	The board should ensure that the company is and is seen to be a responsible corporate citizen.	100%	The conduct of the Board is governed by the Code of Ethics, Environmental Policy and Risk Policy. The Social and Ethics Committee monitors Sovereign's progress against the certain key measures and reports to the board three times a year.
1.3	The Board should ensure that the company's ethics are managed effectively.	100%	<p>Sovereign is committed to the highest standards of honesty, integrity and fairness. This is ensured through the following practices and standards:</p> <ul style="list-style-type: none"> ▪ The Social and Ethics Committee's is operational and: <ul style="list-style-type: none"> ○ has a charter that is reviewed annually, and ○ monitors the company's adherence to ethical practices, and ○ has developed and maintains a score card that measures the company's adherence to ethical standards. ▪ The following key policies and practices are in place: <ul style="list-style-type: none"> ○ Code of ethics ○ Whistleblowing policy and hotline ○ Supplier Code of Practice ○ Gifts policy and register ○ Share trading policy ▪ Fraud investigations are conducted when necessary. ▪ Considering fraud-related risks during the annual risk assessment review ▪ Anti-fraud and corruption awareness campaigns have been held. ▪ Internal audit covers fraud investigation in its planning schedule
Subtotal		100%	

No	Principles	% Compliant	Comment
2.	Boards and Directors		
	Role and function of the Board	100%	
2.1	The board should act as the focal point for and custodian of corporate governance.	100%	The Board Charter specifically emphasises this responsibility to maintain an appropriate corporate governance framework and the Board acts accordingly. The board is intimately involved in all governance matters through on-going monitoring, reviews and involvement.
2.2	The board should accept that strategy, risk, performance and sustainability are inseparable.	100%	The annual strategy and business planning sessions provide all divisional heads with the opportunity to incorporate key strategic issues in the Group's Strategy Document. The Board is involved in the strategy review sessions and has insight into and understanding of the interaction of risk, performance and sustainability.
2.3	The Board should provide effective leadership based on an ethical foundation.	100%	Refer principle 1.1 and 1.3
2.4	The board should ensure that the company is and is seen to be a responsible corporate citizen.	100%	Refer principle 1.2
2.5	The board should ensure that the company's ethics are managed effectively.	100%	Refer principle 1.1 and 1.3
2.6	The board should ensure that the company has an effective and independent Audit & Risk Committee.	100%	The Company has an independent audit committee and the Board monitors the effectiveness of this committee. Refer principle 3.1
2.7	The board should be responsible for the governance of risk.	100%	The board is ultimately accountable for risk and with the assistance of the Audit and Risk Committee oversees and monitors risk within the group. Refer principle 4.1
2.8	The board should be responsible for information technology (IT) governance.	100%	The board is ultimately accountable for the governance of information technology (IT) and with the help the Audit and Risk Committee, oversees and monitors the governance of IT in the group. Refer principle 5.1
2.9	The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	100%	Refer principle 6.1
2.10	The board should ensure that there is an effective risk based audit.	100%	Refer principle 7.1
2.11	The board should appreciate that stakeholder' perceptions affect the company's reputation.	100%	Refer principle 8.1
2.12	The board should ensure the integrity of the company's integrated report	100%	Refer principle 9.1
2.13	The board should report on the effectiveness of the company's system of internal controls	100%	The Audit & Risk Committee provides the Board with the assurance on the systems and the effectiveness of internal controls. Refer principle 7.3
2.14	The board and its directors should act in the best interest of the	100%	The Sovereign board acts in the best interest of the company and the standards are set out in the Non-Executive

No	Principles	% Compliant	Comment
	company.		Director Policy. At all meetings the directors are given the opportunity to declare their interests in the company. The Company has a Share Trading Policy that applies to all directors and to staff.
2.15	The board should consider business rescue proceedings or other turnaround mechanism as soon as the company is financially distressed as defined in the Act.	100%	The Audit & Risk Committee and the Board reviews the solvency and liquidity of the group and subsidiaries at every meeting and will take corrective action if deemed necessary. During the year, the Group met the solvency and liquidity test each time it was performed.
