

Ascendis Health Limited

Application of King III Principles

In terms of the JSE Listings Requirements, companies are required to disclose how each of the 75 principles of the King Code have been applied or explain why or to what extent they were not applied.

This register should be reviewed on a regular basis to ensure that the disclosures are current and remain relevant. Ascendis Health limited (“Ascendis”) plans to update the schedule after the publication of its first integrated report in September 2014.

Key

1 – Not applied/will not be applied

2 – In process/partially applied

3 – Full application

Principle per King III	Level of application	Comments
1. Ethical leadership and corporate citizenship		
1.1 The board should provide effective leadership based on an ethical foundation	3	The board embraces sound ethics. During the 2012/2013 financial year, the board reviewed its charter as well as the Group’s Code of Ethics which sets out the basis for the Group’s ethics framework.
1.2 The board should ensure that the company is, and is seen to be, a responsible corporate citizen	3	The board ensures that Ascendis supports all stakeholders’ aspirations. Non-financial performance, risks and the impact of operations are considered by the board at its meetings. The Transformation, Social and Ethics and Sustainability committees are mandated to consider sustainability matters at its meetings.
1.3 The board should ensure that the company’s ethics are managed effectively	2	The ethical standards that guide the Group’s relationships with stakeholders are governed by the Code of Ethics. A Code of Ethics has been adopted by the Group and compliance with the code forms part of the management’s mandate. To ensure that the board has full oversight of ethics related matters, regular reports on the Group’s ethical performance are provided to the audit, risk as well as transformation, social and ethics and sustainability committees. The Social and Ethics committee has just been established and will comment on the application of the Code of Ethics
2. Board and directors		
2.1 The board should act as the focal point for and custodian of corporate governance	3	The board charter specifically emphasizes this responsibility. Through its meetings and interaction with management the board ensures that applicable principles are implemented and a high level of compliance maintained.
2.2 The board should appreciate that strategy, risk, performance and sustainability are inseparable	2	In assessing performance and strategy, the board takes cognisance of sustainable development and risk management. This performance is assessed by the board committees and reported on at board meetings.
2.3 The board should provide effective leadership based on an ethical foundation	3	The board is responsible to determine the Group’s strategic direction and to provide oversight of corporate governance.

2.4 The board should ensure that the company is and is seen to be a responsible corporate citizen	2	The board is responsible for ensuring that the Group protects, enhances and invests in the well-being of the economy, society and natural environment.
2.5 The board should ensure that the company's ethics are managed effectively	2	The management of ethics forms an important aspect of the board's responsibility and focus. Regular reports on ethical matters are received from Audit Committee, as well as the Transformation, Social and Ethics, and Sustainability Committee which has been formed recently, and which has established an Ethics hotline.
2.6 The board should ensure that the company has an effective and independent Audit committee	3	The Group's audit committee consists entirely of non-executive directors with the majority being independent, and each with significant, relevant experience. Its effectiveness is assessed by the board on an annual basis. The audit committee is appointed by the board on an annual basis and approved by shareholders at the annual general meeting.
2.7 The board should be responsible for the governance of risk	3	The Risk committee assists the board to execute its responsibility in this regard and oversees and monitors risks within the Group. The board has delegated responsibility to the Risk committee.
2.8 The board should be responsible for information technology (IT) governance	2	An IT steering committee which includes the chief financial officer and head of IT is in the process of being established. This committee will report to the Risk committee. An IT governance charter which defines the structures, processes and responsibilities for IT governance is being developed. An IT officer is currently being resourced at head office.
2.9 The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards	2	The board is responsible for ensuring that the Group complies with applicable laws, non-binding rules, codes and standards. The Risk and the Transformation, Social and Ethics and Sustainability committees assist the board to monitor such compliance.
2.10 The board should ensure that there is an effective risk-based internal audit	3	The board through the Audit and Risk committees has established a Group-wide risk-based internal audit function whose purpose, authority and responsibilities are defined in a board-approved charter that is consistent with the principles of King III.
2.11 The board should appreciate that stakeholders' perceptions affect the company's reputation	3	The board reviews all significant stakeholder matters and perceptions and guides management in dealing with these in order to manage such perceptions and reputational risk. In this regard, the board ensures that the Group operates on the basis of transparency and that consistent and timeous information communication is disseminated to all stakeholders.
2.12 The board should ensure the integrity of the company's integrated report	2	On the recommendation of the audit committee, the board approves the Group's annual integrated report.

