

## ESOR LIMITED: KING IV APPLICATION REGISTER

OUTCOMES AND PRINCIPLES	APPLICATION OF PRINCIPLES
<b>OUTCOME: ETHICAL CULTURE</b>	
<p><b>Principle 1:</b> The board should lead ethically and effectively</p>	<p>The charter of the board commits the board to effective and ethical leadership. The board is also committed to the highest standards good corporate governance. In addition to fulfilling their statutory and fiduciary duties, all members of the board are expected to display the characteristics of integrity, competence, responsibility, accountability, fairness and transparency. The chair of the board is required to monitor the behaviour of board members in this respect.</p>
<p><b>Principle 2:</b> The board should govern the ethics of the company in a way that supports the establishment of an ethical culture</p>	<p>Esor has a code of ethics in place which is applicable to all employees, including the board of directors. The code is based on the Esor values of unity, integrity, commitment and accountability. The ethical standards are imbedded in processes for the recruitment, evaluation of performance and reward of employees as well as the sourcing of employees. The social and ethics committee is tasked with ensuring that the Group's ethics are managed effectively. In addition to monitoring adherence to the Code of Ethics, the social and ethics committee is responsible for oversight of organisational ethics. Relevant sanctions and remedies are consistently applied when ethical standards are breached. A whistle-blowing mechanism is in place to assist with the identification of possible unethical behaviour.</p>
<p><b>Principle 3:</b> The board should ensure that the company is and is seen as a responsible corporate citizen</p>	<p>Compliance with the laws of the country throughout the Group, including the Constitution of South Africa and the Bill of Rights, is non-negotiable. The core purpose and values of Esor, as well as its strategy and conduct, are congruent with it being a responsible corporate citizen. The board has delegated responsibility for monitoring the Group's overall responsible corporate citizenship performance to the social and ethics committee. The scope of the committee's mandate in this regard includes the relevant activities of the Group in the workplace, in the economy, society and the environment. Where relevant, specific targets have been set against which the performance of the Group is monitored on an ongoing basis.</p>

	<p>For more information on how the Group addressed its responsibilities as a responsible corporate citizen, the reader is referred to the annual integrated report <a href="http://www.esor.co.za">www.esor.co.za</a>.</p>
<b>OUTCOME: VALUE CREATION</b>	
<p><b>Principle 4:</b> The board should appreciate that the company's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process</p>	<p>The board is deeply aware of the expectation for value creation across various elements of the business and any discussions of strategy, risk and opportunities, as well as the business model and performance are based on the prerequisite for long-term sustainability and sustainable development. This is also within the context of the difficult market and trading conditions faced by the construction industry over an extended period of time. For more information on the vision and future direction of the Group as well as the value created for the Group and its material stakeholders, the reader is referred to the annual integrated report <a href="http://www.esor.co.za">www.esor.co.za</a>.</p> <p>The board sets key performance measures and targets in order to continuously monitor and assess the achievement of strategic objectives and agreed plans for value creation over the short, medium and long term. Management is expected to implement and execute on the approved strategy and business plans. Management is furthermore expected to continually assess and respond, in a responsible manner, to the negative consequences of the Group's activities and outputs in all areas of the business.</p> <p>The board has a particular focus on the general viability of the business and its status as a going concern. For this reason, the solvency and liquidity of the company is monitored on a continuous basis.</p>
<p><b>Principle 5:</b> The board should ensure that reports issued by the company enable stakeholders to make informed assessments</p>	<p>Refer to the annual integrated report on <a href="http://www.esor.co.za">www.esor.co.za</a> that presents material information in an integrated manner and provides stakeholders and users with a holistic presentation of the Group's performance in a clear, concise and understandable manner. The annual integrated report contains,</p>

