METAIR INVESTMENTS LIMITED

AUDIT AND RISK COMMITTEE CHARTER

Approved by the board of directors on 30 November 2017

Introduction
The Audit and Risk Committee (the Committee) is constituted as a statutory committee of Metair Investments Limited (the Company) in respect of its statutory duties in terms of section 94(7) of the Companies Act 71 of 2008 and in line with the recommendations of the King Report on Corporate Governance for South Africa (King IV) as a committee of the board in respect of all other duties assigned to it by the board including those normally performed by an audit and risk committee.

The duties and responsibilities of the members of the Committee as set out in this document are in addition to those duties and responsibilities that they have as members of the board.

The Committee is constituted in terms of the requirements of sound corporate governance practices. The deliberations of the Committee do not reduce the individual and collective responsibilities of board members in regard to their fiduciary duties and responsibilities, and they must continue to exercise due care and judgement in accordance with their legal obligations.

The primary objective of the Committee is to assist the board of directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, the risk management process and the organisation's process for monitoring compliance with laws and regulations and the code of conduct.

These terms of reference are subject to the provisions of the Companies Act, the Company's Memorandum of Incorporation and any other applicable law or regulatory provision.

Purpose of the terms of reference
The purpose of these terms of reference is to set out the Committee's role and associated responsibilities and functions, its composition and qualifying criteria of its members and meeting procedures.

Composition of the Committee
The Committee comprises at least three members to be elected by the shareholders on recommendation by the Remuneration and Nominations Committee.

All members of the Committee must be suitably skilled and experienced independent non-executive directors.

The members of the Committee must collectively have sufficient qualifications and experience to fulfil their duties, including an understanding of the following:

- financial and sustainability reporting;
- internal financial controls;
- external audit process;
- internal audit process;
- corporate law;
- risk management;
- sustainability issues;
- Information technology governance as it relates to integrated reporting; and the governance processes within the company.

The Committee may invite such other persons, as it deems necessary to attend its meetings. Standing invitees to the Committee will be:

- external audit;
- internal audit;
- Company Secretary in her capacity as Chief Risk and Compliance Officer;
- any other person who may be co-opted to provide specialist skills, advice and counsel; and
- any other employee as may be approved by the Chairman.

The chairman of the board is not eligible to be the chairman or a member of the Committee.

The Committee is chaired by an independent non-executive director.

The board elects the chairman of the Committee.

The board must fill vacancies on the Committee within 40 business days after the vacancy arises.

The Committee members must keep up-to-date with developments affecting the required skill-set.

Role

The Committee has an independent role with accountability to both the board and shareholders.

The Committee does not assume the functions of management, which remain the responsibility of the executive directors, officers and other members of senior management.

The role of the Committee is to:

- oversee integrated reporting;
- oversee the functions of the Compliance Officer;
- oversee the effectiveness of the company's assurance functions and services;
- oversee the internal audit function plan and activities;
- ensure that the company implemented an effective risk management policy and process that will enhance its ability to achieve its strategic objectives; and
- recommend the appointment of the external auditor and oversee the external audit process.

Responsibilities
The Committee has the following specific responsibilities:

Integrated reporting
The Committee oversees integrated reporting, and in particular the Committee must: -

i. have regard to all factors, risks and key areas of focus, including strategic objectives, during the accounting period, that may impact on the integrity of the integrated report, including factors that may predispose management to present a misleading picture, significant judgements and reporting decisions made, monitoring or enforcement actions by a regulatory body, any evidence that brings into question previously published information, forward-looking statements or information. In addition, the Committee will consider the disclosures in relation to risk and in particular the overview of the arrangements for governing and managing risk, any undue, unexpected or unusual risks and risks taken outside of risk tolerance levels, actions taken to monitor the effectiveness of risk management and how the outcomes were addressed and planned areas of future focus.

