

Governance report

Ensuring a strong focus on compliance and good governance remains a critical value driver for Netcare in creating sustainable value for stakeholders, including attracting essential investment into the healthcare sector.

Our commitment to best practice governance drives us to constantly improve the way our business is managed, and how information is shared and protocols are established. Our approach is guided by the **Quadruple Aim** and ensures decisions are taken openly and transparently within an ethical framework.

The Netcare Board plays a pivotal role in protecting value by setting policy and overseeing the Group's governance and compliance frameworks, and control environment. During the year, we refined our governance structures in line with the principles of the fourth King Report on Corporate Governance for South Africa (King IV). Sound corporate governance practices are implicit in our values, culture and processes; and our internal controls promote an awareness of risk, compliance and good governance in every area of the business.



“The effectiveness of our governance, risk and compliance frameworks, policies and controls is judged on how they support the ability of the business to fulfil its purpose, most responsibly and efficiently, and to ensure acceptable returns for the providers of capital that make this possible. The application of new governance standards and best practice is considered in this light.”

JM Kahn,
Non-executive Chairman

GOVERNANCE AND DELEGATION OF AUTHORITY FRAMEWORK

Our governance framework provides the roadmap for achieving our strategic priorities within compliance requirements and by balancing the interests of our stakeholders, minimising and avoiding conflicts of interest, and practising good corporate behaviour.

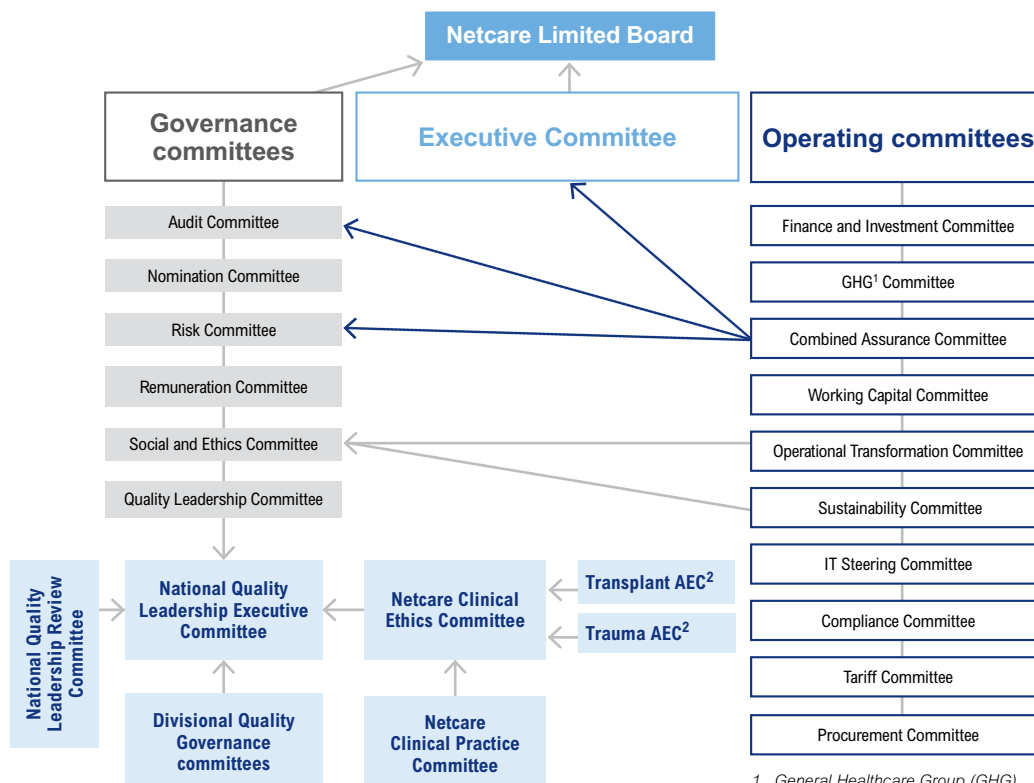
King IV

During the year, we aligned our governance and delegation of authority frameworks to Principles 8 and 10 of King IV. The Board has delegated authority to executive management to lead the implementation and execution of Netcare's strategy, policies and operational planning.

Our delegation of authority framework requires that the Board:

- > Confirms and ensures that Netcare is appropriately resourced and that its delegation to management contributes to an effective arrangement by which authority and responsibilities are exercised.
- > Ensures that its arrangements for delegation within its governance committees promote independent judgement, and assist with balance of power and the effective discharge of its duties.
- > Ensures that the appointment of, and delegation to, management contributes to role clarity and the effective exercise of authority and responsibilities.

Governance and delegation of authority framework



1 General Healthcare Group (GHG).
2 Advisory and Ethics Committee.

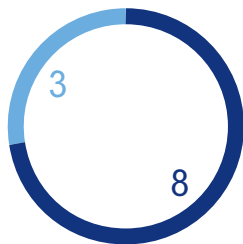
NETCARE BOARD

Unitary Board structure

<p>Chairman JM Kahn, independent non-executive director.</p>	<p>Deputy Chair T Brewer, independent non-executive director.</p>	<p>Non-executive directors are re-elected every three years.</p>
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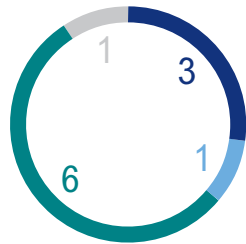
Composition

BALANCE



■ Independent non-executive directors
■ Executive directors

DIVERSITY



■ Black women
■ Black man
■ White men
■ Non-South African woman

The Board comprised **11 directors** with an appropriate balance between non-executive and executive directors.

Women representation
36.4% (2016: 36.4%)

Black South African representation
36.4% (2016: 36.4%)

- 1**
Chairman
> JM Kahn
- 7**
Independent non-executive directors
> MR Bower
> T Brewer
> B Bulu
> APH Jammine
> MJ Kuscus
> KD Moroka
> N Weltman
- 3**
Executive directors
> RH Friedland
> KN Gibson
> J Watts¹

1. Resigned with effect from 30 September 2017.

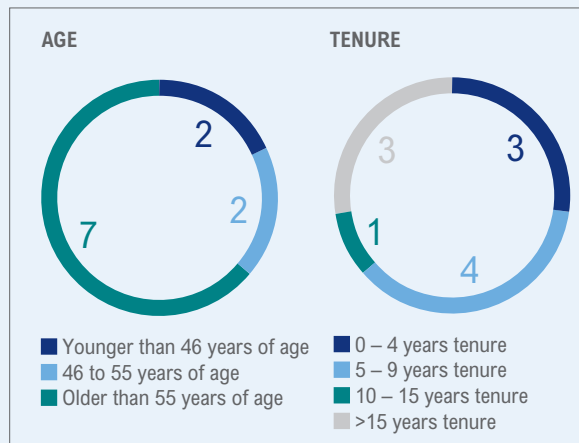
The Board is satisfied that it has sufficient professional and industry knowledge and strong independence. While no diversity and gender targets have been formally set, we are committed to increasing the representation of black (African, Coloured and Indian) people and women on the Board and ensuring that the best available candidates are appointed.



Full biographical details of directors, under the 'Who we are' tab.

