



King IV™ Overview

2021

Lenmed corporate governance

The Board of Directors is committed to high standards of corporate governance and it endorses the four governance outcomes set out in King IV, namely an ethical culture, good performance, effective control and legitimacy.

During the past financial year, further corporate governance improvements were achieved as set out below:

- ♦ The formation of an Innovation and Disruption Committee.
- ♦ An evaluation of the effectiveness of the Lenmed Board and committees.
- ♦ A review by Internal Audit (IA) of its work done relative to the requirements of the IA charter.
- ♦ An analysis of Lenmed's legal risk register by an external legal adviser.
- ♦ A review by PWC of Lenmed's governance, risk and compliance. The outcome was positive with no major cause for concern.
- ♦ A review by PWC into Lenmed's cyber security.
- ♦ Enhancing the work of IA and external audit with the aim of improved efficiency and improved combined assurance.



King IV™ overview

The register set out below provides an overview of Lenmed's application of the principles contained in King IV™. The register should be read in conjunction with Lenmed's annual integrated report (AIR), including the individual reports of the Board committees.

LEADERSHIP

Principle 1

The governing body should **lead ethically and effectively**.

The Board leads ethically and effectively. In this regard, the philosophy of this Board is to ensure compliance with the principles of King IV™, ensure sustainability of the company and to be a good corporate citizen. Although Lenmed is not a listed company it voluntarily chose to appoint independent directors of a high standing who serve on other prominent boards. The Board leads with a clear set of ethics and morals and sends a clear message on ethics throughout the Group. At meetings there are robust discussions and Board members challenge and hold each other accountable.

Disclosure of interests is a standard agenda item at Board and committee meetings and there is an annual declaration by all directors.

The Group does not engage in or accept unethical conduct or unfair business practices in the conduct of its business.

Director induction and training is reviewed annually. Training is made available to directors on a needs basis and is primarily done via the sub-committees where presentations are made on topics of interest.

The Board and selected members of Exco hold a two-day annual strategy session. The session is fully documented, and strategic targets are monitored at every Board meeting. During these proceedings, considerable time is focused on relationships with stakeholders, the tolerance and propensity for risk and opportunities available from consideration of operating environment. The executive's Key Performance Indicators are developed from strategic plan. Also, risks and opportunities are monitored at every meeting.

Further, various aspects of Principle 1 are covered in Lenmed's Board Charter and other key documents.

ORGANISATIONAL ETHICS

Principle 2

The governing body should govern the ethics of the organisation in a way that supports the establishment of **an ethical culture**.

The ethical tone at Lenmed is set by the Board and applies throughout the organisation. Although Lenmed's Code of Ethics applies to all directors and employees, and its relationship with its stakeholders.

A zero-tolerance approach has been adopted, supported by a Code of Ethics and Conduct. A whistleblowing facility is in place and is administered by Tip-offs Anonymous, which guarantees the anonymity of the complainant. Tipoffs are reviewed by the CFO and Internal Audit and a summary of outcomes is provided to the Chairman of the Audit and Risk Committee. The relevant legal processes are followed for any ethical breaches.

RESPONSIBLE CORPORATE CITIZEN

Principle 3

The governing body should ensure that the organisation is and is seen to be a **responsible corporate citizen**.

Lenmed's hospitals are of international standard and many of them are located in previously underserved and outlying areas. These hospitals serve the community and are also one of the biggest employers in these areas, stimulating the local economy. Further, the healthcare sector is highly regulated which places greater levels of demand and vigilance on the Board and management.

The Board's approach to being a responsible corporate citizen is also supported by various policies and the work done by the Social and Ethics Committee and the Clinical Governance Committee. These committees consider and evaluate the sustainability of the Group with reference to the rigid demands of:

- ♦ ethical culture and values
- ♦ approach to compliance
- ♦ commitment to transformation and B-BBEE
- ♦ health and public safety, which includes occupational health and safety, as well as the clinical quality of the Group's services and waste management
- ♦ environmental matters
- ♦ patient satisfaction
- ♦ labour relations
- ♦ corporate citizenship.

The committee reports back to the Board on these matters and makes recommendations.



STRATEGY AND PERFORMANCE

Principle 4

The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development **are all inseparable elements** of the value creation process.

The Board recognises that all these elements are inseparable throughout the organisation, and Lenmed follows the six capitals approach as described in the AIR. This integrated approach is taken by the Board at its meetings, strategy sessions and committee meetings.