ii. review the annual financial statements, interim reports, preliminary or provisional result announcements, summarised integrated information, any other intended release of price sensitive information and prospectuses, trading statements and similar documents;

iii. comment in the annual financial statements on the financial statements, the accounting practices and the effectiveness of the internal financial controls;

iv. review the disclosure of sustainability issues in the integrated report to ensure that it is reliable and does not conflict with the financial information;

v. recommend to the board whether or not to engage an external assurance provider on material sustainability issues;

vi. recommend and comment to the board on the following disclosures arrangements relating to compliance:

a. an overview of the arrangements for governing and managing compliance;
b. key areas of focus during the reporting period;
c. actions taken to monitor the effectiveness of compliance management and how the outcomes were addressed; and
d. planned areas of future focus;

vii. recommend and comment to the board on the following disclosure arrangements on technology and information:

a. an overview of the arrangements for governing and managing technology and information;
b. key areas of focus during the reporting period, including objectives, significant changes in policy, significant acquisitions and remedial actions as a result of major incidents;
c. actions taken to monitor the effectiveness of technology and information management and how the outcomes were addressed; and
d. planned areas of future focus;

viii. recommend the integrated report for approval by the board;

ix. consider the frequency for issuing interim results;

x. consider whether the external auditor should perform assurance procedures on the interim results.

xi. review the content of the summarised information for whether it provides a balanced view; and

xii. engage the external auditors to provide assurance on the summarised financial information.

Combined assurance

The Committee will provide independent oversight of the effectiveness of the company's assurance functions and services, and will ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities, and in particular the Committee should:

i. ensure that the combined assurance received is appropriate to address all the significant risks facing the company; and

ii. monitor the relationship between the external assurance providers and the company.

The Committee reviews the expertise, resources and experience of the company's finance function, and discloses the results of the review in the integrated report.

Internal audit

The Committee is responsible for overseeing of internal audit, and in particular the Committee must:

i. be responsible for the appointment, performance assessment and/or dismissal of the outsourced Internal Audit Service Provider;

ii. approve the internal audit plan; and

iii. ensure that the internal audit service provider is subject to an independent quality review, as and when the Committee determines it appropriate.

Risk management

The company adopts an enterprise wide risk management process as set out in Annexure A. The process begins at subsidiary/divison level who follow this process on a continuous basis and management report on risk matters to the Audit and Risk Committee at least twice a year.

The Audit and Risk Committee is an integral component of the risk management process and must ensure that it dedicates sufficient time to the responsibility of overseeing risk governance on behalf of the board to ensure that it oversees risk in

a way that supports the company in setting and achieving its strategic objectives. More specifically the Committee must oversee:

i. Oversee the development and annual review of a policy and plan for risk management to recommend for approval to the board.

ii. Oversee the arrangements for governing and managing risk encompassing both:

   a. the opportunities and associated risks to be considered when developing strategy; and
   b. the potential positive and negative effects of the same risks on the achievement of the company's objectives.

iii. Monitor implementation of the policy and plan for risk management taking place by means of risk management systems and processes.

iv. Oversee the management of financial and other risks that affect the integrity of external reports issued by the company.

v. Make recommendations to the board concerning risks taken outside of risk tolerance levels, the levels of tolerance and appetite and monitoring that risks are managed within the levels of tolerance and appetite as approved by the board.

vi. Ensure that the risk management plan is widely disseminated throughout the company and integrated in the day-to-day activities and culture of the Company.

vii. Ensure that risk management assessments are performed on a continuous basis including the following:

   a. assessment of risks and opportunities emanating from the triple context in which the company operates and the capitals that it uses and affects;
   b. assessment of the potential upside, or opportunity, presented by risks with potentially negative effects on achieving company objectives;
   c. assessment of the company's dependence on resources and relationships as represented by the various forms of capital;
   d. establishment and implementation of business continuity arrangements that allow the company to operate under conditions of volatility, and to withstand and recover from acute shocks;

viii. Ensure that frameworks and methodologies are implemented to increase the possibility of anticipating unpredictable risks.

ix. Ensure that management considers and implements appropriate risk responses.

x. Ensure that continuous risk monitoring by management takes place.

xi. Express the Committee's formal opinion to the board on the effectiveness of the system and process of risk management and receive periodic independent assurance.

xii. Review reporting concerning risk management that is to be included in the integrated report for it being timely, comprehensive and relevant without compromising sensitive information.

xiii. Focus on financial risks – specifically

i. financial reporting risks;

ii internal financial controls;

iii fraud risks as it relates to financial reporting; and

iv IT risks as it relates to financial reporting.