2.13 The board should report on the effectiveness of the company's system of internal controls	2	The board is informed by the Audit and Risk committees on a regular basis, on the development and implementation of internal controls that are applied throughout the Group.
2.14 The board and its directors should act in the best interests of the company	3	<p>The board has implemented policies and procedures to ensure that the directors act within the best interests of the Group at all times. This includes:</p> <ul style="list-style-type: none"> • The declaration of all relevant interests at board meetings; • Disclosure of any potential or perceived conflict of interest by individuals; • A policy dealing in the Group's securities; • The taking of legal advice by the board when deemed necessary to ensure compliance with relevant legislation and the JSE Listings Requirements.
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	3	The audit committee reviews financial information in detail and recommends any special action to the board if required. In this regard the Group's cash position and going concern status are reviewed on a regular basis. Appropriate measures will be taken if the Group suffers financial distress at any stage.
2.16 The board should elect a chairman of the board who is an independent non-executive director. The CEO of the company should not also fulfil the role of chairman of the board	3	<p>John Bester is the chairman of the board and Dr Karsten Wellner the CEO. The roles of the chairman and CEO are separate and clearly defined.</p> <p>John Bester is an independent non- executive director as defined by King III.</p>
2.17 The board should appoint the chief executive officer and establish a framework for the delegation of authority	3	Dr K Wellner is the Group's CEO. The board has delegated to the CEO and other executive directors the authority to run the day-to-day business of the Group subject to an approval framework established by the board.
2.18 The board should comprise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent	3	<p>The board consists predominantly of non-executive directors.</p> <p>In assessing the status of directors, the principles of King III and the JSE Listings Requirements are applied.</p>
2.19 Directors should be appointed through a formal process	3	New appointments to the board are considered collectively as and when the need arises on the recommendation of the Group's nomination committee. The selection process considers the existing balance of skills and experience required as well as a continual process of assessing the needs of the Group.

<p>2.20 The induction of and on-going training and development of directors should be conducted through formal processes</p>	<p>2</p>	<p>Both formal and informal induction are conducted in accordance with an established programme and based on the needs of each new director. Regular updates are provided on governance and regulations by the company secretary and external advisors. All directors have access to key management members for information on the Group's operations.</p>
<p>2.21 The board should be assisted by a competent, suitably qualified and experienced company secretary</p>	<p>2</p>	<p>The board selects and appoints the company secretary and recognizes the important role to be played by this person in entrenching good corporate governance. Andrew Slms is the Group company secretary. In compliance with the JSE Listings Requirements, a detailed assessment was conducted by the board to satisfy itself of the competence, qualifications and experience of the company secretary. The board formally assesses and evaluates the company secretary on an annual basis.</p>
<p>2.22 The evaluation of the board, its committees and the individual directors should be performed every year</p>	<p>2</p>	<p>A self-evaluation of the performance of the board and its committees as a whole is performed annually. The results of such evaluations are considered and action plans implemented where required. Evaluations are not necessarily performed solely on an annual basis. The chairman is responsible to assess each director and committee on an on-going basis.</p>
<p>2.23 The board should delegate certain functions to well-structured committees without abdicating its own responsibilities</p>	<p>3</p>	<p>The board committees assist the board in executing its duties, powers and authorities. The required authority is delegated by the board to each committee to enable it to fulfill its respective functions through formally approved terms of reference.</p> <p>Delegating authority to board committees or management, other than the specific matters for which the audit committee carries ultimate accountability in terms of the Companies Act, does not mitigate or discharge the board and its directors of their duties and responsibilities and the board fully acknowledges this fact.</p> <p>Formal terms of reference have been adopted by each committee and are reviewed on an annual basis. Committee chairpersons report back to the board at each board meeting and the minutes of all committee meetings are included in board meeting documentation.</p> <p>The established committees are:</p> <ul style="list-style-type: none"> • Audit Committee • Risk Committee • Social and Ethics Committee • Remuneration Committee • Nominations Committee