The Board and senior management attend a two-day annual strategy session and strategic targets are monitored at every meeting. Also, risks and opportunities are monitored at every meeting of the Audit and Risk Committee and the Board.

The Board agenda and meeting structure focuses on strategy, business performance monitoring and governance matters, with emphasis on strategy and business performance.

All budgets and strategic plans (medium and longer term and which take account of risks and opportunities) are approved by the Board.

REPORTING

Principle 5

The governing body should ensure that **reports issued** by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short-, medium- and long-term prospects.

The Board is responsible for the integrity of the information contained in the AIR and other reports, including the annual financial statements and interim results presentations. It is assisted in this regard by the various Board committees which review and recommend their respective reports to the Board in accordance with their terms of reference.

The annual financial statements and annual integrated report reviewed by all members of the Board are provided in printed and online form and are published on the website.

The reporting framework is set out on the inside front cover of this annual integrated report.

Regarding external assurance of external reports, Lenmed does not consider it necessary to appoint third party consultants to provide assurance. The Audit and Risk Committee is satisfied that assurance is provided by a combination of management, internal audit and external audit. Independent oversight is also provided by the Board (which has a majority of non-executive directors, and the majority of the non-executives are independent).

PRIMARY ROLE OF THE BOARD

Principle 6

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

The Board is the focal point and custodian of corporate governance in the company. Various key policies supporting the strategy are in place.

The Board has a Board Charter which is reviewed annually against best practices. An outline of the Board Charter is set out under Principle 7.

The Board met six times this year. In addition, a two-day strategy session was held. Directors are provided with all necessary information in advance, including a detailed Board pack, to enable them to discharge their responsibilities. A workplan is approved by the Board annually, setting out matters for each meeting and specific matters for certain meetings. The Board agenda and meeting structure focuses on strategy, business performance monitoring and governance matters. The Board's meeting attendance is set out in the AIR.

A protocol has been included in the Board Charter for the non-executive directors to engage with management. The Board is satisfied that it has discharged its duties as set out in the Board Charter.

COMPOSITION OF THE BOARD

Principle 6

The governing body should comprise the **appropriate balance of knowledge, skills, experience, diversity and independence** for it to discharge its governance role and responsibilities objectively and effectively.

Assisted by the Remuneration and Nominations Committee (Remco), the Board reviews its knowledge, skills, experience, diversity and independence annually, or as circumstances change.

The Board comprises a majority of non-executive members, most of whom are independent.

The Chairman is not independent. This is a historical arrangement arising from the control structure. This shortcoming is addressed through the appointment of a lead independent non-executive director.

The Board is based on a unitary structure and exercises full and effective control over the Group. It comprises seven members:

- ♦ an executive Chairman
- ♦ three independent non-executive directors
- ♦ one further non-executive director
- ♦ two executive directors – the CEO and Chief Financial Officer (CFO).

The role of Chairman and CEO is separate. Given that the Chairman is executive and also a significant shareholder in Lenmed, any potential conflict has been addressed through the appointment of a Lead Independent Director, Mr M G Meehan. The non-executive director and independent non-executive directors provide objective knowledge and experience to the Board's deliberations. The independence of the non-executive directors is assessed annually and was confirmed by Remco, based on the independence requirements of King IV™.

The Board – The Board's composition is reviewed annually to identify any gaps and ensure that the relevant skills, experience and competencies are in place. Each Board member offers a wide range of skills, knowledge and experience that allows them to exercise independent judgement on Board deliberations and decision making.

Rotation and tenure – Directors are appointed through a formal process led by the Remuneration and Nominations Committee. In terms of the memorandum of incorporation, one-third of the Board (other than the executive directors) are subject to retirement and re-election by rotation annually. Directors appointed by the Board during the year are confirmed at the subsequent AGM.

*The directors retiring and offering themselves for re-election at the 2020 AGM can be found in the notice of AGM commencing on page ** of the AIR.*

Induction and training – All new Board members are provided with an induction and orientation programme on appointment. This covers key policies, terms of reference, charters, engagements with management and visits to hospitals. Ongoing training is provided on a needs basis and a programme of possible topics is considered by Remco annually.