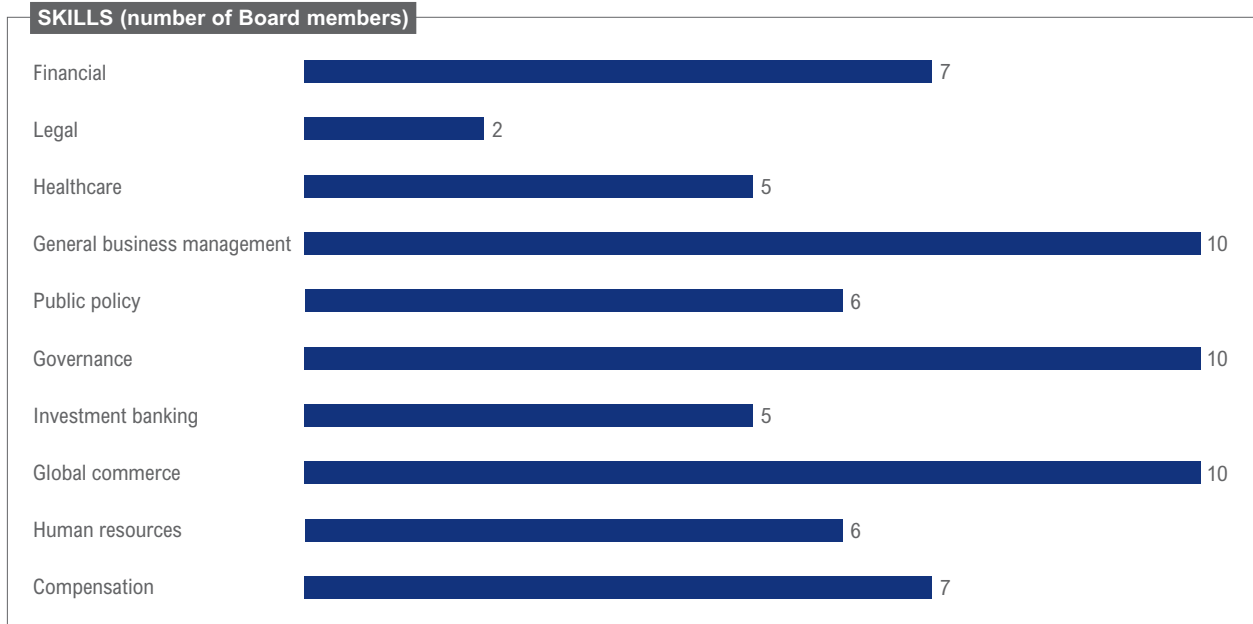
Age and tenure

The average age of the Board is 59; therefore succession planning is a key focus area to ensure that skills are retained following the retirement of members. We seek to balance fresh perspectives from newer members with the experience and institutional knowledge of those with longer tenures.



Skills

The Board possesses a wide range of expertise and experience, and the Nomination Committee regularly reviews potential candidates to supplement the Board and ensure it retains sufficient skills.



CHAIRMAN'S EXPERIENCE

- > Healthcare sector
- > Mergers and acquisitions
- > Leadership roles
- > Human resources
- > Governance of risk management
- > International business experience
- > Procurement

NON-EXECUTIVE SKILL

- > Finance
- > General business
- > Strategy
- > Healthcare
- > Economics
- > Legal



Responsibilities of the Board

King IV

The Board's charter is reviewed annually and is aligned with King IV's governance principles and recommended practices.

RESPONSIBILITIES OF THE BOARD	KEY FOCUS AREAS	KEY ACTIVITIES IN 2017
	Strategy	
	Review and drive Netcare's strategy, including a critical assessment of acquisitions, potential mergers and capital expenditure for expansion.	<ul style="list-style-type: none"> > Approved the revised 2018 Group strategy. > Approved the acquisition of minority interests in GHG by means of a structured equity arrangement (subject to outstanding conditions precedent). > Continued efforts to restructure rental agreements for BMI Healthcare. > Reviewed Medicross' strategy and sub-acute expansion plans for 2018. > Approved a medium-term strategy for Netcare 911.
	Stakeholder inclusiveness	
	Ensure an engagement approach that includes all of Netcare's stakeholders.	<ul style="list-style-type: none"> > Monitored stakeholder management. > Engaged with stakeholders on governance matters, the changing competitive landscape and capitalising on existing procurement protocols. > Enhanced supplier engagement.
	Ethics	
	Govern the Group's approach to ethics and ensure awareness around Netcare's commitment to doing business ethically.	<ul style="list-style-type: none"> > Reviewed executive performance and the adherence of governance committees to their Board-approved, King IV-aligned terms of reference, including a focus on ethical outcomes.
	Material matters	
Debate matters that are material to the business or stakeholder interests.	<ul style="list-style-type: none"> > Oversaw the Group's response to and management of matters considered material to its ability to create and sustain stakeholder value. > Considered and approved the material matters reported in the annual integrated report. 	
Technology governance		
Oversee the governance of technology and information management to support strategy.	<ul style="list-style-type: none"> > Reviewed business efficiency projects and the digitisation strategy. > Reviewed cyber security initiatives and disaster recovery plans. 	
Compliance		
Ensure compliance with changing regulation, particularly King IV, JSE Listings Requirements, National Health Insurance (NHI) and the Competition Commission's private Healthcare Market Inquiry (HMI).	<ul style="list-style-type: none"> > Ensured effective governance and risk management processes. 	

KEY FOCUS AREAS	KEY ACTIVITIES IN 2017
Performance Set performance goals and ensure that the remuneration policy supports value creation.	<ul style="list-style-type: none"> > Reviewed and monitored performance against financial and non-financial targets aligned to the Group's strategic priorities.
Reporting Ensure the integrity and transparency of information.	<ul style="list-style-type: none"> > Oversaw the preparation of the annual integrated report, and the fair presentation of the Group's annual financial statements and other shareholder information. > Reviewed compliance with King IV.

Governance committees (sub-committees of the Board)

The Board delegates duties to governance committees that provide an in-depth focus on specific areas, assisting the Board to discharge its responsibilities. Each governance committee is chaired by an independent non-executive director and certain executives are required to attend governance committee meetings by invitation. External auditors attend Audit Committee meetings. The Board approves the terms of reference for each governance committee, and ensures that they adhere to corporate governance practices, the Companies Act, No. 71 of 2008, other applicable legislation and, where appropriate, international best practice.