2.24 A governance framework should be agreed between the group and its subsidiary boards	2	Each subsidiary operates with a separate board of directors. All subsidiaries apply the policies and procedures as determined by the holding company and its sub-committees.
2.25 Companies should remunerate directors and executives fairly and responsibly	3	<p>The Remuneration committee considers the remuneration of executive and non-executive directors on an annual basis which is benchmarked against peer groups to ensure fair remuneration. Non-executive directors' fees are approved by shareholders with executive directors' remuneration being reported to shareholders annually in the integrated report.</p> <p>The Remuneration committee currently consists of a majority of non-executive directors, Ascendis feels the composition of this sub-committee is appropriate due to the fact that this committee reports directly to a fully King III compliant board.</p>
2.26 Companies should disclose the remuneration of each individual director and certain senior executives	3	The remuneration of each director is disclosed, as well as the remuneration of the prescribed officers of each company. This disclosure meets the requirements of the Companies Act and King III.
2.27 Shareholders should approve the company's remuneration policy	2	The company plans to include a remuneration policy in the integrated report. This policy will then be proposed to shareholders for a non-binding advisory vote at the annual general meeting in 2014, and each year thereafter.
3. Audit committees		
3.1 The board should ensure that the company has an effective and independent audit committee	3	The majority of members of the Audit committee are independent directors and are appointed by the shareholders at the annual general meeting of shareholders. The audit committee meets four times a year, and is governed by Audit Committee Charter.
3.2 Audit committee members should be suitably skilled and experienced independent, non-executive directors (subsidiary exemption)	3	The Audit committee is represented by independent directors with the necessary skills and expertise.
3.3 The Audit committee should be chaired by an independent non-executive director	3	The chairman's independence is evaluated annually as part of the evaluation process.

<p>3.4 The Audit committee should oversee the integrated reporting (integrated reporting, financial, sustainability and summarised information)</p>	<p>2</p>	<p>The board has specifically assigned this responsibility to the Audit committee which considers the disclosures in the integrated annual report, including sustainability information, the annual financial statements and recommends the approval thereof to the board.</p> <p>The committee reviews the integrated report prepared by management The audit committee should be responsible for evaluating the significant judgements and reporting decisions affecting the integrated report</p> <p>All significant judgements and reporting decision are reported to the committee The Audit committee's review of the financial reports should encompass the annual financial statements, interim reports, preliminary or provisional result announcements, summarised integrated information, any other intended release of price-sensitive financial information, trading statements, circulars and similar documents</p>
<p>3.5 The Audit committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities</p>	<p>2</p>	<p>An assurance framework has been adopted as part of the enterprise risk management framework, which incorporates a combined assurance model.</p>
<p>3.6 The Audit committee should satisfy itself of the expertise, resources and experience of the company's finance function</p>	<p>3</p>	<p>The expertise and experience of the financial director, Robert Taylor, as well as the level of financial experience and qualifications of the Group financial department is evaluated on an annual basis by the Audit committee.</p>
<p>3.7 The Audit committee should be responsible for overseeing of internal audit</p>	<p>3</p>	<p>The expertise, resources and experience of the Group's internal audit function and the internal audit plan is assessed on a regular basis. The audit committee approves the annual internal audit plan and monitors performance against the plan. Reports are submitted by the internal audit manager at every committee meeting. The Group's Internal Audit has been outsourced to KPMG.</p>
<p>3.8 The audit committee should be an integral component of the risk management process</p>	<p>3</p>	<p>The audit committee oversees the enterprise risk management process and is therefore an integral part of the strategy and framework developments in relation to risk management.</p>
<p>3.9 The audit committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process</p>	<p>3</p>	<p>The audit committee reviews the independence of the external auditors annually, including the professional suitability of the lead auditor, and recommends the appointment to the board and shareholders for the forthcoming financial year.</p>
<p>3.10 The audit committee should report to the board and shareholders on how it has discharged its duties</p>	<p>3</p>	<p>The chairman of the Audit committee reports to the board in writing subsequent to each meeting. A report to shareholders is prepared by the chairman and presented in the Integrated Report. The committee chairman is present at the annual general meeting to respond to questions.</p>