External audit

The Committee is responsible for recommending the appointment of the external auditor and to oversee the external audit process and in this regard the Committee must:

i. nominate the external auditor who is registered and independent for appointment by the shareholders;

ii. approve the terms of engagement and remuneration for the external audit engagement;

iii. ensure that the appointment of the auditor complies with the provisions of the Act and any other legislation relating to the appointment of auditors as well as the tenure of the audit company;

iv. monitor and report on the independence of the external auditor in the annual financial statements;

v. define a policy for non-audit services provided by the external auditor;

vi. pre-approve the contracts for non-audit services to be rendered by the external auditor;

vii. ensure that there is a process for the audit committee to be informed of any Reportable Irregularities (as identified in the Auditing Profession Act, 2005) identified and reported by the external auditor;

viii. monitor the rotation of the designated external audit partner; and

ix. review the quality and effectiveness of the external audit process.

Other

The committee is responsible for the following:

i. to prepare a report, to be included in the annual financial statements for that financial year-
   a. describing how the audit committee carried out its functions;
   b. stating whether the audit committee is satisfied that the auditor was independent of the company; and
   c. commenting in any way the committee considers appropriate on the financial statements, the accounting practices and the internal financial control of the company;

ii. to receive and deal appropriately with any concerns or complaints, whether from within or outside the company, or on its own initiative, relating to-
   a. the accounting practices and internal audit of the company;
   b. the content or auditing of the company's financial statements;
   c. the internal financial controls of the company; or
   d. any related matter;

iii. to make submissions to the board on any matter concerning the company's accounting policies, financial controls, records and reporting; and
iv. to perform such other oversight functions as may be determined by the board.

Authority

The Committee acts in accordance with its statutory duties and the delegated authority of the board as recorded in this terms of reference. It has the power to investigate any activity within the scope of its terms of reference.

The Committee, in the fulfilment of its duties, may call upon the chairmen of the other board committees, any of the executive directors, company officers, company secretary or assurance providers to provide it with information subject to board approved process.

The Committee has reasonable access to the company's records, facilities and any other resources necessary to discharge its duties and responsibilities subject to following board approved process.

The Committee may form, and delegate authority to, subcommittees and may delegate authority to one or more designated members of the Committee.

The Committee has the right to obtain independent outside professional advice to assist with the execution of its duties, at company's cost, subject to a board approved process being followed.

The Committee has decision-making authority in regard to its statutory duties and is accountable in this respect to both the board and the shareholders. To this end the chairman of the Committee must be present at all annual general meetings.

On all responsibilities delegated to it by the board outside of the statutory duties, the Committee makes recommendations for approval by the board.

Meetings and Procedures

Frequency

The Committee must hold sufficient scheduled meetings to discharge all its duties as set out in these terms of reference but subject to a minimum of three meetings per year.

Meetings in addition to those scheduled may, with approval of the chairman, be held at the request of the external auditor, the chief executive officer, chief financial officer, the internal auditor or other members of senior management or at the instance of the board.

The Committee must meet with internal and external auditors at least once a year without management being present.

Attendance

The chief executive officer, chief financial officer, the internal auditor, representatives from the external auditors, other assurance providers, professional advisors and board members may be in attendance at Committee meetings, but by invitation only and they may not vote.

Committee members must attend all scheduled meetings of the Committee in person, including meetings called on an *ad hoc*-basis for special matters, unless prior apology, with reasons, has been submitted to the chairman or company secretary.

The company secretary is the secretary to this Committee.

If the nominated chairman of the Committee is absent from a meeting, the members present must elect one of the members present to act as chairman.

Agenda and minutes

The Committee must establish an annual work plan for each year to ensure that all relevant matters are covered by the agendas of the meetings planned for the year. The annual plan must ensure proper coverage of the matters laid out in the audit committee charter: the more critical matters will need to be attended to each year while other matters may be dealt with on a rotation basis over a three-year period. The number, timing and length of meetings, and the agendas are to be determined in accordance with the annual plan.