King IV	<p>During 2016, all governance committees reviewed the recommended practices and outcomes of King IV, and ensured that they are appropriately embedded in our business model. All committees have amended their terms of reference accordingly.</p> <p>The Company Secretary has confirmed that the Board and its governance committees fully complied with their terms of reference during the reporting period, as does the Chairperson of each respective governance committee.</p>
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AUDIT COMMITTEE	<p>CHAIR: > Thevendrie Brewer</p> <p>MEMBERS¹: > Mark Bower > Azar Jammie > Norman Weltman</p>
	<p>Key focus areas</p> <ul style="list-style-type: none"> > The integrity of the Group's financial statements and accounting policies. > Assurance on the effectiveness of the internal control, governance and risk management systems. > Internal audit, financial risk management, compliance and the information technology (IT) control environment.
	<p>Key activities in 2017</p> <ul style="list-style-type: none"> > Reviewed the planning and implementation of the combined assurance framework from the three lines of defence to the five lines of assurance. > Interrogated the governance and delegation of authority frameworks underpinning the combined assurance model. > Oversaw the external audit function, related audit fees and commented on the proposed mandatory audit firm rotation. > Reviewed the audit firm's and designated individual partner's suitability for appointment in terms of paragraph 22.15(h) of the JSE Listings Requirements. > Reviewed a new data analytics tool to enhance the internal audit approach. > Reviewed Risk Committee reports and all aspects of financial reporting. > Assessed the King IV application register and critically evaluated the outcomes of the recommended practices underpinning the principles in relation to ethics, value creation and effective control. > Ensured appropriate financial reporting procedures and the operation of these procedures.

¹ A recommendation to appoint an additional independent non-executive director to the Audit Committee will be subject to shareholder approval at the next AGM.

NOMINATION COMMITTEE

CHAIR:

> Meyer Kahn

MEMBERS:

> Thevendrie Brewer

> Azar Jammine

Key focus areas

- > Governing structures and delegation of authority.
- > Primary role and responsibilities of the Board.
- > Composition of the Board, succession planning, director appointment and director independence.
- > Leadership requirements of the Group.
- > Legislative compliance.

Key activities in 2017

- > Reviewed the practical implications of assessing director independence in line with King IV's revised criteria.
- > Reviewed the composition of the Board, including independence, and the qualifications and experience of the Company Secretary.
- > Reviewed and assessed the merits of prescribed officers. For 2017, divisional managing directors are deemed to satisfy the definition of prescribed officers in King IV and the Companies Act.
- > Approved the amendments to the director appointment policy, which now requires that diversity and gender are considered when reviewing Board composition and making Board appointments.
- > Ensured that the Board and governance committees act with independence of mind, balance of skills, experience and diversity to fully discharge their roles and responsibilities.

RISK COMMITTEE

CHAIR:

> Norman Weltman

MEMBERS:

> Mark Bower

> Bukelwa Bulu

> Richard Friedland

> Keith Gibson

> Meyer Kahn

> Martin Kuscus

Key focus areas

- > Identification and determination of key risks.
- > The management of key risks, including mitigation plans.
- > Opportunity management, including potential opportunities relating to certain risks and capitalising on strategic opportunities.
- > Technology opportunities and risks, information management and cyber security.
- > The regulatory environment and levels of compliance.

Key activities in 2017

- > Reviewed the reporting and prioritisation of top business risks and the process to self-assess the control activities in place to manage risks.
- > Considered the capitalisation of opportunities that may arise from top business risks.
- > Reviewed the process to manage legal and compliance risk, particularly in terms of the Protection of Personal Information Act (POPIA). No critical compliance issues were raised and the Group is on track to meet POPIA requirements.
- > Oversaw cyber security, information management and data security interventions.
- > Reviewed advances in technology and technological disruptions, as well as information management as a source of competitive advantage.



How we manage risk: [page 34](#) of the annual integrated report.

REMUNERATION COMMITTEE

CHAIR:

> Azar Jammine

MEMBERS:

> Thevendrie Brewer

> Meyer Kahn

Key focus areas

- > Consideration of the context for remuneration policy and decisions.
- > Overview of the remuneration policy, including the environmental, social and governance (ESG) content and implementation.
- > Remuneration awarded and paid to non-executive and executive directors, senior executives and prescribed officers.
- > Remuneration of all other employees.

Key activities in 2017

- > Reviewed the performance metrics used to evaluate executive directors, senior executives and prescribed officers. Key performance indicators measured to determine value creation include patient feedback, innovation, environmental performance, corporate social investment initiatives and cost control.
- > Approved annual salary increase criteria, and incentive payments.
- > Approved directors' fees.
- > Engaged with shareholders on best practice remuneration and enhanced remuneration reporting.
- > Approved the remuneration report which, is aligned to the recommendations of King IV.



Remuneration report: [page 146](#) of the annual integrated report.

SOCIAL AND ETHICS COMMITTEE

CHAIR:

> Kgomotso Moroka

MEMBERS:

> Richard Friedland

> Meyer Kahn

> Martin Kuscus

Key focus areas

- > Embedding an ethical culture.
- > Ethics governance and the effectiveness of ethics management.
- > Ethics within the supply chain and outsourced relationships.
- > Governance of non-profit organisations (NPOs) affiliated to Netcare.
- > Relevant legislative compliance.

Key activities in 2017

- > Reviewed the Group's Broad-based Black Economic Empowerment (B-BBEE) plan with a heightened focus on enterprise and supplier development opportunities, as well as the Group's B-BBEE scorecard.
- > Reviewed Netcare's participation in various internationally accredited governance frameworks and benchmarking exercises.
- > Oversaw the appropriate management of organisational ethics.
- > Enhanced governance oversight of NPOs, including the Netcare Foundation.
- > Approved the process to review the ownership calculations pertaining to the Health Partners for Life trusts.
- > Reviewed progress on environmental sustainability projects.

QUALITY LEADERSHIP COMMITTEE

CHAIR:

> Martin Kuscus

MEMBERS:

> Bukelwa Bulo

> Richard Friedland

> Dena van den Bergh¹

> Norman Weltman

Key focus areas

- > Netcare's quality strategy, particularly:
 - The quality management system (quality assurance and Group ISO 9001:2015 certification).
 - Improving patient experience.
 - Ensuring clinical outcomes and patient safety.

Key activities in 2017

- > Reviewed systems to enhance measurable improvements in quality outcomes.
- > Reviewed initiatives to improve clinician engagement in quality improvement.
- > Assessed and reviewed the final results to be submitted for assessment as part of the Group-wide ISO 9001:2015 certification of Netcare's quality management system in South Africa (SA).
- > Reviewed patient feedback.



Operational reviews: [pages 78 and 102](#) of the annual integrated report.

¹ Resigned effective 31 October 2017.

Director appointment and rotation

Changes in Board composition

J Watts resigned as a director of the Netcare Board with effect from 30 September 2017.

Appointments

We seek to construct an effective, robust, well-balanced and complementary Board that is appropriate for the nature, complexity and strategic demands of the business. We believe that a diverse Board is an essential element of maintaining competitive advantage, as it is able to leverage differences in skills, geographic and industry experience, background, race, gender and other characteristics. When making appointments, consideration is given to candidates with the ability to contribute to a culture of rigorous debate and with the independence, demographic profile, skill and experience required to drive our strategic priorities.

Board appointment and gender diversity policy	Governs Board appointments and ensures a formal and transparent appointment process with a focus on gender and diversity. While gender and diversity targets have not been set, these will be considerations in all future appointments.
Board continuity programme	Addresses succession planning to ensure the effective functioning of the Board over time. It also sets out the director selection and appointment process, director induction and ongoing training needs, and the evaluation of director performance.
Formal induction programme	Enables new non-executive directors to familiarise themselves with the Group's operations, financial affairs and strategic position. This includes engagements with divisional and functional heads, and the internal and external auditors.