<p>of the company's performance, and its short, medium and long-term prospects</p>	<p>amongst others, the annual financial statements, corporate governance disclosures in addition to those contained herein, as well as the notice of the annual general meeting of Esor shareholders.</p> <p>The board, with the assistance of the audit and risk committee, ensures that reports are issued as is necessary to comply with legal requirements and/or to meet the legitimate and reasonable information needs of material stakeholders. The integrity of all reporting is ensured with the assistance of relevant internal and external role players forming part of the integrated assurance process.</p>
<b>OUTCOME: EFFECTIVE CONTROL</b>	
<p><b>Principle 6:</b> The board should serve as the focal point and custodian of corporate governance in the company</p>	<p>The board fully appreciates that it is first and foremost accountable for the application of corporate governance principles and practices in Esor. It furthermore understands that its key functions are to set the strategic direction of the Group, to approve appropriate policies and plans to give effect to the approved strategy, to delegate implementation of the afore going to management and adequately monitor management's performance and to ensure accountability through reporting and the principle of transparency. The role and functions of the board are set out in the board charter and also incorporated into the board's annual workplan. The board is satisfied that it has fulfilled its responsibilities in accordance with its charter for the reporting period.</p> <p>As previously indicated, the board is fully committed to ethical and effective leadership. This entails, amongst others that the board appropriately manages its duty to act as custodian of corporate governance in the Group.</p> <p>Refer to the annual integrated report at <a href="http://www.esor.co.za">www.esor.co.za</a> for the requisite information and disclosure regarding the number of board meetings and attendance during the reporting period.</p>
<p><b>Principle 7:</b> The board should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it</p>	<p>With legal, financial and engineering experience represented amongst the independent non-executive directors, complimenting the extensive skills and experience of the chairman and executive directors, the board has an appropriate mix of knowledge, skills and experience. The</p>

<p>to discharge its governance role and responsibilities objectively and effectively.</p>	<p>composition of the board also introduces the required element of diversity and independence. The board is therefore comfortable with its composition under current circumstances and considering the challenges faced by the business.</p> <p>Refer to the Esor website at <a href="http://www.esor.co.za">www.esor.co.za</a> for the requisite information and disclosure regarding the composition of the board and each of the directors.</p> <p>The nominations committee continues to play an active role in assessing the board composition and identifying appropriate candidates for appointment to the board. To this end, the nominations committee assisted the board in the appointment in November 2017 of Mr Haroon Takolia, a Chartered Accountant by profession, who brings with him a wealth of experience.</p> <p>None of the independent non-executive directors have served on the board for longer than 9 years. The non-executive chairman of the board, Mr Bernie Krone, who was classified as independent in August 2017, has been on the board since listing in 2006 and has fulfilled the role of chairman since August 2014 after serving for a number of years as CEO of the Group. Mr Oswald Franks serves as lead independent director and his main responsibilities include:</p> <ul style="list-style-type: none"> <li>- leading in the absence of the chairman</li> <li>- serving as sounding board for the chairman</li> <li>- acting as intermediary between the chairman and other board members, when necessary</li> <li>- strengthen independence of the board</li> <li>- lead the assessment of the performance of the chairman</li> </ul>
<p><b>Principle 8:</b> The board should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties</p>	<p>The following board committees were established:</p> <ul style="list-style-type: none"> <li>- Audit and risk committee</li> <li>- Nominations and remuneration committee</li> <li>- Social and ethics committee</li> </ul>

Each committee has a minimum of three members as recommended by the King IV Code. The composition of each committee is also aligned with the King IV recommendations except for the composition of the audit and risk committee where the chairman of the board serves as a member of the committee. The other members of the audit and risk committee are both independent non-executive directors. The reason for the chairman of the board serving on the audit and risk committee is the limited number of independent non-executive directors and the particular areas of expertise of each director. The board is furthermore of the opinion that the extensive experience of the chairman of the board in the business of the Group outweighs the potential downside of the chairman acting as a member of this committee. The board is comfortable that the current composition of the audit and risk committee contributes to its effectiveness in fulfilling its duties. This position is monitored on a continuous basis and will be reassessed should the board be able to appoint additional directors in due course, depending on the financial status of the company.

The board is also comfortable that the current composition of the board committees contributes to effective collaboration as well as a balanced distribution of power so that no individual has the ability to dominate decision-making and no undue reliance is placed on any individual.