Company Secretary – Directors have access to the advice and services of the Company Secretary, who plays an active role in the corporate governance of the Group. They are entitled, at the Group's expense, to seek independent professional advice about the affairs of the Group regarding the execution of their duties as directors. The Company Secretary is Mr W Somerville, aged 63, who holds an FCIS and ACMA qualification, as well as a diploma in Corporate Law. He is a qualified Chartered Secretary with extensive experience in the company secretarial and corporate governance arenas. The Board has considered and is satisfied with the competence, qualifications, independence and experience of the Company Secretary. The Board is also satisfied that an arm's-length relationship exists between the Company Secretary and the Board of Directors, as the Company Secretary is not an employee of the Company and provides services on an outsourced basis. The service is provided by CorpStat Governance Services (Pty) Ltd, represented by Mr Somerville. The firm, which has been in business for over 19 years, provides company secretarial and corporate governance advisory services to a range of prominent unlisted and JSE-listed companies. It has a senior team of six qualified and experienced company secretaries.



COMPOSITION OF THE BOARD continued

Principle 7

The governing body should comprise the **appropriate balance of knowledge, skills, experience, diversity and independence** for it to discharge its governance role and responsibilities objectively and effectively.

Board Charter – The established Board Charter has been in place and outlines the responsibilities of the Board as follows:

- ◆ Retain full and effective control of the Group
- ◆ Give strategic direction to the Group
- ◆ Monitor management in implementing plans and strategies as approved by the Board
- ◆ Appoint the Chief Executive Officer
- ◆ Ensure that succession is planned
- ◆ Identify and regularly monitor key risk areas and key performance indicators of the business
- ◆ Ensure that the Group complies with relevant laws, regulations and codes of business practice
- ◆ Ensure that the Group communicates with shareowners and relevant stakeholders openly and promptly
- ◆ Identify and monitor relevant non-financial matters
- ◆ Establish a formal and transparent procedure for appointment to the Board, as well as a formal orientation programme for incoming directors
- ◆ Regularly review processes and procedures to ensure effectiveness of internal systems of control and accept the total process of risk management
- ◆ Assess the performance of the Board, its committees and its individual members at least every two years.

The Charter also addresses issues such as the composition and size of the Board, Board procedures, matters reserved for Board decisions and the frequency and proceedings of Board meetings. The Charter is reviewed annually by the Board to ensure alignment to best practices.

Succession planning – The Remuneration and Nominations Committee (Remco) annually reviews the succession plan for the Chairman, CEO, CFO, Board of Directors and senior management, and makes recommendations to the Board as required.

COMMITTEES OF THE BOARD

Principle 8

The governing body should ensure that its arrangements for **delegation within its own structures** promote independent judgement and assist with balance of power and the effective discharge of its duties.

Lenmed has five standing Board committees as described below and the composition of the committees are in line with King IV™ and the Companies Act as applicable.

While the Board remains accountable and responsible for the performance and affairs of the Group, it delegates certain functions to management and Board committees to assist it in properly discharging its duties.

The Board has the following Board committees in place:

- ◆ Audit and Risk Committee
- ◆ Remuneration and Nominations Committee
- ◆ Social and Ethics Committee
- ◆ Clinical Governance Committee.
- ◆ Innovation and Disruption Committee (established post the financial year-end)

Each of the committees is chaired by a different non-executive director which further ensures independent judgement. The Chairman of each Board committee provides feedback at each scheduled meeting of the Board and minutes of committee meetings are provided to the Board. All the members of the Audit and Risk Committee are independent non-executive directors. The Remuneration and Nominations Committee has a majority of independent non-executive directors and is chaired by an independent non-executive director. The Social and Ethics Committee is chaired by an independent non-executive director. The Clinical Governance Committee is chaired by a non-executive director. Each Board committee functions in accordance with the provisions of its own Charter, as annually reviewed and recommended by the relevant committee and approved by the Board. The Charters set out the purpose, membership, duties and reporting procedures of the various Board committees.

The directors and the members of the Board committees are supplied with full and timely information that enables them to properly discharge their responsibilities. All directors have unrestricted access to all Group information, and further, are entitled to get external independent professional advice which also enhances independent judgement and balance of power in regard to Board deliberations and processes.

The Chairman of each Board committee is required to attend Annual General Meetings to answer questions raised by shareholders.

Further details of the committees can be found in the respective committee reports.

BOARD PERFORMANCE EVALUATION

Principle 9

The governing body should ensure that the **evaluation of its own performance** and that of its committees, its chair and its individual members, supports continued improvement in its performance and effectiveness.

Lenmed has a process to evaluate the effectiveness of the performance of the Board and the committees. This comprises an open discussion held at least every second year by the Board and each committee to assess their effectiveness. Subsequent to the financial year-end, the Audit and Risk Committee and Board conducted a self-evaluation of their effectiveness. Overall, the outcomes were positive with only minor areas for improvement. The effectiveness of the Remuneration and Nomination Committee and Social and Ethics Committee were conducted during 2020. Similarly, the outcomes were positive.