Performance evaluation

The assessment of the Board's performance, as well as the performance of its governance committees and individual directors, is overseen by the Chairman's Forum and covers the governance of financial, economic, quality, social and environmental issues. The last assessment, undertaken in November 2016, found that the Board and governance committees are adequately resourced, and the directors appropriately informed and facilitated in performing their functions. The next assessment is scheduled for November 2018, and the forum will consider independent evaluation.

The Board also analysed its membership in terms of succession planning and diversity considerations.

Independence

The Nomination Committee evaluates the continued independence of non-executive directors who have served for a period of nine years or longer, and considers factors that may impair their independence. Following a rigorous objective and subjective review in 2017, and on the recommendation of the Nomination Committee, the Board is satisfied that there are no relationships or circumstances likely to affect, or which appear to affect, the judgement of Messrs JM Kahn, APH Jammine and Adv KD Moroka as independent non-executive directors. The Board is also satisfied that the Chairman of the Board, JM Kahn, is independent and free from any conflicts of interest.

King IV

An objective process with revised criteria was used to determine the independence of non-executive directors and was conducted by the Nomination Committee.

Access to information and professional advice

Directors have unrestricted access to all Group information, records, documents and property. Information is distributed in a timely manner prior to Board meetings, to enable directors to adequately prepare and apply their minds. Directors are entitled, at the Group's expense, to seek professional advice about the affairs of the Group. This can be procured independently or co-ordinated through the Company Secretary.

Conflict of interest

Directors are required to declare any personal financial interests that pose a conflict of interest through a formal disclosure process that takes place on a periodic basis and is a standing agenda item at all Netcare Board meetings. Where conflicts of interest may exist, directors are requested to recuse themselves from meetings. The directors' share dealing policy also requires a declaration of interests.

Board and governance committee meeting attendance

Four board meetings were held during the year, with ad hoc meetings held when necessary.

Director	Netcare Board		Audit Committee		Risk Committee		Nomination Committee		Remuneration Committee		Quality Leadership Committee		Social and Ethics Committee	
MR Bower	<input type="checkbox"/>	4/4	<input type="checkbox"/>	3/3	<input type="checkbox"/>	2/2								
T Brewer	<input type="checkbox"/>	4/4	C	3/3			<input type="checkbox"/>	1/1	<input type="checkbox"/>	2/2				
B Bulu	<input type="checkbox"/>	4/4			<input type="checkbox"/>	2/2					<input type="checkbox"/>	2/2		
RH Friedland	<input type="checkbox"/>	4/4	*		<input type="checkbox"/>	2/2	*		*		<input type="checkbox"/>	2/2	<input type="checkbox"/>	2/2
KN Gibson	<input type="checkbox"/>	4/4	*		<input type="checkbox"/>	2/2								
APH Jammine	<input type="checkbox"/>	4/4	<input type="checkbox"/>	3/3			<input type="checkbox"/>	1/1	C	2/2				
JM Kahn	C	4/4			<input type="checkbox"/>	2/2	C	1/1	<input type="checkbox"/>	2/2			<input type="checkbox"/>	2/2
MJ Kuscus	<input type="checkbox"/>	4/4			<input type="checkbox"/>	2/2					C	2/2	<input type="checkbox"/>	2/2
KD Moroka	<input type="checkbox"/>	4/4											C	2/2
D van den Bergh ¹											<input type="checkbox"/>	2/2		
J Watts ²	<input type="checkbox"/>	3/4												
N Weltman	<input type="checkbox"/>	4/4	<input type="checkbox"/>	3/3	C	2/2					<input type="checkbox"/>	2/2		

Member

C Chairman.

* Invitation.

¹ Resigned with effect from 31 October 2017.

² Resigned with effect from 30 September 2017.

Operating committees

Ten operating committees support the governance committees and the Executive Committee.

OPERATING COMMITTEES	PURPOSE	KEY ACTIVITIES IN 2017
<p>EXECUTIVE COMMITTEE (the principal executive decision-making committee)</p>	<ul style="list-style-type: none"> > Oversees strategic decision-making. > Monitors the competitive landscape. > Shapes and approves the Group's philosophies and practices. > Reviews divisional and operational performance monthly. 	<ul style="list-style-type: none"> > Worked with the Board to refine the SA strategy to account for macroeconomic factors and healthcare trends. > Negotiated the acquisition of the minority shareholding in GHG (subject to outstanding conditions precedent). > Focused on the digitisation and sustainability strategies for the SA operation. > Facilitated Netcare's submissions to the Healthcare Market Inquiry (HMI) and National Health Insurance (NHI). > Reviewed operational efficiencies programmes.
<p>FINANCE AND INVESTMENT COMMITTEE</p>	<ul style="list-style-type: none"> > Monitors capital expenditure against defined hurdles and financial requirements. > Reviews post-implementation updates of key projects. > Monitors treasury protocols. 	<ul style="list-style-type: none"> > Reviewed the Group's transactions approval framework and adherence to the framework. > Reviewed currency risk. > Approved capital and investment projects in terms of Netcare's approval framework. > Undertook post implementation reviews on capital projects.
<p>GHG COMMITTEE (convenes on an ad hoc basis)</p>	<ul style="list-style-type: none"> > Reviews the GHG Board and related committee reports. > Deliberates and reviews strategic issues. > Ensures oversight on issues and decisions specific to the United Kingdom (UK). 	<ul style="list-style-type: none"> > Monitored and reviewed operational performance, and initiatives to enhance efficiencies.
<p>COMBINED ASSURANCE COMMITTEE</p>	<ul style="list-style-type: none"> > Identifies, specifies and co-ordinates a framework of protocols and persons to provide assurance on key risks. > Reports on matters of significance, including high-risk issues and whether the level of assurance provided is suitable. 	<ul style="list-style-type: none"> > Embedded the five levels of assurance matrix, replacing the three lines of defence model. The same approach will be applied when developing combined assurance matrices for divisions and business units.
<p>WORKING CAPITAL COMMITTEE</p>	<ul style="list-style-type: none"> > Monitors and reviews working capital requirements. 	<ul style="list-style-type: none"> > Met 2017 working capital targets.
<p>OPERATIONAL TRANSFORMATION COMMITTEE</p>	<ul style="list-style-type: none"> > Monitors the implementation of transformation strategies and B-BBEE legislation. > Liaises with relevant stakeholders on B-BBEE targets. 	<ul style="list-style-type: none"> > Reviewed the requirements of the revised Department of Trade and Industry's Codes of Good Practice for B-BBEE (dti Codes). > Reviewed progress against the five-year employment equity plan to 2020.

