

KING III COMPLIANCE REPORT: FY16

In South Africa, in terms of the JSE Listings Requirements as well as the King Report on Governance for South Africa and the King Code of Governance Principles (King III), companies are required to disclose compliance with the latter in the current reporting year. The table below details Harmony's compliance status as at 26 October 2016. We provide supplementary information in support of the application of each of these governance standards within our company. This scorecard should be read in conjunction with the Integrated Annual Report 2016, which is available at www.har.co.za.

Principle	Applied	Explanation/comment
Principle 1.1		
The board should provide effective leadership based on an ethical foundation.	✓	The board of directors has established management structures and processes based on ethical values and good corporate governance principles, ensuring Harmony's business is sustainable in terms of our financial, social and environmental performance. The board is governed by its terms of reference available at https://www.harmony.co.za/sustainability/governance#policies .
Principle 1.2		
The board should ensure the company is and is seen to be a responsible corporate citizen.	✓	Responsible citizenship is a core principle underpinning Harmony's values and a key component of the board's terms of reference. Through its social and ethics committee, the board ensures the company remains a committed, socially responsible corporate citizen. For more information, refer to the social and ethics committee report on page 19 of the Integrated Annual Report 2016 and, for the social and ethics committee terms of reference, please refer to https://www.harmony.co.za/sustainability/governance#policies on our website.
Principle 1.3		
The board should ensure the company's ethics are managed effectively.	✓	Harmony's code of conduct (the code) (https://www.harmony.co.za/sustainability/governance#policies) was adopted and updated to respond to the challenge of ethical conduct in the business environment. For more information on the code of conduct, refer to page 132 of the Integrated Annual Report 2016.
Principle 2.1		
The board should act as the focal point for and custodian of corporate governance.	✓	The board advocates effective, responsible leadership and aims to lead by example. Governance structures and processes are regularly reviewed and adapted to accommodate internal developments, and reflect national and international best practice while considering the best interests of the company.

Principle	Applied	Explanation/comment
Principle 2.2		
The board should appreciate that strategy, risk, performance and sustainability are inseparable.	✓	As reflected in its terms of reference, and as is evident in the content of the integrated annual report, the board appreciates that strategy, risk, performance and sustainability are inseparable. The board annually considers and reviews the company's strategy relative to its risks, performance and sustainability, at a strategy session arranged specifically for this purpose.
Principle 2.3		
The board should provide effective leadership based on an ethical foundation.	✓	Refer to principle 1.1.
Principle 2.4		
The board should ensure the company is and is seen to be a responsible corporate citizen.	✓	Refer to principle 1.2.
Principle 2.5		
The board should ensure the company's ethics are managed effectively.	✓	Refer to principle 1.3.
Principle 2.6		
The board should ensure the company has an effective and independent audit committee.	✓	The board has approved the mandate for the audit committee, which includes monitoring risk management. At Harmony, the committee is, therefore, known as the audit and risk committee. In FY16, the committee again complied with the legal, regulatory and other responsibilities assigned to it by the board in terms of its terms of reference. These are detailed in this committee's report on page 146 of the Integrated Annual Report 2016, which confirms the audit and risk committee's effectiveness and independence.
Principle 2.7		
The board should be responsible for the governance of risk.	✓	Refer to principle 2.6. The board is assisted in this by the audit and risk committee, ensuring that any significant risks facing Harmony are adequately addressed. For more information, refer to risk management on page 29 of the Integrated Annual Report 2016.
Principle 2.8		
The board should be responsible for information technology governance.	✓	The audit and risk committee oversees and monitors information technology governance on behalf of the board, and views this as an important aspect of risk management. Refer to the audit and risk committee report on page 146 of the Integrated Annual Report 2016.