4. The governance of risk		
4.1 The board should be responsible for the governance of risk	3	The governance of risk within the Group is the board's responsibility. The risk committee reviews the Group's risk assessment and satisfies itself of the adequacy of responses and mitigations.
4.2 The board should determine the levels of risk tolerance	2	The risk tolerance of the Group is reviewed annually by management and approved by the board. Significant risks are identified and mitigation steps taken.
4.3 The risk committee or audit committee should assist the board in carrying out its risk responsibilities	3	The risk committee reviews all aspects of the risk function for which the board is responsible. A risk forum consisting of key management was established to assist in this regard. The forum meets regularly as prescribed by King III, and the chairperson of the forum reports to the risk committee subsequent to each meeting.
4.4 The board should delegate to management the responsibility to design, implement and monitor the risk management plan	3	Management is accountable to the board through the risk committee for embedding the risk management process in the Group. The Group's risks are reviewed and assessed annually by management. Risks are updated and progress on mitigation plans are reported to the risk committee.
4.5 The board should ensure that risk assessments are performed on a continual basis	3	The risk assessment process identifies risks and the process is formalized and regular.
4.6 The board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks	2	An enterprise risk management framework which establishes formal governance, procedures and processes for all risks is being developed and implemented. Workshop methodology has also been used as a basis upon which risk assessments are conducted and ensures that unpredictable risks are identified.
4.7 The board should ensure that management considers and implements appropriate risk responses	2	Risks are monitored by management and the Group risk forum on a continuous basis. Progress of the Group in managing its risks is reported to the risk committee.
4.8 The board should ensure continual risk monitoring by management	3	Risks are monitored by management and the Group risk forum on a continuous basis. Progress of the Group in managing its risks is reported to the risk committee.
4.9 The board should receive assurance regarding the effectiveness of the risk management process	3	The risk committee is provided with the assurance of the effectiveness of the Group's risk management process through the Group risk forum, both internal and external auditors as well as the Group's in-house compliance function that resorts under the company secretary.
4.10 The board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders	2	The Group's integrated report will provide a comprehensive outline to stakeholders of the risk management process, this will be incorporated into the June 2014 annual report.
5. The governance of information technology		