OPERATING COMMITTEES	PURPOSE	KEY ACTIVITIES IN 2017
SUSTAINABILITY COMMITTEE (the Chief Executive Officer (CEO) chairs the committee)	<ul style="list-style-type: none"> > Oversees the sustainability strategy and key environmental issues, including energy efficiency. > Collates environmental data. > Oversees the Group's sustainability reporting. 	<ul style="list-style-type: none"> > Approved key energy enhancement projects. > Oversaw the implementation of various aspects of the sustainability strategy, including water and waste strategies.
IT STEERING COMMITTEE	<ul style="list-style-type: none"> > Manages IT risk and governance within a defined strategy to improve business outcomes. > Provides recommendations and makes decisions regarding IT priorities, including funding and cyber security. 	<ul style="list-style-type: none"> > Reviewed the Control Objectives for Information and Related Technology (COBIT) framework. > Reviewed the Group's IT strategy. > Prioritised continuous business improvement projects.
COMPLIANCE COMMITTEE	<ul style="list-style-type: none"> > Reviews new legislation. > Assesses the level of internal awareness of, and compliance to, existing legislation. 	<ul style="list-style-type: none"> > Reviewed compliance awareness in SA, using a compliance survey. > Increased compliance awareness through compliance training and updates. > Reviewed King IV's recommended practices and aligned them with the Group's governance and delegation of authority framework.
TARIFF COMMITTEE	<ul style="list-style-type: none"> > Provides direction on negotiations with funders. 	<ul style="list-style-type: none"> > Negotiated competitively sustainable tariffs.
PROCUREMENT COMMITTEE	<ul style="list-style-type: none"> > Enhances procurement processes and organisational interfaces. > Negotiates preferential pricing aligned to bulk purchasing. > Reviews the supplier base, including ethics in the supply chain. 	<ul style="list-style-type: none"> > Evaluated tenders to enhance overall competitiveness, quality and conformity to specified requirements. > Provided input into the revised enterprise and supplier development strategy in terms of the dti Codes.

COMPLIANCE

Governance principles

We are committed to and fully endorse the principles of good corporate governance recommended by King IV and set out in the JSE Listings Requirements. We also consider other voluntary codes such as the principles of the United Nations Global Compact, of which we are a member, and the recommendations of the Organisation for Economic Co-operation and Development.

King IV

The **Quadruple Aim** is the foundational principle of Netcare's strategic approach. Its objectives cut across all activities in our business, from the governance and management systems that ensure oversight and control, and delivery against strategy, to the healthcare services we provide, which form an essential part of the national health systems in which we operate. The **Quadruple Aim's** objectives focus on best patient outcomes, best patient experience, and most cost-effective care together with excellent staff training and support. These objectives align to King IV's foundational concepts of ethical leadership, corporate citizenship, sustainable development, stakeholder inclusivity, integrated thinking and reporting, and protecting value created. As a result, our existing governance framework, and delegation of authority, has provided a solid foundation for our implementation of King IV.

We have approached the transition in an inclusive and integrated manner, to ensure that King IV's principles and recommended practices are applied with the aim of achieving the Code's intended outcomes, namely an ethical culture, good performance, effective control and legitimacy.

Reporting frameworks



In line with the requirements of the International Integrated Reporting <IR> Framework, we have identified our material matters, which are set out on page 48 of the annual integrated report.

The Global Reporting Initiative's (GRI) G4 guidelines have been applied to our sustainability reporting, at a core level.

Regulatory compliance

All Group divisions, business units, operational and administrative business areas and subsidiaries are required to comply with all applicable legislation and regulations. The Board is kept informed of regulatory changes, as well as changes to non-binding standards, codes and relevant sector developments that could potentially affect the Group and its operations. Adherence to non-binding rules is considered an integral part of doing business.

Compliance risk is monitored by the Risk Committee and managed through the compliance framework, which includes compliance reviews. Through the Compliance Committee,

the compliance function monitors the legislative landscape on an ongoing basis and assesses the potential impact of new laws and regulatory amendments on the Group. Where changes are required, these responsibilities are assigned to implementation areas and business owners, and must be facilitated within defined timelines.

We use a risk-based approach when reviewing the Group's policies.

Litigation and legal

The Company Secretary, who is also the General Counsel, is responsible for overseeing the Group legal function. Although the outcomes of legal proceedings, claims and actions instituted against the Group cannot be predicted, the Group is suitably resourced to manage this process. Detailed legal reports are provided to the Risk Committee, and the Chair of the Risk Committee reports to the Netcare Board on any material legal matters.

The Group has an insurance policy that insures directors against liabilities they may incur in carrying out their duties.

2017 COMPLIANCE PERFORMANCE

- > The Board is pleased with the Group's transition to the King IV principles and recommended practices, and is satisfied that the Group has complied with the amended JSE Listings Requirements.



Following a governance benchmarking exercise, outlined on page 14, it was found that the Group had applied all of King IV's principles.

- > The Board is satisfied that IT governance is properly managed and aligned to business needs and strategy.
- > A governance, compliance, legislative and contractual risk review was undertaken by each business unit, and included an evaluation of the regulatory environment impacting the Group and the healthcare sector in SA.
- > Compliance with POPIA was enhanced by reviewing the flow of information relating to patients, employees and suppliers, and the IT controls that support these flows. IT controls were reviewed by an external, independent consultant.
- > Training was provided to management and employees on key health sector regulations and the requirements of POPIA.
- > No material fines or penalties were incurred in the year.
- > Following a fronting complaint, the B-BBEE Commission initiated an investigation into certain aspects of the ownership calculations pertaining to the Health Partners for Life trusts. The proceedings are ongoing.
- > The Board is of the opinion that there is no current or pending action that will materially affect the operations of the Group.

King IV impact analysis

The King IV impact analysis undertaken by governance committees in 2016 focused on the following key areas.

FOCUS AREA	RECOMMENDED PRACTICE	ALIGNMENT
Combined Assurance Model (Principle 15)	The governing body should ensure that assurance services and functions enable an effective control environment and support the integrity of information for internal decision-making and external reporting.	Page 17 of governance report.
Delegation of Authority (Principles 8 and 10)	A formal delegation of authority protocol should be in place to delegate particular roles and responsibilities to individuals or standing committees to ensure that the Board's duties are effectively discharged and that it has appropriate oversight.	Page 02 of governance report.
Auditor and audit requirements	King IV places greater focus on assessing and confirming the independence of external auditors. While King IV does not recommend mandatory rotation of external auditors, it does require the disclosure of auditor tenure and feedback on the tender process undertaken, if any.	Page 18 of governance report.
Director independence	King IV has evolved the concept of independence from a list of disqualifications from independence in King III to an interpretive approach, using a reasonable and informed third party.	Page 10 of governance report.
Prescribed officers	Executive members are defined as the members of the executive management team and include executive members of the governing body and prescribed officers as defined in the Companies Act.	Page 07 of governance report.
Remuneration policy	The Board should ensure that remuneration is used to create value in a sustainable manner within the economic, social and environmental context.	Remuneration report in the annual integrated report: page 146.
Social and Ethics Committee	King IV has expanded the role of the Social and Ethics Committee as defined in the Companies Act, to include the oversight and reporting on organisational ethics, responsible corporate citizenship, sustainable development and stakeholder relationships, as well as enhanced governance oversight of NPOs.	Page 08 of governance report.

COMPANY SECRETARY

All directors have access to the advice and services of the Company Secretary, L Bagwandeem, who acts as a conduit between the Netcare Board and the Group. The Company Secretary is responsible for the flow of information to the Board and its governance committees, and for ensuring compliance with Board procedures. In addition to various statutory functions, and while maintaining an arm's length relationship with the Board, the Company Secretary also provides:

- > Individual directors and the Board as a whole with guidance on their duties, responsibilities and powers as set out in Section 88 of the Companies Act.
- > The Board with the requisite advice on issues of law, governance and related matters, including the impact of legislative and regulatory developments.