Refer to the Esor website at [www.esor.co.za](http://www.esor.co.za) for access to the terms of reference for each of the board committees as well as the integrated annual report that provides the following information:

- Composition of each committee and qualifications and experience of members
- Information on external advisors who regularly attend committee meetings
- Key areas of focus of each committee
- Number of committee meetings and attendance
- Confirmation by each committee that it is satisfied that it has fulfilled its responsibilities for the reporting period

Refer to the Esor website at [www.esor.co.za](http://www.esor.co.za) for access to the report of the audit committee included in the integrated annual report. The report confirms, amongst others, that the audit committee has satisfied itself with:

	<ul style="list-style-type: none"> <li>- the independence and performance of the external audit firm as well as the quality of the external audit</li> <li>- the effectiveness of the internal audit function as well as the CFO and finance function</li> <li>- the effectiveness of the design and implementation of the internal financial controls</li> <li>- the effectiveness of the combined assurance process</li> </ul> <p>Significant matters addressed by the audit and risk committee have been addressed in the report of the committee contained in the latest annual integrated report.</p>
<p><b>Principle 9:</b> The board should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members support continued improvement in its performance and effectiveness</p>	<p>Performance evaluations of the board as well as all committees were undertaken during the financial reporting period and were facilitated externally through a formal evaluation. The board is of the view that the evaluation process is effective.</p> <p>The company secretary facilitates an annual self-evaluation of the board’s performance, mix of skills and individual contributions of directors, its achievements in terms of corporate governance and the effectiveness of its subcommittees. This exercise further includes a review of communications between management and the board as well as between the board and stakeholders. In the year under review the board and committees functioned as intended, according to the reviews.</p>
<p><b>Principle 10:</b> The board should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities</p>	<p>The board has the authority to exercise all of the powers and perform any of the functions of the company, except as otherwise provided in the Companies Act of 2008 or the Memorandum of Incorporation of the company. Specific authority and powers of the board have been delegated to management and such delegation is captured in a formal delegation of authority framework that is reviewed by the board on a regular basis. The board is comfortable and satisfied that this framework contributes to role clarity and the effective exercise of authority and responsibilities.</p> <p>Additional information on executive management can be found on the Esor website and in the annual integrated report at <a href="http://www.esor.co.za">www.esor.co.za</a>.</p>

	<p>The CEO does not have any commitments outside of Esor. The notice period of the CEO in terms of his employment contract is three months. There are no other conditions relating to termination of employment for the CEO which are not standard employment conditions in the Group.</p> <p>The company has appointed a company secretary on an outsourced basis. iThemba Statutory and Governance Solutions (Pty) Limited (represented by Elise Beukes BProc) has acted as company secretary for a number of years and the board is satisfied that the company secretary has the requisite knowledge, experience and qualifications to effectively fulfil the role of company secretary. Based on the collective governance experience of the iThemba team, the board has access to extensive governance support and guidance at all times. The performance of the company secretary is also assessed on a regular basis as part of the board assessment process. No major issues of concern have been identified.</p>
<p><b>Principle 11:</b> The board should govern risk in a way that supports the company in setting and achieving its strategic objectives</p>	<p>The governance and oversight of risk management has always been a material item on the board's workplan. This function is fulfilled with the assistance of the audit and risk committee. The committee's responsibilities in respect of risk include, amongst others:</p> <ul style="list-style-type: none"> <li>- Developing an integrated risk management strategy for approval by the board</li> <li>- Assisting the board in setting the levels of risk tolerance and appetite</li> <li>- Ensuring effective communication of all risk related information, instructions and recommendations throughout the Group</li> </ul> <p>A comprehensive risk management process is in place for identifying, evaluating and monitoring the nature and extent of risks affecting the business. Risk is assessed on an ongoing basis in a "bottom-up and top-down" approach. Internal audit assists management in evaluating the process for managing key operational, financial and compliance risks while the dedicated, internal risk officer monitors and reviews the Group risk register on a continuous basis and submits a risk report at each meeting of the audit and risk committee.</p>