2.16	The board should elect a chairman of the board who is an independent non-executive director. The CEO of the company should not also fulfil the role of the chairman of the board	100%	The Non-Executive Chairman, Mr T Pritchard, is an independent non-executive director and the CEO is Mr C Coombes.
2.17	The board should appoint the chief executive officer and establish a frame work for the delegation of authority.	100%	Mr C Coombes was appointed CEO on 1 June 2012. The role, responsibility and authority of the CEO have been established by the Board. The Board Charter indicates that the role of the Chairman and CEO shall be separate.
2.18	The board should compromise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent.	100%	The Sovereign board structure, currently comprising: <ul style="list-style-type: none"> ▪ Three independent non-executive directors ▪ Two executive directors, being the CEO the CFO. The principles of King III and the JSE Listings Requirements are used to assess the status of directors, All decisions taken by the Board are by consensus and the Chairman does not have a casting vote. The external board assessment conducted in 2017 and discussed under principle 2.22 also reaffirmed that no director has unfettered powers.
	Board appointment process		
2.19	Directors should be appointed through a formal process	100%	The HR and Remuneration Committee (Remcom) has been assigned the function of the Nomination Committee by the Board and is responsible for identifying suitable candidates as independent non-executive directors to be proposed to shareholders for approval. The Nomination Committee responsibilities of Remcom are detailed in its Charter and in the Sovereign Food Investments Limited Non-Executive Directors Policy.
	Director development and development of directors should be conducted through formal processes	100%	
2.20	The induction of an on-going training and development and training of directors should be conducted through formal processes.	100%	A formal induction programme has been developed. The on-going training of non-executive directors though formal processes has not been formalised, but training programmes are held periodically.
	Company Secretary		
2.21	The board should be assisted by a competent, suitably qualified and experienced company secretary.	100%	The board selects and appoints the group company secretary and recognises the important role this individual plays in entrenching good corporate governance. All directors have access to the advice and services of the group company secretary. The Board has an established procedure for directors to obtain independent professional advice at the group's cost. The group company secretary assists directors, board committees and their members in obtaining professional advice. Mr ME Hoppe was appointed group company secretary on 1 May 2011. He is not a director of the company. The

No	Principles	% Compliant	Comment
			Board is satisfied that its relationship with the company secretary maintains an arm's length relationship with the Board. In line with the Listings Requirements, an assessment was conducted by the board to satisfy itself of the competence, qualifications and experience of the group company secretary.
	Performance assessment		
2.22	The evaluation of the board, its committees and the individual directors should be performed every year.	100%	The Board has decided that it will conduct two-yearly reviews of the performance of the directors and the committees. An internal assessment was conducted in January 2017. No material issues requiring the attention of the Board were identified by the survey. The Board and each of its committees' has a charter and these are reviewed annually.
	Board committees		
2.23	The board should delegate certain functions to well-structured committees but without abdicating its own responsibilities.	100%	The various committees assist the Board in executing its duties, powers and authorities. The board delegates the required authority to enable each committee to fulfil its functions through formal charters that are approved by the Board and which are reviewed annually. Each committee has a detailed annual agenda to ensure that all matters within their delegated mandate are dealt with. Delegating authority to board committees or management, other than the specific matters for which the Audit & Risk Committee carries ultimate accountability in terms of the Companies Act, does not mitigate or discharge the board and its directors of their duties and responsibilities and the board fully acknowledges this fact in its Charter. The committee chairmen report on committee deliberations and key issues at each board meeting and the minutes of all committee meetings are included in board meeting documentation. The Board committees include: <ul style="list-style-type: none"> ▪ Audit and Risk Committee: 3 meetings a year ▪ HR and Remuneration Committee: 2 meetings a year ▪ Social and Ethics Committee: 2 meetings a year ▪ Nominations Committee: As required, but a minimum of 1a year Reports on the structure and functions of each committee are contained in the Integrated Report.
	Group Boards		
2.24	The governance framework should be agreed between the board and its subsidiary boards	100%	The way the company is structured none of the subsidiaries operate independently of the Sovereign Board and all major decisions are ultimately made by the Board. All policies are group wide policies and are applicable to all subsidiaries.