A detailed agenda, together with supporting documentation, must be circulated, at least one week prior to each meeting to the members of the Committee and other invitees.

Committee members must be fully prepared for Committee meetings, to provide appropriate and constructive input on matters discussed.

The minutes must be completed as soon as possible after the meeting and circulated to the chairman and members of the Committee for review thereof.

The minutes must be formally approved by the Committee at its next scheduled meeting.

The Secretary of the Committee shall include the minutes of each meeting in the board pack of the board meeting following the committee meeting for all the members of the Metair board to note. The Chairman of the Committee shall report, at Metair Board meetings, on any matters of importance.

Quorum
A representative quorum for meetings is a majority of the members of the committee.

Individuals in attendance at Committee meetings by invitation may participate in discussions but do not form part of the quorum for Committee meetings.

Evaluation
The committee must perform an evaluation of the effectiveness of the chief financial officer and the finance function.

The Board Audit Committee shall conduct an annual performance self-evaluation and shall report the results to the Board.

Approval of these terms of reference
These terms of reference were approved by the Chairman of the board and the Chairman of the Committee and will be due for review annually.

These terms of reference were updated and re-approved on the following dates:

14 June 2011
22 December 2012
16 September 2013
27 August 2014
30 November 2017

ANNEXURE A

Enterprise Wide Risk Management Policy Framework

Contents

1 Introduction

The underlying premise of Enterprise Risk Management is that every entity exists to provide value for its stakeholders. All entities face uncertainty and the challenge for management is to determine how much uncertainty to accept as it strives to grow shareholder value. Uncertainty presents both risk and opportunity, with the potential to erode or enhance value. Enterprise Risk Management (ERM) enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value.

Value is maximised when management sets objectives to strike an optimal balance between growth and related risks, and effectively deploys resources in pursuit of the entity's objectives.

This document sets out Metair Investments Limited's ("Metair") Enterprise Risk Management Policy Framework. It describes Metair's risk management policies, structures, processes and standards.

Enterprise Risk Management deals with risks and opportunities affecting value creation or preservation and is defined as follows:

Enterprise Risk Management is a process, effected by the Board, the Metair Board Audit Committee, Executive management and personnel, applied in strategy setting and across the operations of the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.[1]

The Metair Board is responsible and accountable for directing and monitoring Metair's risk management performance in a structured framework. The oversight of this is delegated to the Board Audit Committee who report to the Board. All divisions, operations and business functions support the Board to maintain a system of risk management.

It is important to note that this Enterprise Risk Management Policy Framework is of necessity an evolving document. The contents of the framework reflect the current risk management requirements of Metair. Future versions of this document will reflect advances and developments in Metair's risk management strategies and processes.

The benefits of enterprise risk management to Metair encompass:

- Reducing operational surprises and losses.
- Identifying and managing multiple and cross-enterprise risks.
- Seizing opportunities.
- Ensuring compliance with laws and regulations.
- Increasing probability of achieving objectives.

[1] *COSO (The Committee of Sponsoring Organisations of the Treadway Commission)*

2 Risk Management policy statement

Policy statement

At Metair we are committed to the optimal management of risk in order to achieve our vision, our principal tasks and key objectives and to protect our core values.

The Board of Metair has committed Metair to a process of risk management that is aligned to the principles of the King IV. The features of this process are outlined in Metair Risk Framework. It is expected that all service organisations, supporting functions, processes, projects and Metair controlled entities will be subject to the Risk Management Policy.

Effective risk management is imperative to Metair with reference to our risk profile. The realisation of our strategy depends on us being able to take calculated risks in a manner that does not jeopardise the direct interests of stakeholders. Sound management of risk will enable us to anticipate and respond to changes in our environment, as well as to enable us to make informed decisions under conditions of uncertainty.

An enterprise wide approach to risk management will be adopted by Metair, which means that every key risk in each part of Metair will be included in a structured and systematic process of risk management. All key risks will be managed within a unitary framework that is aligned to Metair's corporate governance responsibilities.