In line with the JSE Listings Requirements, the qualifications and experience of the Company Secretary were formally evaluated by the Nomination Committee and subsequently ratified by the Board. The committee specifically evaluated the objective nature of the role of the Company Secretary, confirming that she has no affiliation or association to any single Board member, holds no directorship and provides independent advice to the Board as a whole. The evaluation found that the Company Secretary is suitably qualified, experienced, and fit and proper to perform the function of Company Secretary and that an arm's length relationship with the Board is maintained.

SHARE DEALINGS

The directors' dealing policy governs directors' dealings in Netcare shares, and is supplemented with additional guidance on how to manage price sensitive information and the appropriate cautionary conduct required during a closed period. All directors and company secretaries, including those of major subsidiaries, must receive written approval from the Chairman prior to buying or selling Netcare shares. Directors' share dealings are disclosed to the Issuer Regulation Division of the JSE Limited and communicated through its electronic news service.

The Group operates a closed period policy in line with the JSE Listings Requirements. During closed periods, directors, officers and directors of major subsidiaries and associates (as defined by the JSE Listings Requirements) are prohibited from dealing in Netcare shares. Parties who may have access to confidential or price-sensitive information are cautioned against the possibility of insider trading during these periods.

STAKEHOLDER INCLUSION

We have clearly identified our key stakeholder groups and a formal stakeholder communication strategy ensures a comprehensive stakeholder inclusive approach. We use a decentralised stakeholder engagement model where responsibility for proactive and constructive stakeholder engagement is delegated to management.

King IV

Governance mechanisms have been put in place to enhance the implementation of King IV's stakeholder inclusivity principle and recommended practices, which align to our principle of values-based engagement.

SUSTAINABILITY

Group Internal Audit reviewed selected sustainability performance measures for our SA operations and Global Carbon Exchange SA Proprietary Limited independently assured selected environmental indicators. The verification, at a limited level of assurance, was performed in accordance with the principles of the WBCSD/WRI GHG Protocol Corporate Accounting Standard, 2nd Edition, 2004, and with ISO 14064-3 (2006). Netcare's B-BBEE scorecard was also independently verified.

Our direct impact on the environment is limited and we focus on implementing efficiency measures, where applicable. This includes minimising our carbon footprint, energy and water efficiency considerations, and recycling and control of waste. Our environmental policy and management plan comprise defined action plans and targets.

Our sustainability performance is benchmarked using the initiatives outlined below.

Carbon Disclosure Project

Scored a B for both climate change (2016: B) and water (2016: B).

FTSE/JSE Responsible Investment Index

Included in the independently researched FTSE/JSE Top 30 Responsible Investment Index.

	Netcare 2017	Industry classification benchmark 2017
Environmental (out of 5)	5.0	5.0
Social (out of 5)	3.5	5.0
Governance (out of 5)	5.0	5.0
Overall ESG rating (out of 5)	4.4	5.0

Revised dti Code scorecard

Achieved a Level 8 B-BBEE rating.

Dow Jones Sustainability Indices

Included in the Dow Jones World and Emerging Markets Indices for the fourth consecutive year, achieving a score of 91% and ranking fifth in the healthcare providers and services sector.

MSCI ESG Research Inc.

(a research-based indices and analytics provider that assesses ESG business practices)

Rated 'AA' in a seven-point scale (AAA-CCC).

ACCOUNTABILITY AND CONTROL

Financial reporting

The annual financial statements are based on appropriate accounting policies and the external auditors independently examine them in accordance with International Standards on Auditing. The Board is satisfied that the Group annual financial statements for the 2017 financial year fairly present the Group's operational results and financial position.

Going concern

The Group's annual financial statements have been prepared on a going concern basis. The directors have reviewed the Group's budget and cash flow forecasts, and are satisfied that the Group is in a sound financial position with access to sufficient borrowing facilities to meet its foreseeable cash requirements.



Accounting policies used to prepare the annual financial statements, and directors' responsibility and approval can be found in the full annual financial statements.

Internal control and internal audit

The Netcare Board is responsible for ensuring that an appropriate system of internal controls is maintained to provide reasonable assurance that:

- > Netcare's assets are appropriately safeguarded and managed.
- > Losses arising from fraud and/or other illegal acts are minimised.
- > Accounting records, financial statements and operational information are accurate, complete and fairly presented.

Group Internal Audit fulfils an assurance and consulting function, and is mandated to provide independent and objective assurance over Netcare's system of internal controls. It employs a systematic and disciplined approach when evaluating the effectiveness of risk management, control and governance processes. In addition to highlighting process improvements, Group Internal Audit's activities provide assurance to our stakeholders that Netcare operates in a responsible manner.

Group Internal Audit's activities include:

- > Evaluating risk management and governance processes.
- > Undertaking objective assessments on the design of the internal control framework.
- > Systematically analysing and evaluating business processes and the effectiveness of key internal controls.
- > Investigating instances of fraud, corruption, unethical behaviour and irregularities, as well as providing pertinent information on these issues to the Audit and Risk committees and management.
- > Effectively co-ordinating the combined assurance function which streamlines the activities of various assurance providers without compromising the level of assurance attained.

Group Internal Audit reports to the Audit Committee, assisting it to effectively discharge the responsibilities delegated to it by the Netcare Board. This is achieved through independent financial, IT and operational process and control effectiveness reviews. Group Internal Audit's risk-based audit plan is approved annually by the Audit Committee, and the Chair of the Audit Committee meets regularly in separate sessions with management, external audit and Group Internal Audit.

King IV

Group Internal Audit's charter is prepared in accordance with King IV's recommendations and the International Standards for the Professional Practice of Internal Auditing as determined by the Institute of Internal Auditors (IIA Standards). The Audit Charter is presented annually to the Audit Committee for approval.

To ensure that Group Internal Audit remains independent and sufficiently objective, and meets its responsibilities, the Head of Group Internal Audit reports functionally to the Chair of the Audit Committee and administratively to the Group Chief Financial Officer (CFO). The Head of Group Internal Audit has unrestricted access to all company records and employees, including the Group CEO, the Chairman of the Netcare Board, and the Chair and members of the Audit Committee.

The teams working within Group Internal Audit are appropriately qualified and experienced holding, as a minimum, a Bachelor of Commerce degree and signed off articles from the South African Institute of Chartered Accountants (SAICA).