	Remuneration of directors and senior executives		
2.25	Companies should remunerate directors and executives fairly and responsibly.	100%	The determination of the NED fees are based on the King III recommendations: <ul style="list-style-type: none"> ▪ Fees comprise a base fee and an attendance fee per meeting. ▪ Although permitted by the Act, non-executive directors should not receive share options or other incentive awards geared to share price or corporate performance. ▪ Non-executive directors' fees are approved by shareholders in advance. ▪ The company provides full disclosure of each individual executive and non-executive director's remuneration in the annual financial statements. The new NED Fee Policy was approved by shareholders at the general meeting of shareholders dated 14

No	Principles	% Compliant	Comment
			January 2016. Although the NED Fee Policy, as approved, remains applicable for a period of 3 years following the initial shareholder approval (i.e. 14 January 2016), it remains subject to shareholder approval every 2 years, in accordance with section 66(9) of the Companies Act. The company's Executive Remuneration Policy is included in the Integrated Report
2.26	Companies should disclose the remuneration of each individual director and prescribed officer.	100%	The remuneration of each director and prescribed officer is disclosed in the annual financial statements.
2.27	Shareholders should approve the company's remuneration policy.	100%	At the 2016 annual general meeting, 91.03% of shareholders who voted, voted in favour of the remuneration policy by means of a non-binding advisory vote
Subtotal		100%	
3. Audit & Risk Committees			
3.1	The board should ensure that the company has an effective and independent Audit & Risk Committee	100%	The Audit & Risk Committee consists of three independent non-executive directors and the chairman of the board is not a member of the Audit & Risk Committee. Also refer principle 2.23. The Audit & Risk Committee operates in accordance with the statutory duties imposed by the Companies Act, the JSE Listings Requirements, and in line with the terms of its Charter, which incorporate King III principles, and duties specifically delegated by the board of directors Minutes of meetings are submitted to the board and the Audit & Risk Committee chairman reports on each of its four meetings at board meetings.
	Membership and resources of the audit committee		
3.2	Audit & Risk Committee members should be suitably skilled and experienced independent non-executive directors.	100%	All three members are independent non-executive directors. The Audit & Risk Committee members meet the academic qualifications and experience requirements stipulated in regulation 42 of the Companies Regulations, 2011. See page 18 of the integrated report for summaries of the CVs of the members of the committee.
3.3	The Audit & Risk Committee should be chaired by an independent non-executive director	100%	The chairman, Mr John Bester, is an independent non-executive director.
	The responsibilities of the audit committee		
3.4	The Audit & Risk Committee should oversee integrated reporting.	100%	The board has assigned the responsibility to oversee integrated reporting to the Audit & Risk Committee. The committee also has a mandate to govern company performance on risk and sustainability in general. All reports are reviewed by the Audit & Risk Committee prior to be submitted to the board for approval. This includes: <ul style="list-style-type: none"> ▪ Annual financial statements ▪ Disclosures ▪ Sustainability issues ▪ Integrated report ▪ Interim reports The auditors review all financial reports that are included in the integrated report.
3.5	The Audit & Risk Committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance	100%	The company has assurance assessments done by a variety of service providers. These relate to annual audit, risk, health and safety insurance, business interruption, food safety.

No	Principles	% Compliant	Comment
	activities.		All assessments are reviewed by the Audit and Risk Committee.
	Internal assurance providers		
3.6	The Audit & Risk Committee should satisfy itself of the expertise, resources and experience of the company's finance function.	100%	The Audit & Risk Committee meets annually with the auditors, independently of management, to satisfy itself of that the finance department has the expertise, resources and experience to effectively fulfil its functions. This includes a review of the competency of the CFO.
3.7	The Audit & Risk Committee should be responsible for overseeing of internal audit.	100%	As detailed in the Audit & Risk Committee Charter, the board has specifically assigned this responsibility to this committee. The committee was involved in the appointment of the Internal Auditor. The audit plan is approved by the committee and the internal auditor submits a detailed report at each meeting of the Audit and Risk Committee. The Audit and Risk Committee Charter provides for an independent quality review of the internal audit function to be done every three years
3.8	The Audit & Risk Committee should be an integral component of the risk management process.	100%	The Board has assigned responsibility for risk to the Audit & Risk Committee. This is set out in the committee's charter. The committee reviews the company's top Risks at each meeting and once a year conducts a full risk review meeting, with all management being present. The Audit and Risk Committee also ensures that the Internal Audit Department to develop a 12-month rolling audit plan using a risk-based methodology, taking into consideration specific regulatory requirements pertaining to internal audit, as well as including any risks or control concerns identified by management and the board. The key functions of the Internal Audit are to assist the board in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied within the group in the day-to-day management of its business; and In addition the Audit and Risk Committee monitors the creation and maintenance of an effective internal control environment throughout Sovereign and that management demonstrates and stimulates the necessary respect for this. It also monitors the identification of weaknesses and breakdown of systems and internal controls.