It is expected that risk management processes will become embedded in all Metair systems and processes, to ensure that our responses to risk remain current and dynamic. All key risks associated with major changes and significant actions by Metair will also fall within the processes of risk management. The nature of our risk profile demands that Metair adopts a prudent approach to corporate risk and our decisions regarding risk tolerance as well as risk mitigation will reflect this. Nonetheless it is not the intention to slow down Metair's growth with inappropriate bureaucracy. Controls and risk interventions will be chosen to assist us in fulfilling our commitments to stakeholders.

Every employee has a part to play in this important endeavour and we look forward to working with you in achieving these aims.

3 Risk Management standards

3.1 Committee responsibilities

Ref.	Standard	Responsibility	Frequency
01	The Audit Committee will review risk management progress bi-annually.	Chairperson	Bi-annually
02	Senior Executive Team (SET) will review risk management progress bi-annually.	Chief Financial Officer	Bi-annually
03	The Board will review risk management annually.	Chairperson	Annually

3.2 Reporting responsibilities

Ref.	Standard	Responsibility	Frequency
04	The Board of Metair will include statements regarding risk management performance in the annual report to stakeholders.	Chairperson of the Board of Metair	Annually
05	• Audit Committee will submit a risk management report to the Board twice a year. The report will focus on the following: • The top risks facing Metair; and • Any risk developments or losses.	Chairperson of the Audit Committee	Bi-annually
06	The Chief Financial Officer will be responsible for developing standard risk management reporting templates, and collate risk management information for submission at all levels.	Chief Financial Officer	As scheduled
07	Internal Audit will report to the Board on the effectiveness of the risk management process on an annual basis.	Internal audit	Annually

3.3 Risk assessment responsibilities

Ref.	Standard	Responsibility	Frequency
08	The Board will independently review the key risks of Metair at least once a year.	Chairperson of the Board	Annually

Ref.	Standard	Responsibility	Frequency
09	The Audit Committee will arrange for Metair's key risks to be formally re-evaluated once a year.	Chairperson of the Audit Committee	Annually
10	The Chief Financial Officer will be responsible for the facilitation of all risk assessments.	Chief Financial Officer	As scheduled

3.4 Governance responsibilities

Ref.	Standard	Responsibility	Frequency
11	Each risk will have a nominated owner, who will be responsible for the following: • Updating the risk information; • Providing assurance regarding the risk's controls; • Co-ordinate the implementation of action plans for the risk; and • Reporting on any developments regarding the risk.	All	As scheduled
12	The internal audit function will use the outputs of risk assessments to compile audit coverage plans.	Internal audit	Annually
13	The internal audit function will formally review the effectiveness of the Metair risk management processes once a year.	Internal audit	Annually

4 Guidelines

4.1 Roles and responsibilities

4.1.1 Roles and responsibilities of the Board

The Board is accountable for risk management

The Board is responsible for the identification of major risks, the total process of risk management, as well as for forming its own opinion on the effectiveness of the process. Management is accountable to the Board for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities of Metair.

The Board is responsible for setting the risk appetite and tolerance levels. The Board must identify and fully appreciate the risk issues and key performance indicators affecting the ability of Metair to achieve its strategic purpose and objectives.

The Board must ensure that appropriate systems have been implemented to manage the identified risks, measure the impact and probability and to proactively manage it to ensure that Metair's assets and reputation are suitably protected.

The Board is responsible for disclosures in the annual report regarding Enterprise Risk Management (ERM).

The Board of Metair will provide stakeholders with assurance that key risks are properly identified, assessed, mitigated and monitored

The Board must receive credible and accurate information regarding the risk management processes of Metair in order to give the necessary assurance to stakeholders. The reports from the Audit Committee and Risk Management Committee must provide an evaluation of the performance of risk management and internal control. The Board must ensure that the various processes of risk management cover the entire spectrum of risks faced by Metair. The assurance process includes statements regarding the appropriateness of Metair risk/ reward trade-off.