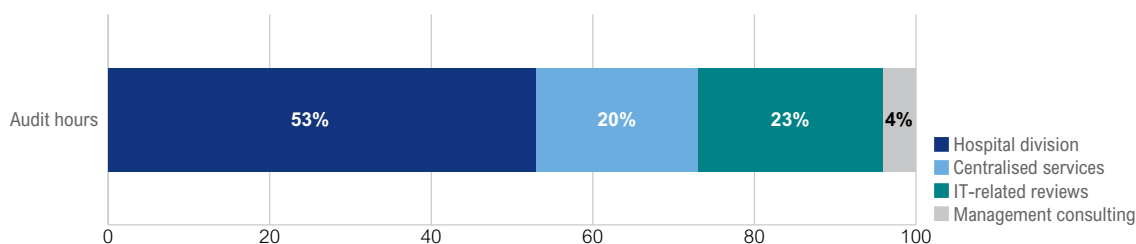
In line with the requirements of the IIA Standards, Group Internal Audit undergoes an independent quality review at least every five years. This assessment was undertaken in the 2013 financial year by a globally recognised external audit firm, which concluded that the internal audit function generally conforms to the IIA Standards. The next external quality review is planned for 2018.



Audit committee report in the annual financial statements.

2017 GROUP INTERNAL AUDIT ACTIVITIES

- > Presented the results of the audit reviews to the Audit Committee and senior management.
- > Provided progress updates to the Audit Committee on Group Internal Audit's performance against the audit plan, the critical success factors used to monitor Group Internal Audit's performance and the adequacy of the function's resources.
- > Reported to the Audit Committee on the quality assurance and improvement programme.
- > Presented to the Audit Committee the control compliance trends for the past four years and the positive impact made by the control self-assessments.
- > Responded to management requests to provide either assurance or consulting services in various areas of the business as authorised by the Audit Committee's Chair and the Group CFO.
- > Regularly reported to divisional internal audit committees and the Audit Committee on the status of agreed remedial actions implemented to support and maintain a sound control environment.
- > Continued to expand the application of the new data analytics tool which is expected to enhance the internal audit approach and coverage going forward by enabling the interrogation of entire transaction groups (previously limited to random samples).



Combined assurance in SA

King IV

A revised combined assurance approach was approved by the Audit Committee in July 2017 and referred to the Board for ratification. Our five levels of assurance model, underpinned by a governance framework and delegation of authority, is designed to effectively address the organisation's key risks and material matters through a combination of the assurance service providers and functions appropriate for the organisation. The Board delegates the oversight of assurance to various governance committees and management, who are assisted by expert independent and non-independent advisors in terms of the five levels of assurance.

Five levels of assurance model

	Non-independent assurance providers		Independent assurance providers	
Level 1	Level 2	Level 3	Level 4	Level 5
Assurance provided to the Board by governance committees.	Executive management, including elements of strategy implementation, performance measurement and continuous monitoring mechanisms.	Specialist functions, independent from management, that facilitate and oversee risk management and compliance.	Independent internal assurance providers.	Independent external assurance providers.
For example: Audit Committee.	For example: Management self-assessments.	For example: Risk Management function.	For example: Group Internal Audit.	For example: External auditors.

The Combined Assurance Committee co-ordinates the efforts of all assurance providers to avoid duplication, assess inter-related risks and optimise costs. It assesses the skills and experience of the assurance providers and the nature and extent of the assurance work provided. The committee also considers Netcare's top business risks, and the plans and processes in place to manage these risks, including the relevant assurance providers.

The committee meets at least twice a year and reports to the Audit and Risk committees. The Chair of the Audit Committee approves its terms of reference, and committee members include members of the Executive Committee, representatives from Group Internal Audit, and key business unit managers.

External audit

King IV

The Audit Committee has agreed to supplement the audit report in the annual financial statements with more disclosure on key matters relating to the audit.

The review of external auditor services is now a recurring Audit Committee agenda item and the committee will start preparing for the implementation of mandatory auditor rotation effective 1 April 2023.

GOVERNANCE OF IT

IT plays a critical role in achieving the Group’s objectives and managing its risks. Integrating good governance into the Group’s IT requirements ensures that our business practices are sustainable.

IT governance structures

SA	IT Steering Committee	Proactively manages IT risk and governance within a defined strategy, which aims to improve business outcomes.
	COBIT framework	Provides a governance and management foundation for IT-related decisions and investments.
	IT department headed by a Chief Information Officer (CIO)	The CIO is responsible for the IT governance strategy, which includes defining the information architecture, acquiring the necessary hardware and software to execute the Group’s strategy, managing projects, data security, ensuring continuous service, and monitoring the performance of IT systems.
	POPIA Steering Committee	Oversees the Group’s initiatives to ensure compliance with legislative requirements when POPIA becomes fully effective.
UK	Technology & Innovation Committee	Promotes the effective selection and delivery of new technology across BMI Healthcare to drive business performance, improve patient and consultant interaction and enhance competitive advantage.
	Information Governance Committee	Oversees matters relating to information governance, and reports directly into BMI Healthcare’s Governance Committee (refer to page ●●).

ETHICS

The fundamental concept of embedding governance practices that are ethical, integrated and stakeholder inclusive remains largely unchanged between King III and IV. The Board recognises that good governance emanates from leadership that is characterised by the ethical values of responsibility, accountability, fairness and transparency. All our divisions are committed to a policy of fair dealing and integrity in the conduct of their business, and all employees are expected to share our commitment to high moral, ethical and legal standards.

Netcare’s Code of Ethics (the Code) articulates our policy on conflicts of interest, gifts, confidentiality, fair dealings and the protection and appropriate use of Netcare’s assets. Policies are in place to ensure that all employees disclose any potential conflicts of interest, as well as any gifts or invitations by a supplier or third party. The Board is committed to ensuring that the Code is consistently applied within the Group, and a number of initiatives are used to entrench the Code’s principles, and build and maintain a values-based culture beyond mere compliance, including training interventions and an annual survey.

We are mindful of the professional codes that govern the conduct and ethics of healthcare professionals in SA. The Group supports the Health Professions Council of South Africa (HPCSA) in its endeavours to enforce its code, principles and values.

We encourage our employees to be fully aware of their human rights, facilitated through an awareness programme that is part of our induction programme.

Managing unethical behaviour

We take a zero-tolerance approach to theft, fraud and corruption. Group Forensics evaluates all reported incidents of theft, fraud and corruption to determine the appropriate manner in which these incidents should be investigated. All identified cases are reported to the South African Police Services and, where appropriate, to the applicable registered bodies such as the HPCSA. Civil recoveries are pursued by prejudiced business units where financially appropriate.

A number of mechanisms are in place for stakeholders to report irregularities such as alleged theft, or fraudulent, corrupt or unethical behaviour, including unethical medical behaviour. Employees, management and external parties can contact Group Forensics by telephone, email or meeting request, or they can use the fraud and ethics hotline to protect their anonymity. These mechanisms are available to all Netcare employees in SA and to the public, including patients and suppliers.

Every incident reported through these mechanisms is investigated, logged in the defalcation register and reported to management every second month. A forensics report summarising the defalcation register, fraud trends and material incidents is included in the meeting packs distributed to the Audit, Risk, Quality Leadership and Social and Ethics committees.

Fraud awareness initiatives include road shows, fraud awareness posters and regular alerts and emails communicating recent fraud trends and the nature of matters investigated by Group Forensics.

To support our zero tolerance of discrimination and racism, an anonymous toll-free line allows employees to report alleged or perceived discriminatory or racist action or behaviour. The service is delivered in partnership with Independent Counselling and Advisory Services (ICAS), which operates a confidential call centre. All reports are forwarded confidentially to senior human resource practitioners for investigation and management.