	External assurance providers		
3.9	The Audit & Risk Committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process	100%	The Audit & Risk Committee was responsible for the appointment of Deloitte, the current auditors. At the first meeting of every year, the Audit & Risk Committee reviews the audit plan and approves the audit fee. The committee also assesses the suitability of the external auditor for reappointment and makes such a recommendation to shareholders at the annual general meeting. The external auditor submits detailed reports to the committee after the annual audit. The committee meets independently with external audit once a year without management present.
3.10	The Audit & Risk Committee should report to the board and shareholders on how it has discharged its duties	100%	The Report of the Audit & Risk Committee is included in the integrated report and the committee chairman is present at the annual general meeting to respond to questions.
Subtotal		100%	

No	Principles	% Compliant	Comment
4.	Governance of Risk		
	The board's responsibility for risk governance		
4.1	The board should be responsible for the governance of risk	100%	The board has delegated responsibility for risk to the Audit & Risk Committee, but it retains accountability for risk governance. The Audit & Risk Committee reviews the risk matrix of the company once a year and reports back to the Board on its conclusions. The company's risk matrix framework sets out all the major risks confronting the company. The Board reviews the risk matrix and approves top Risks, which are closely monitored.
4.2	The board should determine the level of risk tolerance.	100%	The Board, on the recommendation of the Audit and Risk Committee sets the risk limits and monitors the key risks, to ensure that they are within the tolerance levels.
4.3	The risk committee or Audit & Risk Committee should assist the board in carrying out its risks responsibilities	100%	The Audit and Risk Committee assists the Board in carrying out its risk responsibilities. In addition the executive management is committed to the management and identification of risks within the company and provides regular feedback on the key risks to the Audit and Risk Committee and receives feedback from the Committee from the CEO.
	Management's responsibility for risk management		
4.4	The board should delegate to management the responsibility to design; implemented and monitor the risk management plan.	100%	The Executive Committee is responsible for identifying the key risk and drafting the risk plan and presenting it to the Audit and Risk Committee and the Board for review and approval. Risk is managed on an on-going basis by the Exco, which also conducts quarterly reviews of the total risk matrix.
	Risk assessment		
4.5	The board should ensure that risk assessment are performed on a continual basis.	100%	Formal risk assessments are conducted at least once a year at all business units in line with the detailed enterprise risk management framework. These assessments are done by external consultants and by senior management. Reports on the assessments are reviewed by the Audit and Risk Committee and the Board.
4.6	The board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks.	100%	The risk identification process seeks to identify all possible risks and also determines the actions needed to mitigate the impact of these risks.
4.7	The board should ensure that management considers and implements appropriate risk responses.	100%	All risks are weighted and rated and the high level risks are prioritised into key focus areas. The company is has drafted Business Interruption Plans, for the hatchery and the abattoir and process plant. Although the board has delegated the responsibility for risk management, it reviews the top Risks and responses at least once a year and considers these in detail at the annual strategic planning session
	Risk monitoring		
4.8	The board should ensure continual risk monitoring by management.	100%	See principle 4.4. The risk plan sets out the management responsibility for monitoring risk.

No	Principles	% Compliant	Comment
	Risk assurance		
4.9	The board should receive assurance regarding the effectiveness of the risk management process.	100%	Periodic assessments of the major risks is done by independent risk assessors and presented to the Audit and Risk Committee and the Board for review.
	Risk disclosure		
4.10	The board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders.	100%	The key enterprise risks are disclosed in the Integrated Report. Where required significant issues will be disclosed in media reports and on the JSE Securities Exchange News Service (SENS) throughout the year.