Principle	Applied	Explanation/comment
Principle 2.9		
The board should ensure the company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	✓	Refer to a discussion of our legislative compliance on page 132 of the Integrated Annual Report 2016.
Principal 2.10		
The board should ensure there is an effective risk-based internal audit.	✓	<p>The internal audit function assists the board and management by independently reviewing the adequacy and effectiveness of Harmony's systems of internal control. Significant findings are reported to the audit and risk committee, and follow-up audits are conducted in areas where significant internal control weaknesses are found. Harmony has an in-house internal audit function and co-sourced arrangements with audit firms to provide assurance on the effectiveness of governance, risk management and the internal control environment.</p> <p>The purpose, authority and responsibility of the internal audit function are formally documented in the internal audit charter, as approved by the audit and risk committee.</p>
Principle 2.11		
The board should appreciate that stakeholders' perceptions affect the company's reputation.	✓	The board considers and responds to the legitimate interests and expectations of Harmony's stakeholders. The social and ethics committee receives quarterly reports on stakeholder engagement, and reports thereon at board meetings. Board members are also regularly apprised of stakeholder perceptions after management road shows and other stakeholder engagements. For more information on the company's stakeholder engagements, refer to page 35 of the Integrated Annual Report 2016.
Principle 2.12		
The board should ensure the integrity of the company's integrated report.	✓	The integrated report is reviewed by the audit and risk committee in conjunction with the social and ethics committee (on sustainability matters). The report is recommended to the board for approval.
Principle 2.13		
The board should report on the effectiveness of the company's system of internal controls.	✓	Refer to principle 2.10.

Principle	Applied	Explanation/comment
Principle 2.14		
The board and its directors should act in the best interests of the company.	✓	The board debates issues rationally and with sufficient information from management to reach an objective assessment. All directors are mindful of their duty to act in the best interests of the company. The board has approved a policy for dealing in Harmony shares, which applies to directors, the company secretary and certain restricted employees.
Principle 2.15		
The board should consider business-rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed, as defined in the Companies Act.	✓	Twice a year, the board assesses Harmony's ability to continue as a going concern, in detail, and monitors its financial performance quarterly, to assess whether the company is financially distressed, for the purposes of considering business-rescue proceedings and to ensure sound financial management. In addition, the board receives a quarterly update on the operations and the financial position of the company through the technical, investment and audit and risk committees as well as at the board meeting.
Principle 2.16		
The board should elect a chairman who is an independent non-executive director. The chief executive officer of the company should not also fulfil the role of chairman of the board. JSE Listings Requirements section 3.84(c).	✓	For a discussion of our board leadership, refer to page 126 of the Integrated Annual Report 2016. Our chairman is not considered to be independent and, therefore, we appointed a lead independent director. The chief executive officer of the company is not the chairman of the board.
Principle 2.17		
The board should appoint the chief executive officer and establish a framework for the delegation of authority.	✓	The board appointed Peter Steenkamp as the company's chief executive officer with effect from 1 January 2016. The company's delegation of authority is revised and refreshed when necessary and at least every second year to keep it updated with any changes that may affect the authority framework.

Principle	Applied	Explanation/comment
Principle 2.18		
<p>The board should comprise a balance of power with a majority of non-executive directors. The majority of non-executive directors should be independent.</p> <p>JSE Listings Requirements section 3.84(b).</p>	✓	<p>For a discussion of our board leadership, refer to page 126 of the Integrated Annual Report 2016.</p>
Principle 2.19		
<p>Directors should be appointed through a formal process.</p> <p>JSE Listings Requirements section 3.84(a).</p>	✓	<p>For a discussion on the appointment of directors, refer to page 126 of the Integrated Annual Report 2016.</p>
Principle 2.20		
<p>The induction and ongoing training and development of directors should be conducted through formal processes.</p>	✓	<p>For a discussion on board induction and training, refer to page 127 of the Integrated Annual Report 2016.</p>
Principle 2.21		
<p>The board should be assisted by a competent, suitably qualified and experienced company secretary</p> <p>JSE Listings Requirements section 3.84(i) and (j).</p>	✓	<p>For a discussion on the company secretary, refer to page 131 of the Integrated Annual Report 2016.</p>
Principle 2.22		
<p>The evaluation of the board, its committees and individual directors should be performed every year.</p>	✓	<p>For a discussion on the evaluation of the board, refer to page 132 of the Integrated Annual Report 2016.</p>