The Board will formally evaluate the effectiveness of Metair's risk management process on an annual basis

The Board will make up its own mind regarding the effectiveness of Metair's Enterprise Risk Management processes. Success with risk management will be evaluated from risk committee reports, variance reports, and speed of progress, Metair's risk culture, unexpected losses, internal control effectiveness and financial success. The Board's evaluations will be formally recorded in the minutes of Board meetings.

The Board of Metair will confirm that the risk management process is accurately aligned to the strategy and performance objectives of Metair

The Board of Metair will ensure that the risk management processes address risk in a balanced way, giving due attention to all types of risk. The Board will evaluate whether appropriate resources are being applied to the management of the various categories of risk. The Board will evaluate whether risk management processes are aligned to the strategic and performance objectives of Metair. A balanced perspective of risk and risk management is required in proportion to the weighting of potential risk impact across Metair.

4.1.2 Roles and responsibilities of the Audit Committee (AC)

The Board Audit Committee will monitor Metair's risk management processes.

The Audit Committee further:

- Establishes and monitors the implementation of the risk management strategy;
- Ensures that the responsibilities and co-ordination of risk management are clear;
- Advises the Board on urgent risk management issues and required initiatives as part of its bi-annual reporting process;
- Oversees the implementation and maintenance of the ongoing process of risk identification, quantification, analysis and monitoring throughout Metair;
- Evaluates the risk profile of Metair as well as for major projects and new ventures, requiring the approval of the Board;
- Reviews issues for consideration as identified by the Audit Committee;
- Reviews the risk assessments on a bi-annual basis to determine the material risks to which Metair may be exposed and considers, notes and if necessary, comments on the strategy for managing those risks; and
- Further reports to the Board on the work undertaken in establishing and maintaining the understanding of the risks that need to be managed and on the actions taken by management to address identified areas for improvement.

4.1.3 Roles and responsibilities of management

Management will provide the Audit Committee with a report on the performance of risk management.

Management is accountable to the Board for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities of Metair.

More specifically management is responsible for:

- Designing an Enterprise Risk Management programme;
- Ensures that the necessary risk management documentation is developed in respect of the risk management process.
- Ensuring that adequate and cost effective risk management structures are in place;
- Communicates the risk strategy to all management levels and to employees;
- Inculcating a culture of risk management in Metair;
- Ensures that risk management training is conducted at appropriate levels within Metair to inculcate a risk management culture;
- Identifying, evaluating and measuring risks and where possible quantifying and linking each identified risk to key performance measurement indicators;

- Assigning a manager to every key risk for appropriate mitigating action and to determine an action date;
- Developing and implementing risk management plans including:
  - Actions to optimise risk/ reward profile, maximise reward with risk contained within the Board's approved risk tolerance;
  - Implementation of cost effective preventative and contingent control measures; and
  - Implementation of procedures to ensure adherence to legal and regulatory requirements.
- Assists in compiling risk registers for all processes;
- Providing risk registers and risk management reports pertaining to risk and control;
- Implementing and maintaining adequate internal controls and monitor their continued effectiveness;
- Implementing those measures as recommended by the internal and/ or external auditors, which, in their opinion, will enhance control at reasonable cost;
- Monitoring of the Enterprise Risk Management processes on both a detailed and macro basis by evaluating changes, or potential changes to risk profiles; and
- Reporting to the Audit Committee on the risk process and resultant risk/ reward profiles.

4.2 Reporting requirements

4.2.1 Internal reporting processes for risk information

A tiered structure of risk reporting is in place.

The Audit Committee will submit a risk management report to the Board twice a year regarding the top risks facing Metair. Senior Executive Management is required to action the top risks.

4.2.2 The frequency of risk monitoring

The risk registers should indicate how often a key risk should be monitored and reviewed. In the realm of financial risk the exposures may be monitored on a continual real-time basis. Other risks such as regulatory change may only need formal review once a year. For the majority of risks it is prudent to choose monitoring periods that span between 1-3 months. Risks with an unknown pattern and risks that are new to Metair should receive more frequent attention. The results of monitoring processes will be documented in a pre-defined format.