Individual director evaluations for non-executive directors have not been implemented; however, there is a review of KPIs against the strategy, which also is a form of an evaluation. Also, the Board is mature and issues are raised in the open. The names of underperforming directors will not be submitted to shareholders for re-election. The Board Chairman's contributions and performance were formally evaluated as chairman (in addition to his performance as an employee). This process was led by the Lead Independent Director with inputs of the entire Board.

APPOINTMENT AND DELEGATION TO MANAGEMENT

Principle 10

The governing body should ensure that the appointment of, and **delegation to, management** contributes to role clarity and the effective exercise of authority and responsibilities.

The Board Charter sets out matters reserved for the Board and is reviewed annually. In addition, there is a Delegation of Authority (approved by the Board and reviewed annually) which sets out matters delegated to management and those reserved for the Board.

The Lenmed Board appoints the CEO and the incumbent is accountable to the Board for leading the implementation of strategy, policy and running the day-to-day business of the company. The King IV™ recommendations for the CEO in respect of appointment, roles and responsibilities, succession planning and performance evaluation are complied with. On a bi-annual basis, Remco reviews the organogram and interrogates all aspects of the business relative to the roles and responsibilities of the executive and senior management team.

Lenmed has a Company Secretary with the necessary experience, expertise and qualifications to discharge the role effectively. The King IV™ recommendations in respect of the appointment, reporting lines, independence, duties and performance evaluation are met. Details of the Company Secretary are set out under Principle 7.

RISK GOVERNANCE

Principle 11

The governing body should **govern risk** in a way that supports the organisation in setting and achieving strategic objectives.

The Board governs and is responsible for the culture of managing risk at every level of the organisation. It is assisted by the Audit and Risk Committee, which plays an oversight role in respect of risk management.

The Group identifies risks under the headings of:

- ◆ Enterprise risk
- ◆ Operational risk
- ◆ Financial risk
- ◆ Reputational risk.

Risk appetite determination – King IV™ requires the Board to determine the organisation's risk appetite or tolerance for risk. Risk appetite in this context is 'the amount of risk Lenmed is willing to accept in pursuit of value'. Risk appetite is directly related to our business strategy, therefore, strategy changes could require re-assessing our risk appetite and strategy. Both are re-evaluated annually. The Group has an appetite for risk that is consistent with the operation of private hospitals in the healthcare industry in South Africa, Mozambique and Botswana. It manages that risk by remaining compliant with legislation and statutory requirements such as the terms under which its licences are granted. The Group has zero tolerance for risk to the enterprise and its reputation but is willing to take on risks at manageable levels for operations and finance, recognising that reward and opportunities flow from the acceptance of risk.

Risk Register – Lenmed has a detailed Risk Register and risk matters are a standard agenda item at every Audit and Risk Committee and Board meeting. It is regularly emphasised that risk is everyone's responsibility. In addition, risk mitigation happens on two levels – non-financial and financial – and sub-registers populate the Group register. There are specific Risk Registers at bigger hospitals and compliance audits are done at certain hospitals by specific risk and functional area. There is clinical risk management training at hospitals and industry norms are monitored with a view to becoming ISO compliant in the future. There are also Finance Risk Registers in place.

Opportunities flowing from risk assessments form part of the overall approach to risk governance. Emerging risk trends are identified and monitored regularly. Time is set aside at every meeting of the Audit and Risk Committee and the Board for an open risk discussion.



TECHNOLOGY AND INFORMATION GOVERNANCE

Principle 12

The governing body should **govern technology and information** in a way that supports the organisation setting and achieving its strategic objectives.

IT governance is a standard agenda item at meetings of the Audit and Risk Committee.

An IT Steering Committee is in place, chaired by the CFO. The committee meets regularly to discuss Lenmed's IT governance and evaluate potential or ongoing projects. An IT Charter and various IT-related policies are in place.

The Audit and Risk Committee receives the reports of the IT Steering Committee as well as the minutes of that committee. The IT executive attends the deliberations of the Audit and Risk Committee when invited and makes presentations to the committee on progress on the implementation of SAP and the mining of data from the new systems, other technological systems such as robotic processing, Artificial Intelligence, cybercrime and IT policies. In addition, consideration is given to the planning and management of disaster-recovery as well sustainability. A considerable proportion of IT management and IT operations are outsourced to ensure state-of-the-art performance and to diversify risk. The performance of the outsourced services against SLA is reviewed annually by the IT Committee.