Subtotal		100%	
5. The governance of information technology			
5.1	The board should be responsible for information technology (IT) governance	100%	The board has delegated responsibility for information technology to the Audit and Risk Committee, but retains overall accountability. The Audit and Risk Committee reports back to the Board on IT governance issues. An IT Charter, aligned to the King III has been implemented.
5.2	IT should be aligned with the performance and sustainability objectives of the company.	100%	The IT strategy process incorporates an assessment of IT assets, application roadmaps and infrastructure roadmaps (these incorporate anticipated technology changes and strategies). The IT Strategic Plan is tabled, discussed and approved annually by the Executive Committee The IT Strategy is reviewed by the Audit and Risk Committee and by the Board.
5.3	The board should delegate to management the responsibility for the implementation of an IT governance framework.	50.0%	Management has the responsibility for the management of IT and the governance framework includes: <ul style="list-style-type: none"> IT Steering Committee comprising members of the Exco has been formed to monitor and manage IT governance. The committee meets quarterly and submits its reports to the Audit & Risk Committee for information and review; IT policies and procedures regulate the management of all IT functions; relevant standards and processes that are subject to audits, reviews and benchmarks. <p>Explanation: The CFO is currently managing the IT process, as the CIO position is vacant. He has the backing of a strong IT support team, which reports to him, The IT function is closely monitored by the Audit and Risk Committee and the possible appointment of a CIO has been considered. However, it has been decided that the company does not functionally require a CIO at this stage and the matter will be reviewed annually.</p>
5.4	The board should monitor and evaluate significant IT investments and expenditure.	100%	All IT acquisitions fall within the same capital approval processes as other capex projects and would thus, based on value, be submitted to the board for approval. The IT Steering Committee agenda includes operational feedback, benchmark results, project feedback, project finance, risk, strategy and outsourcing. The IT department has been subjected to independent external audits, where its controls have been found to be generally effective and where necessary corrective action has been taken
5.5	IT should form an integral part of the company's risk management	100%	IT is closely monitored by the Audit and Risk Committee and is included in the Risk Matrix. The IT department has formalised disaster recovery in place to ensure the minimum disruption in the event of

No	Principles	% Compliant	Comment
			disaster. The disaster recovery back-up are kept in facilities away from the main servers.
5.6	The board should ensure that information assets are managed effectively	100%	<p>The IT Steering Committee approves the IT policies and procedures and reviews these on an annual basis. Key aspects of the management of IT assets include:</p> <ul style="list-style-type: none"> ▪ A detailed IT asset register is maintained, ▪ Licencing agreements are in place for all software, ▪ An information security management is maintained, (authorities, password protection, firewalls), ▪ A disaster recovery system is in place ▪ Back-ups are kept away from the IT servers <p>The Internal Auditor will include any key IT audit issues raised in its reports.</p>
5.7	A risk committee and Audit & Risk Committee should assist the board in carrying IT responsibility	100%	The Audit and Risk Committee has been delegated the function of assisting the Board with IT governance.
Subtotal		91.7%	
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	100%	<p>The Board Charter and the Risk Policy requires compliance with the applicable laws, regulations and governance standards in all areas in which the company operates.</p> <p>The day to day monitoring of compliance is done via business units and reports submitted to the Executive Committee and where applicable to the Audit and Risk Committee and the Board. This will include:</p> <ul style="list-style-type: none"> ▪ Food safety legislation, ▪ HACCP Audit, ▪ SARS legislation, ▪ IFRS standards, ▪ Annual Competition Act declaration, ▪ Consumer protection (Consumer protection laws and export rating) ▪ Labour law compliance, ▪ Environmental legislation, ▪ Bird welfare policy, ▪ BBBEE compliance, ▪ NOSA health and safety audits, ▪ Companies Act and regulations, ▪ JSE Listing Requirements. <p>The board applies King III principles and compliance is reviewed annually via a report prepared by the company secretary</p>
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.	100%	<p>Information on laws, rules, codes and standards are shared with directors when required.</p> <p>The induction programme has been upgraded to address the applicable laws, rules, codes and standards. However, on-going training is implemented for executive directors and where relevant, details of new legislation are circulated to all directors. Non-executive directors are represented on a number of boards and get training from a number of other sources as well and are all well versed in the applicable rules, codes and standards.</p>

No	Principles	% Compliant	Comment
6.3	Compliance risk should form an integral part of the company's risk management process	100%	Compliance risk is included in the company's overall risk universe matrix. The Group Legal Counsel maintains a broad oversight over issues of compliance.