4.2.3 Incident reports will be generated for unacceptable losses

This is an internal management function and will form part of the Enterprise Risk Management Policy Framework. The destination of incident reports will be determined by the nature of the loss, but losses that originate from risks contained in the key risk registers must always be elevated to higher levels of management. Variance reports are incorporated into routine management reporting processes. The inclusion of risk-related variances can be incorporated.

4.3 Risk assessments

Once a year, Senior Executive Management will undertake a thorough reassessment of its risks using the following methodology:

The first part of conducting a structured risk assessment is to profile the key building blocks of Metair. This will highlight dependencies, critical parts of Metair and start to pinpoint vulnerabilities.

4.3.1 Map Metair's strategy

Metair's strategy must be specifically verified and interpreted in the context of risk. The future direction and intent of Metair must be understood. Metair may be seeking to differentiate, investments into technology, new products or innovation may be the strategic direction of Metair. Growth tactics must be profiled.

4.3.2 Assess the impact of risk across Metair

Risks do not normally exist in isolation. They usually have a potential knock-on effect on other functions, processes and risk categories. These cause-and-effect relationships must be identified and understood. This principle must become a deliberate and formal part of the risk assessment process. The results of the process must be documented. The aggregated effect of these risk groupings and linkages should be profiled. Many cross-functional effects of risk may not be immediately apparent without deliberate and systematic analysis, so a formal approach is required.

4.3.3 Evaluate recent and imminent internal changes as possible sources of risk

Recent changes in Metair may be a source of present risk. Equally, imminent change may alter the risk profile. The nature of the changes may relate to the launch of new products. New markets may be entered and foreign operations commenced. Mergers and acquisitions are another potential source of risk. Major changes in Metair's organisational structure can change the dynamics of risk. Retrenchments, cutbacks and layoffs are obvious sources of risk. Significant shifts in strategic direction may increase the values at risk in Metair.

4.3.4 Identify external changes and identify associated risks

Risk assessment processes must not only focus on existing dynamics prevailing in Metair. Near-future changes must also be included in the process. Time horizons should be determined for this. Anticipated changes that are self-generating will be easily identifiable, such as investments, capital projects or launching of new products. Their associated risks must be assessed as part of the risk framework. Certain changes outside of Metair's control can also be anticipated such as regulatory change and competitive movements. Associated risks must be assessed.

4.3.5 Calculate the probability of risk events

The probability of occurrence must be assessed for every identified risk. Different methods of calculating probability can be considered depending on the nature of the risk, but the attached

tables must be used in final reporting. Financial risks may lend themselves more readily to statistical interpretations of probability. Engineering risks (e.g. air-conditioning failure) may be able to use probabilistic risk analysis techniques. Other risks, particularly those with a managerial or strategic character, may be best interpreted using simple ranking scales and expert-based interpretations.

Refer to the attached table to guide your risk calculations (Annexure A). A realistic evaluation of the probability of a risk materialising is essential, because it guides the allocation of resources in Metair. When deciding upon a probability factor from the table, the following guidelines should be considered:

- Consider how many similar incidents have occurred in Metair;
- Consider, and research if necessary, how many similar incidents have occurred in the automotive sector;
- Consider how many similar incidents have occurred at other automotive component manufacturers; and
- Consider the effectiveness of the existing preventative controls for the risk.

4.3.6 Calculate the potential impact of the identified risk scenarios

The consequences of risk are not only characterised in financial terms. Management must consider the various scales of impact that are relevant according to the prevalent categories of risk. These may include the scales for reputation damage, personal injuries and fatalities, media coverage, and operational impact. From a strategic viewpoint, management should determine the scale of potential impact upon defined objectives of the strategy. Scales of financial impact are invariably the most common form of risk quantification and must be reflected using the same scales as financial reporting expectations. Earnings before interest and taxation is the most preferred way of quantifying risk impact in the marketplace; however, for purposes of Metair total cost or total income may be used, as the preferred measure. Please refer to the attached table to guide your risk calculations (Annexure A).