Management is of the view that outsourcing of various aspects of IT is beneficial to Lenmed rather than in-house, as there are numerous benefits in the service being provided by a professional and reputable service provider. Regular meetings are held with these services providers. Lenmed has done a lot of work on cybersecurity and is assisted in this regard by an outsourced service provider. Further, Lenmed constantly upgrades its software.

As regards information governance, including the Protection of Personal Information Act (POPI) and Promotion of Access to Information Act (PAIA), Lenmed is aware of the need to protect client and corporate information and has proper processes in place in this regard.

There is a Technology Risk Register.

There are Disaster Recovery and Business Continuity policies in place.

COMPLIANCE GOVERNANCE

Principle 13

The governing body should **govern compliance** with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.

The Board is active in its pursuance of compliance and this is monitored by a combination of management controls and compliance monitoring via internal audit, external audit and the Company Secretary.

Also, compliance is a standard agenda item for the Audit and Risk Committee. The healthcare sector is highly regulated which places greater levels of demand and vigilance on the Board and management. In this regard, the key legal and regulatory risks are monitored. In addition, a Legal Compliance Register is in place, with reporting to the Audit and Risk Committee. Lenmed also has two COHSASA accredited hospitals and hospital internal compliance audits continue to be conducted. The company's Financial Managers are updated every quarter on key laws including the Companies Act, finance and tax laws. There are also experts within the company who look at specific areas as regards applicable laws.

REMUNERATION GOVERNANCE

Principle 14

The governing body should ensure that the organisation **remunerates fairly, responsibly and transparently** so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.

The Board takes responsibility for remuneration governance. It is assisted by the Remuneration Committee, which oversees that the organisation remunerates fairly, responsibly and transparently so as to promote the delivery of strategic objectives and the creation of value in a sustainable manner. It makes recommendations to the Board in this regard.

The South African healthcare sector is characterised by a shortage of staff in general, which compels Lenmed to retain talented and higher-level staff. Remco has the task to recommend strategies to attract and retain staff of the highest calibre, while still being mindful of managing costs. Remco conducts external benchmarks across executive and senior Group management roles while Hospital Managers and nurses are done on a more informal basis. The scarce skills and competitive market dictate the remuneration levels and if Lenmed does not remunerate competitively, it will not be able to retain these skills.

The remuneration report and implementation report is set out on page 22 of the AIR.

ASSURANCE

Principle 15

The governing body should ensure that **assurance services and functions** enable an effective control environment, and that these support the **integrity of information** for internal decision making and of the organisation's external reports.

Lenmed follows a combined assurance model, with assurance being provided by management, the internal audit function (PwC) and the external auditors. Oversight on assurance is provided by the Audit and Risk Committee and, in addition, the Board tasks the CFO to implement an effective control environment and report back on this. Internal audit is used to review the control environment and also to assist with the establishment of a control environment. They are independent and objective and their plans and reports are reviewed by the Audit and Risk Committee.

The Group has not utilised independent assurance to assess the competence and independence of internal audit and IT as both of these areas are serviced by outsourced service providers, and therefore, no assurance is required. In addition, the annual integrated report is not subject to review by external and internal audit. The current level of assurance is deemed appropriate for Lenmed but is monitored.

STAKEHOLDERS

Principle 16

In the execution of its governance role and responsibilities, the governing body should adopt a **stakeholder-inclusive approach** that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.

Lenmed has identified its key stakeholders and material issues and risks that could impact the stakeholders of Lenmed, as set out in the AIR .

The value of Lenmed's stakeholders – Our social licence to operate depends largely on the quality of our stakeholder relationships and our positive or negative impacts on them. Lenmed's economic growth is underpinned by the value of our relationships with investors, employees, medical practitioners, patients, suppliers and the broader communities in which we operate.

Our approach to community development recognises that our long-term sustainability is linked with that of our communities. We are, therefore, aware of and responsive to the socio-economic challenges faced by the communities surrounding our hospitals.

Communication with our stakeholders – Reputation and trust are vital intangible assets. Managing our brand and reputation is of prime concern in today's global business environment, in which stakeholders are increasingly well-informed and assertive. Lenmed makes every effort to establish close and informative relationships with our stakeholders. This communication is two-way and includes employees, patients, doctors, funders, regulators, suppliers and shareholders. As regards employees, a newsletter from the CEO is sent to all staff members every quarter.

As regards shareholders, there is ongoing engagement with shareholders via various mechanisms, including interim/year-end reports, the annual integrated report, presentations, the AGM, Lenmed's website and social media.



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