Fraud and ethics reporting (SA only)

	2017	2016	2015
Incidents of alleged fraud and irregularities	309	317	272
Incidents of alleged unethical medical behaviour	3	2	2
Total incidents of alleged misconduct	312	319	274
Incidents investigated and closed ¹	278	281	235
Incidents reported through the fraud and ethics hotline ²	60	40	41

¹ Open cases are still being investigated.

² The balance of incidents were reported through other mechanisms such as direct engagement or email.

The fraud and ethics hotline facilitates anonymous reports of unethical behaviour:

0680FRAUD1 (0860 372 831).

If anonymity is not a concern, reports can be made to:

fraud@netcare.co.za.

Toll-free line to report incidents of discrimination:

0800 611 036.

CORPORATE GOVERNANCE IN THE UK

The GHG Board leads our corporate governance in the UK, which includes BMI Healthcare's sustainability, safety and quality activities.

Philosophy

GHG and its operational subsidiaries, including BMI Healthcare, strive to maintain the highest standards of discipline, integrity and transparency, combining the twin requirements of compliance and performance. We operate in accordance with local legal requirements and the general principles of corporate governance and good practice, while also addressing stakeholder expectations.

Board composition

Non-executive directors

There are currently nine non-executive directors, appointed by and drawn from GHG's investors. The shareholders' agreement provides scope for a non-executive Chairman, independent of shareholders.

Executive directors

GHG's CEO and CFO sit on the GHG Board. Jill Watts resigned from her position as GHG's CEO with effect from 30 September 2017 and handed over operational and executive responsibilities to Dr Karen Prins, effective 1 October 2017. The CFO is Henry Davies, appointed 1 September 2015. The CEO is responsible for BMI Healthcare's day-to-day operational performance and strategic development and the CFO, for BMI Healthcare's financial management.

General Counsel and Company Secretary

GHG's General Counsel and Company Secretary is not a director of the Board but attends Board meetings and ensures proper meeting records are kept. In addition, the General Counsel and Company Secretary is responsible for advising the Board and executives, and ensuring GHG's compliance with its legal and regulatory responsibilities.

Netcare is the majority shareholder in GHG.

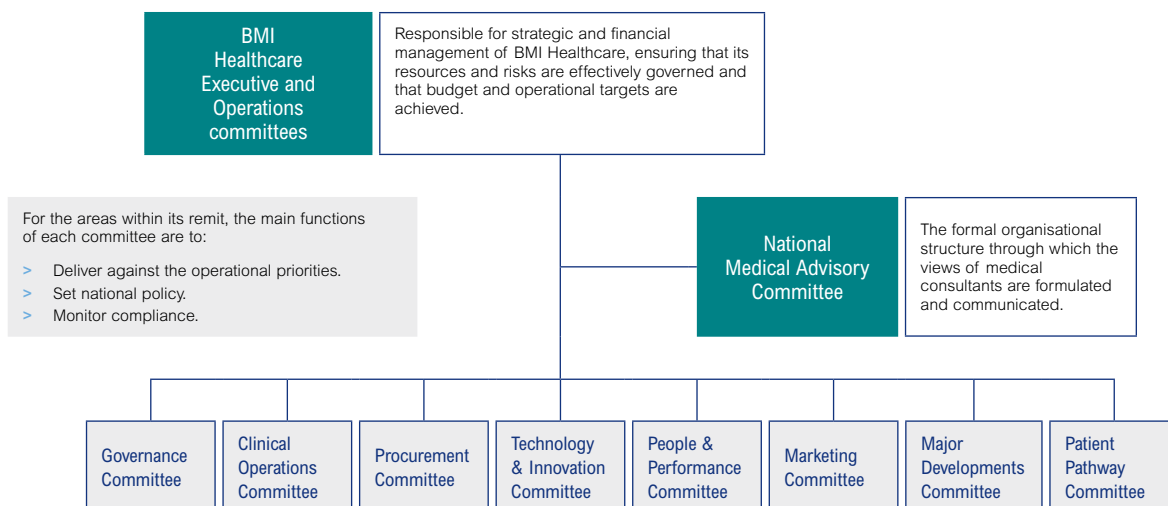
Governance committees

All governance committees are chaired by a non-executive director.

COMMITTEE	RESPONSIBILITIES
AUDIT COMMITTEE	<ul style="list-style-type: none"> > Appoints and agrees the remuneration of external auditors. > Has overall responsibility for the internal and external audit of GHG's financial and other activities, and reporting. > Oversees BMI Healthcare's internal controls and other financial and business risks, including specific compliance functions.
REMUNERATION COMMITTEE	<ul style="list-style-type: none"> > Reviews and sets BMI Healthcare's remuneration strategy, including salary and benefit levels and short- and long-term incentives, to ensure competitive remuneration. > Monitors the management of equity and any other management incentive arrangements.
FINANCE AND INVESTMENT COMMITTEE	<ul style="list-style-type: none"> > Reviews potential capital investments and capital projects. > Reviews capital projects post implementation.

BMI Healthcare's Executive Board was established in January 2015 and comprises BMI Healthcare's senior executive management team. In October 2017, the Executive Board became the Executive Committee and is the principal executive decision-making body within BMI Healthcare. It is supported by the newly constituted Operations Committee. The terms of reference and key performance indicators for both the Executive and Operations committees and BMI Healthcare's national committees are annually reviewed, and revised where appropriate. All national committees ultimately report to the Executive Committee and are attended by relevant corporate and operational executives. In 2018, the number of committees across BMI Healthcare will be reviewed and consolidated, where appropriate, without reducing the level of oversight and governance.

GHG and BMI Healthcare national committee structure



Ethics

BMI Healthcare's Code of Business Conduct defines and provides the structure to govern and manage illegal and unethical behaviour, and applies to all employees. It requires that our employees act ethically, professionally and with integrity in their dealings with all stakeholders. The management of appropriate behaviour is further guided by the anti-bribery and corruption policy on which senior employees receive training.

Our business conduct policy covers our basic values, confidential information, equality and diversity, gifts and entertainment, accuracy and integrity of records, health and safety standards, conflicts of interest and outside interests, integrity in business dealings and monitoring and compliance.

Our staff can anonymously raise concerns that relate to fraud, unethical conduct or business practices and other concerns through our whistle-blowing mechanism, either telephonically or through email. Information on how to use the whistle-blowing mechanism is provided in our whistle-blowing policy. When issues are raised, immediate action is taken to investigate and address the matter, including implementing disciplinary action where this is appropriate. Doctors working in hospitals can raise concerns with either hospital management or regional and corporate directors, including the Group Medical Director. Patient concerns can be directed to hospital management or anonymously through our patient survey which is administered by an independent third party.

As part of our commitment to an open and honest reporting culture, we will soon appoint a 'Freedom to Speak Up' guardian, whose role will be to offer guidance and support for staff who are not able to report issues through their line managers.

Fraud and whistle-blowing hotline

	2017	2016	2015
Number of incidents reported through the whistle-blowing mechanism			
– Alleged fraud	8	9	6
– Other concerns (for example interpersonal issues)	6	10	14
Total	14	19	20