5.1 The board should be responsible for information technology (IT) governance	2	The board has assumed the responsibility for IT governance but has delegated the establishment of an appropriate IT policy, framework and strategy to management.
5.2 IT should be aligned with the performance and sustainability objectives of the company	2	The IT infrastructure and governance is currently being assessed and evaluated.
5.3 The board should delegate to management the responsibility for the implementation of an IT governance framework	2	The IT infrastructure and governance is currently being assessed and evaluated.
5.4 The board should monitor and evaluate significant IT investments and expenditure	2	The IT infrastructure and governance is currently being assessed and evaluated.
5.5 IT should form an integral part of the company's risk management	2	The IT infrastructure and governance is currently being assessed and evaluated.
5.6 The board should ensure that information assets are managed effectively	2	The IT infrastructure and governance is currently being assessed and evaluated.
5.7 A risk committee and audit committee should assist the board in carrying out its IT responsibilities	2	The IT infrastructure and governance is currently being assessed and evaluated.
6. Compliance with laws, codes, rules and standards		
6.1 The board should ensure that the company complies with applicable laws and considers adherence to nonbinding rules, codes and standards	2	The Group regulatory universe was updated in 2013 and presented to the Audit, Risk and Transformation, Social and Ethics and Sustainability committees as well as the board. The potential effect of pending legislation on the Group's business activities are also assessed prior to promulgation.
6.2 The board and each individual director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the company and its business	2	The board is continually informed of material legislation, rules, codes, standards and changes thereto. Information on laws, rules and codes are shared with directors regularly through documentation and briefing sessions.
6.3 Compliance risk should form an integral part of the company's risk management process	3	Group head legal counsel continually evaluates the Group's legal exposure and gives feedback to the company secretary, the group CEO, and the board.
6.4 The board should delegate to management the implementation of an effective compliance framework and processes	3	The Group's compliance function resorts under the company secretary and the group head legal counsel.
7. Internal audit		

7.1 The board should ensure that there is an effective risk-based internal audit	3	An effective risk-based internal audit function exists, this has been outsourced to KPMG Incorporated. The purpose, authority and responsibilities of the internal audit function are defined in the board-approved internal audit charter.
7.2 Internal audit should follow a risk-based approach to its plan	3	A risk-based approach to internal audit planning is adopted in assessing the Group's control environment and is aligned to the risk assessment process.
7.3 Internal audit should provide a written assessment of the effectiveness of the company's system of internal control and risk management	3	A written assessment regarding the effectiveness of the Group's internal controls and risk management is tabled at each meeting of the audit and risk committees.
7.4 The audit committee should be responsible for overseeing internal audit	3	Internal audit reports functionally to the audit committee, administratively to the general manager group finance and is present at all meetings of the committee. The audit committee approves the annual internal audit work plan and monitors the performance of internal audit.
7.5 Internal audit should be strategically positioned to achieve its objectives	3	Internal audit has unrestricted access to members of the audit committee and executives of the Group. This function is adequately skilled and resourced to discharge its responsibilities.
8. Governing stakeholder relationships		
8.1 The board should appreciate that stakeholders' perceptions affect a company's reputation	3	Engagement with stakeholders is aimed at establishing open, interactive relationships.
8.2 The board should delegate to management to proactively deal with stakeholder relationships	3	The board has delegated the management of the Group's various stakeholders to management. Stakeholder engagement is managed at various levels within the Group by utilizing different platforms.
8.3 The board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the company	3	The Group has identified its stakeholder groups and management from various functions are assigned to manage relationships with stakeholders. The board realizes that there is a broad range of stakeholders who have a genuine stake in or are affected by the Group and its various activities.
8.4 Companies should ensure the equitable treatment of shareholders	3	Consistent and timeous information is disseminated to all shareholders. The legitimate interests of minority shareholders are protected by the Companies Act and the JSE Listings Requirements.
8.5 Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence	3	The Group maintains a dialogue with all stakeholders. Regular market notifications of key financial information and material changes in the Group's operations are published.

8.6 The board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible	3	Alternative dispute resolution provisions are incorporated in most of the Group's commercial agreements. Each dispute is handled in accordance with the provisions of the governing agreement, the primary objective being to ensure that disputes are resolved as effectively, efficiently and expeditiously as possible.
9. Integrated reporting and disclosure		
9.1 The board should ensure the integrity of the company's integrated report	2	Ascendis will issue its first fully integrated report for the year ended June 2014.
9.2 Sustainability reporting and disclosure should be integrated with the company's financial reporting	2	Ascendis will issue its first fully integrated report for the year ended June 2014.
9.3 Sustainability reporting and disclosure should be independently assured	1	Ascendis will issue its first fully integrated report for the year ended June 2014.