6.4	The board should delegate to management the implementation of a effective compliance framework and processes	100%	The company has established a Legal Compliance Matrix, which demonstrates its compliance with various laws and highlights the level of risk to the company, for non-compliance with each piece of legislation. For all high level risks, schedules/ checklists are being compiled of the key provisions issues to ensure full compliance. The list is reviewed by the Audit and Risk Committee
Subtotal		100%	
7. Internal audit			
7.1	The need for and role of internal audit		
	The board should ensure that there is an effective risk based internal audit.	100%	<p>The Group has an established internal audit department consisting of the Chief Audit Executive (CAE) and an audit assistant. The purpose of the Internal Audit Department is to provide the Board of Directors with an objective assurance that the governance processes, management of risk and systems of internal control are adequate and effective to mitigate significant risks, both current and emerging that threaten the achievement of the Groups objectives.</p> <p>Internal audit is approved by the Audit & Risk Committee and focusses on all the issues set out in the King III Report. The Internal Audit Charter provides for the internal audit function to adhere to the IIA Standards and Code of Ethics.</p> <p>Previously there was little focus on the evaluation of the company's governance processes, but this is now included in the internal audit plan and will be further developed as required.</p>
	Internal audit's approach and plan		
7.2	Internal audit should follow a risk based approach to its plan	100%	<p>The scope of the Internal Audit is to determine whether the group's systems of internal control, risk management and governance as designed by management are adequate and effective.</p> <p>The Internal Audit plan has a 12 month horizon using a risk based methodology, taking into consideration the regulatory requirement relating to internal audit, as well as including any risks or control concerns identified by management and the board.</p> <p>The internal audit plan is approved by the Audit & Risk Committee.</p>
7.3	Internal audit should provide a written assessment of the effectiveness of the company's system of internal controls and risk management	100%	<p>The Internal Audit Department provides detailed reports of its findings and recommendations to management and to every meeting of the Audit & Risk Committee. The Audit & Risk Committee in turn provides feedback to the Board on the internal audit function.</p> <p>The Audit & Risk Committee approved the appointment of the CAE and has satisfied itself about the qualifications and competencies of the CAE to fulfil this function.</p>
7.4	The Audit & Risk Committee should be responsible for overseeing internal audit	100%	<p>The Audit and Risk Committee is responsible for monitoring the effectiveness of the internal audit function in terms of its scope, plans, coverage, independence, skills, staffing and overall performance. The Audit & Risk Committee will arrange for an independent quality review of the internal audit function to be conducted, when it is deemed necessary.</p> <p>Provision has been made in the Audit and Risk Committee Charter for this review to be done every three years. The next review will be conducted during 2018.</p>

No	Principles	% Compliant	Comment
	Internal audit's status in the company		
7.5	Internal audit should be strategically positioned to achieve its objectives.	100%	<p>To ensure the independence of the internal audit function the Internal Auditor reports functionally to the Audit and Risk Committee Chairman and administratively to the CFO. The CEO reviews all the high level audit issues.</p> <p>The internal auditor and staff are:</p> <ul style="list-style-type: none"> ▪ authorised to have unrestricted access to all functions, records, property and staff in the course of fulfilling their responsibilities. This will be subject to confidentiality of information and in some cases the access may be restricted to the Internal Auditor; ▪ invited to attend all meetings of the Audit and Risk Committee; ▪ authorised to determine scope of work and apply the techniques needed to accomplish the internal audit objectives; and ▪ able to obtain the assistance of staff in the divisions when conducting audits. <p>The Internal Auditor will as part of the internal audit process maintain a quality assurance and improvement programme.</p>
Subtotal		100%	
8.	Governance stakeholders relationship		
	Stakeholder relations		
8.1	The board should appreciate that stakeholders' perceptions affect a company's reputation	100%	<p>The Board Charter specifically acknowledges the importance the Board attaches to stakeholder relationships and all key stakeholders and stakeholder groups have been identified.</p> <p>Shareholders' perceptions are closely managed and a report on all stakeholder issues is considered at every meeting of the Board.</p> <p>Feedback is given on the annual and interim results and feedback on the investor road shows are presented to the board.</p> <p>Sovereign's relative share price, market capitalisation and net asset value graphs, shareholders analysis, strategic insight and peer comparisons are also discussed in the Quarterly Shareholder Report that is prepared by the sponsors, One Capital.</p> <p>The integrated report is viewed and discussed at board level and this includes stakeholder engagements.</p>