Principle	Applied	Explanation/comment
Principle 2.23		
The board should delegate certain functions to well-structured committees without abdicating its own responsibilities. JSE Listings Requirements section 3.84(d).	✓	For a discussion of the board committees, refer to page 128 of the Integrated Annual Report 2016.
Principle 2.24		
A governance framework should be agreed between the group and its subsidiary boards.	✓	The board reviewed its delegation of authority and approved a revised delegation of authority framework on 25 August 2014.
Principle 2.25		
Companies should remunerate their directors and executives fairly and responsibly.	✓	For more information on Harmony's remuneration policy, refer to the remuneration report (page 135) in the Integrated Annual Report 2016.
Principle 2.26		
Companies should disclose the remuneration of each director and certain senior executives.	✓	Refer to the remuneration report on page 134 of the Integrated Annual Report 2016.
Principle 2.27		
Shareholders should approve the company's remuneration policy.	✓	The company's remuneration policy is presented to shareholders for a non-binding advisory vote at each annual general meeting. Refer to the FY16 notice of the annual general meeting contained in the Report to Shareholders 2016 (available at www.har.co.za).
Principle 3.1		
The board should ensure the company has an effective and independent audit committee.	✓	Refer to principle 2.6.

Principle	Applied	Explanation/comment
Principle 3.2		
Audit committee members should be suitably skilled and experienced independent non-executive directors.	✓	All five members of the audit and risk committee are independent non-executive directors. The board is satisfied that members of this committee collectively have the appropriate knowledge and experience to fulfil their mandate. For more information on the audit and risk committee, refer to page 128 of the Integrated Annual Report 2016.
Principle 3.3		
The audit committee should be chaired by an independent non-executive director.	✓	The chairman of this committee is an independent non-executive director.
Principle 3.4		
The audit committee should oversee integrated reporting.	✓	Refer to the audit and risk committee report on page 146 of the Integrated Annual Report 2016. Also refer to principle 2.12 and principle 9.2.
Principle 3.5		
The audit committee should ensure that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities.	✓	Refer to the audit and risk committee report on page 146 of the Integrated Annual Report 2016.
Principle 3.6		
The audit committee should satisfy itself of the expertise, resources and experience of the company's finance function. JSE Listings Requirements section 3.84(g) and (h).	✓	Refer to the audit and risk committee report on page 146 of the Integrated Annual Report 2016.
Principle 3.7		
The audit committee should be responsible for overseeing the internal audit function.	✓	Refer to principle 2.10.

Principle	Applied	Explanation/comment
Principle 3.8		
The audit committee should be an integral component of the risk management process.	✓	Management is responsible for implementing effective risk management processes. This is overseen by the audit and risk committee on behalf of the board. A comprehensive report on risk management appears on page 29 of the Integrated Annual Report 2016.
Principle 3.9		
The audit committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process.	✓	Refer to the audit and risk committee report on page 146 of the Integrated Annual Report 2016.
Principle 3.10		
The audit committee should report to the board and shareholders on how it has discharged its duties.	✓	The audit and risk committee reports to the board each quarter on how it has discharged its statutory duties, as well as those assigned to it by the board. This information is also disclosed for the period under review in the Integrated Annual Report 2016.
Principle 4.1		
The board should be responsible for the governance of risk.	✓	Refer to principle 2.7.
Principle 4.2		
The board should determine the levels of risk tolerance.	✓	Refer to the audit and risk committee report on page 146 of the Integrated Annual Report 2016.
Principle 4.3		
The risk committee or audit committee should assist the board in carrying out its risk responsibilities.	✓	Refer to principle 2.7.
Principle 4.4		
The board should delegate to management the responsibility to design, implement and monitor the risk management plan.	✓	The risk management policy and plan is implemented by management through co-ordinated risk management processes. Oversight of these processes lies with the audit and risk committee.

Principle	Applied	Explanation/comment
Principle 4.5		
The board should ensure risk assessments are performed on a continuous basis.	✓	Risk identification, assessment, response and monitoring are performed on a weekly basis at operational level while the executive committee reviews the corporate/strategic risk profile each quarter. Management provides formal quarterly risk reports to the audit and risk committee.
Principle 4.6		
The board should ensure frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks.	✓	Refer to principle 4.5.
Principle 4.7		
The board should ensure that management considers and implements appropriate risk responses.	✓	Refer to principle 4.5.
Principle 4.8		
The board should ensure continual risk monitoring by management.	✓	Refer to principle 4.5.
Principle 4.9		
The board should receive assurance regarding the effectiveness of the risk management process.	✓	Management provides formal risk reports to the audit and risk committee each quarter. In addition, evaluation of the risk management process forms part of the internal audit coverage plan.
Principle 5.1		
The board should be responsible for information technology governance.	✓	Refer to principle 2.8.
Principle 5.2		
Information technology should be aligned with the performance and sustainability objectives of the company.	✓	For a discussion of information technology, refer to page 133 of the Integrated Annual Report 2016.