	<p>Refer to the Esor website at <a href="http://www.esor.co.za">www.esor.co.za</a> for access to the risk report included in the integrated annual report. The report elaborates on the arrangements for governing and managing risk as well as the key focus areas during the reporting period and the planned areas of future focus. Key risks and actions taken to monitor the effectiveness of the risk management process are also addressed in the report.</p>
<p><b>Principle 12:</b> The board should govern technology and information in a way that supports the company setting and achieving its strategic objectives</p>	<p>Technology and information governance is ultimately the responsibility of the board. A technology and information governance framework is in place which is customised to our environment, integrated into our key business objectives and monitored for compliance and performance. The key aims of the framework are to standardise business processes across the group, reduce internal costs and ensure sound governance.</p> <p>A technology and information governance charter (which can be viewed on <a href="http://www.esor.co.za">www.esor.co.za</a> ) formalises lines of delegation from the board and audit and risk committee through to the CIO, as well as sets out policies, procedures and performance metrics which work together in the technology and information governance framework. The technology and information governance policy in terms of the charter has taken into account the material issues affecting all relevant stakeholders including the board, employees and specific departments, for instance finance.</p> <p>The board receives an annual update on technology and information risks from the CIO. All risks presented in the year were deemed to be within defined tolerance levels and not considered material. These included:</p> <ul style="list-style-type: none"> <li>• Business continuity</li> <li>• Prolonged downtime</li> <li>• Back-up and off-site storage</li> <li>• Security of network and devices</li> <li>• Policies on: <ul style="list-style-type: none"> <li>-- BYOD (“Bring your own device to work”)</li> <li>-- Electronic communications and social media</li> </ul> </li> <li>• Corporate governance compliance</li> </ul>

	<ul style="list-style-type: none"> <li>• Protection of personal information (“POPI”)</li> </ul>
<p><b>Principle 13:</b> The board should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the company being ethical and a good corporate citizen</p>	<p>The board is ultimately responsible for the governance of compliance with applicable laws and adopted, non-binding rules, codes and standards by setting the direction for how compliance should be approached and addressed. The board’s approach to compliance is addressed in the board charter and confirms that the Group is expected to be a law-abiding citizen of the country. Compliance is considered by the board not only for the obligations it creates but also the rights and protection it affords.</p> <p>The regulatory universe is continually monitored by management to identify changes and developments that may have an impact on the Group. New legislation that impacts the Group is discussed at board meetings. The Group risk officer, along with the executive management (CFO), non-executive director, the company secretary, (and in future the Group internal legal department) assists in this regard with the use of a comprehensive compliance checklist.</p> <p>There were no material or repeated regulatory penalties, sanctions or fines for contraventions of, or non-compliance with, statutory obligations. No compliance inspections by environmental regulators had taken place during the period under review and no incidences of non-compliance with environmental laws were identified.</p>
<p><b>Principle 14:</b> The board should ensure that the company remunerates fairly, responsibly and transparently so as to promote the achievement of strategy objectives and positive outcomes in the short, medium and long term</p>	<p>The remuneration and nominations committee supports the board with the governance of remuneration throughout the Group and ensuring fair and responsible remuneration practices.</p> <p>Detailed disclosure regarding remuneration is contained in the annual integrated report which can be accessed on <a href="http://www.esor.co.za">www.esor.co.za</a>.</p>

<p><b>Principle 15:</b> The board body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the company's external reports</p>	<p>Refer to the annual integrated report on <a href="http://www.esor.co.za">www.esor.co.za</a> for information on assurance provided. Additional disclosure on the integrated assurance process can be found in the report of the audit and risk committee as well as the disclosure under Principle 8 above.</p>
<p><b>OUTCOME: LEGITIMACY</b></p>	
<p><b>Principle 16:</b> In the execution of its governance role and responsibilities, the board should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the company</p>	<p>The board has identified material stakeholders of the Group and considers the legitimate and reasonable needs, interests and expectations of such stakeholders on an ongoing basis as part of the decision-making process and in acting in the best interest of the company.</p> <p>Refer to the website and integrated annual report on <a href="http://www.esor.co.za">www.esor.co.za</a> for additional information on the management of stakeholder relationships as well as the minutes of the previous annual general meeting.</p> <p>A formal governance framework is in the process of being put in place between the company as holding company and its operating subsidiaries. The board fully recognises the separate legal existence of each subsidiary as well as the statutory and fiduciary duties of the directors of such subsidiaries. The audit and risk committee as well as the social and ethics committee fulfils oversight functions also in respect of relevant subsidiaries. Group policies are applied in all subsidiaries unless regarded as not being in the interest of a subsidiary in which event the directors of the subsidiary may recommend appropriate amendments to such policy.</p>
<p><b>Principle 17:</b> The board of an institutional investor organisation should ensure that responsible investment is practised by the company to promote good governance and the creation of value by the companies in which it invests</p>	<p>The company is not an institutional investor.</p>