8.2	The board should delegate to management to proactively deal with stakeholders relationships	100%	<p>Sovereign strives to engage openly and proactively with stakeholders and mechanisms and processes are in place for constructive communication with investors, analysts, potential investors and other stakeholders.</p> <p>All the key stakeholders have been identified and management provides the board with feedback and reports on engagement with its various stakeholders.</p> <p>Members of the board are present at the AGM, where shareholders are present.</p>
8.3	The board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the company	100%	<p>Sovereign has identified its stakeholder groups and appropriate management have been assigned to manage relationships with stakeholders. The intention is to promote two-way engagement so that the group and its stakeholders understand one another.</p>
8.4	Companies should ensure the equitable treatment of shareholders	100%	<p>Sovereign fully complies with the JSE Listings Requirements on disclosure of information to shareholders.</p> <p>A SENS Announcement Matrix was approved by the board in November 2011 and sets the company's requirements on disclosure. Any material price-sensitive information and other relevant information is published on SENS in accordance with the Listings Requirements.</p>

No	Principles	% Compliant	Comment
			Queries from shareholders are generally handled by the CEO and only information available in the public domain is disclosed
8.5	Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence	100%	Sovereign's communications strategy is guided by principles including being approachable, open and ethical. Sovereign strives for honest and clear communication and uses a variety of channels such as media relations, advertising, integrated reporting and its website to reach as many stakeholders as possible timeously. The group's promotion of access to information manual is available on the website.
	Dispute resolution		
8.6	The board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible	100.0%	The group has established formalised dispute resolution guidelines that cover all aspects of dispute resolution. The Audit and Risk Committee reviews all legal disputes initiated against the company and considers the company's position and will where circumstances warrant it recommend the appropriate legal recourse. The company has appointed a Group Legal Counsel to handle all legal issues.
Subtotal		100%	
9. Integrated reporting and disclosure			
Transparency and accountability			
9.1	The board should ensure the integrity of the company's integrated report	100%	The Audit & Risk Committee reviews the integrated report and recommends approval of the report to the board. The Board reviews and finally approves the content of the integrated report prior to publication. The financial reports contained in the integrated report are independently assured by external auditors.
9.2	Sustainability reporting and disclosure should be integrated with the company's financial reporting	100%	The company has integrated its sustainability and financial reporting and has used the Global Reporting (GRI) Initiative "Sustainability Reporting Guidelines" as the standard since 2012. Tier 1 Investor Relations reviewed the 2012 Integrated Report against the GRI standards and the recommendations were incorporated into the subsequent Integrated Reports. Reporting best practices will be followed to improve the level of integration. The Integrated Report covers all the following issues: <ul style="list-style-type: none"> ▪ Commentary on the financial results ▪ Going concern report ▪ How the company made its money ▪ All negative and positive impacts have been reviewed.
9.3	Sustainability reporting and disclosure should be independently assured	66.7%	The company furthermore complies with the Minimum contents of annual financial statements as required in the JSE Listings Requirements. The Audit & Risk Committee Charter requires the Audit & Risk Committee to maintain general oversight and reporting of sustainability and to oversee the provision of assurance over sustainability issues. The Committee is fully involved in reviewing all aspects of the Integrated Report, including sustainability issues.

No	Principles	% Compliant	Comment
			<p>Explanation:</p> <p>The requirement of the King III Report which states that an independent assurance over sustainability issues be done was considered. This was not regarded as a priority due to the fact that the sustainability issues were reviewed by the non-executive directors and internal audit</p>
Subtotal		91.7%	
TOTAL		99.0%	