Principle	Applied	Explanation/comment
Principle 5.3		
The board should delegate to management the responsibility for implementation of an information technology governance framework.	✓	Management is responsible for implementing the information technology governance framework.
Principle 5.4		
The board should monitor and evaluate significant information technology investments and expenditure.	✓	The audit and risk committee monitors the return on investment from significant information technology projects. Information technology management ensures that key elements of appropriate project management principles are applied to all information technology projects.
Principle 5.5		
Information technology should form an integral part of the company's risk management.	✓	A management information technology steering committee has oversight of various aspects of information technology, including governance, compliance and business continuity.
Principle 5.6		
The board should ensure information assets are managed effectively.	✓	Formal processes are in place to protect and manage information, including sensitive information processed by the company.
Principle 5.7		
A risk committee and audit committee should assist the board in carrying out its information technology responsibilities.	✓	Refer to principle 2.8.
Principle 6.1		
The board should ensure the company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	✓	Refer to principle 2.9.

Principle	Applied	Explanation/comment
Principle 6.2		
The board and each director should have a working understanding of the effect of applicable laws, rules, codes and standards on the company and its business.	✓	Refer to principle 2.20.
Principle 6.3		
Compliance risk should form an integral part of the company's risk management process.	✓	Refer to principle 2.7.
Principle 6.4		
The board should delegate to management the implementation of an effective compliance framework and processes.	✓	Refer to principle 2.9.
Principle 7.1		
The board should ensure there is an effective risk-based internal audit.	✓	Refer to principle 2.10.
Principle 7.2		
Internal audit should have a risk-based approach to its plan.	✓	A fully risk-based audit coverage plan has been developed and approved by the audit and risk committee. This is in line with activities surrounding the roll out of the enterprise risk management strategy, coupled with the combined assurance strategy.
Principle 7.3		
Internal audit should provide a written assessment of the effectiveness of the company's system of internal control and risk management.	✓	Internal audit provides an annual written assessment to the audit and risk committee. This assessment is in accordance with the annual coverage plan.

Principle	Applied	Explanation/comment
Principle 7.4		
The audit committee should be responsible for overseeing internal audit.	✓	Refer to principle 2.10.
Principle 7.5		
Internal audit should be strategically positioned to achieve its objectives.	✓	Refer to principle 2.10.
Principle 8.1		
The board should appreciate that stakeholders' perceptions affect a company's reputation.	✓	Refer to principle 2.11.
Principle 8.2		
The board should delegate to management to proactively deal with stakeholder relationships.	✓	For an overview of our stakeholder engagement, refer to page 35 of the Integrated Annual Report 2016.
Principle 8.3		
The board should strive to achieve the appropriate balance between its various stakeholder groupings in the best interests of the company.	✓	The company has a formal stakeholder engagement policy. For an overview of our stakeholder engagement, refer to page 35 of the Integrated Annual Report 2016.
Principle 8.4		
Companies should ensure the equitable treatment of shareholders.	✓	All shareholders, including minority shareholders, are treated equally. The company abides by the requirements of the JSE and New York Stock Exchange, ensuring that full, equal and timeous public disclosure is made to all shareholders and the general public on any price-sensitive activities on the part of Harmony.
Principle 8.5		
Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence.	✓	In terms of our stakeholder engagement policy and in line with our corporate values of honesty and connectedness, the board provides information to stakeholders that is complete, timely, relevant, accurate and easily accessible.

Principle	Applied	Explanation/comment
Principle 8.6		
The board should ensure disputes are resolved as efficiently and expeditiously as possible.	✓	The audit and risk committee monitors all material legal disputes and reports to the board quarterly. Proper dispute resolution practices are in place.

Principle 9.1		
The board should ensure the integrity of the company's integrated report.	✓	Refer to principle 2.12.
Principle 9.2		
Sustainability reporting and disclosure should be integrated with the company's financial reporting.	✓	Refer to principle 2.12 and principle 3.4.
Principle 9.3		
Sustainability reporting and disclosure should be independently assured.	✓	Each year, selected key performance indicators – those most material to stakeholders' understanding of our performance – are independently assured. The social and ethics committee, under its terms of reference, approves the material elements of sustainability reporting over which the external assurance provider should provide assurance, and ensures that a formal process of assurance on sustainability reporting is established through the audit and risk committee.