4.3.7 Rank the risks in order of priority

The ranking of risks in terms of net potential effect provides management with some perspective of priorities. This should assist in the allocation of capital and resources in Metair. Although the scales of quantification will produce an automated ranking of risks, management may choose to raise the profile of certain risks for other reasons. This may be justified because of non-financial influences such as media implications, social responsibilities or regulatory pressures. The ranking of risks should be shaped by strategic objectives.

4.3.8 Identify the key controls currently implemented for the identified risks

The existing controls implemented for identified risks must be documented. The term “control” should not be construed only as a financial term. It is now the commonly accepted term to describe any mitigating measure for any particular type of risk. Controls may take the form of financial mitigations such as hedges, insurance or securities. They may be managerial in nature such as

compliance procedures, policies and levels of authority. Controls may be strategic in nature such as diversification related. Controls may be legal such as contracts and indemnities.

4.3.9 Verify and evaluate the controls currently in place for key risks

It is vital that all of the existing controls for identified risks are in turn identified and evaluated. Such controls may take the form of policies, procedures and instructions. The controls must be evaluated in two essential ways. Firstly, an evaluation of the appropriateness and adequacy of the existing controls for the risk must be undertaken. Secondly, the performance of the existing controls must be evaluated. Desired levels of control effectiveness must be determined. The gap between existing control effectiveness and desired effectiveness must result in an action plan.

4.3.10 Evaluate the strategic mitigations in place for key risks

A specific review of Metair's strategic position in the context of risk must be conducted. The degree of strategic flexibility in response to a risk event must be considered. The robustness of the strategy in the context of the risk assessment findings must be evaluated. Likely strategic responses to risk and their performance are aspects that must be fully understood. This process may require separate processes of scenario planning regarding strategic intent.

4.4 Governance requirements

4.4.1 Establish a framework of assurance for key risks and controls

A framework of assurance must be developed for your risks. Key players in Metair will combine to provide assurance to the Board that risks are being appropriately managed. This combined approach to assurance normally involves external auditors, internal auditors and management working together through the Audit Committee. Other experts must be chosen to provide assurance regarding specialised categories of risk, such as environmental management and Occupational Health and Safety management. The assurance framework must be formalised and must incorporate appropriate reporting processes.

A Risk ratings

A.1 Qualitative assessment of potential impact

Risk appetite is the amount of risk that an organisation is willing to accept in pursuit of its objectives. Metair's risk appetite has both quantitative as well as qualitative elements. Risk appetite has been translated into risk tolerance for the specified categories of risk. Risk tolerance expresses the maximum risk that Metair is willing to take on regarding each relevant risk. The resulting risk tolerance levels will be in line with Metair's risk appetite.

The following table is to be used to assist participants in quantifying the potential impact that a risk exposure may have on the business.

Severity ranking	Continuity of supply	Safety and environmental	Technical complexity	Financial
Catastrophic	Risk event will result in widespread and lengthy reduction in continuity of supply to customers of greater than 48 hours.	Major environmental damage. Serious injury (permanent disability) or death of personnel or members of the public. Major negative media coverage.	Use of unproven technology for critical system/ project components. High level of technical interdependencies between system/ project components.	Significant cost overruns of > 3% ofPBIT. Affect on revenue/asset base of 10%.
Critical	Reduction in supply or disruption for a period ranging between 24 and 48 hours over a significant area.	Significant injury of personnel or public. Significant environmental damage. Significant negative media coverage.	Use of new technology not previously utilised by the company for critical systems/ project components.	Major cost overruns of between 20% and 30% over budget. Affect on revenue/asset base of between 5% and 10%.

Severity ranking	Continuity of supply	Safety and environmental	Technical complexity	Financial
Serious	Reduction in supply or disruption for a period between 8 and 24 hours over a regional area.	Lower level environmental, safety or health impacts. Negative media coverage.	Use of unproven or emerging technology for critical systems/ project components.	Moderate impact on revenue, assets base.
Significant	Brief local inconvenience (work around possible). Loss of an asset with minor impact on operations.	Little environmental, safety or health impacts. Limited negative media coverage.	Use of unproven or emerging technology for systems/ project components.	Minor impact on revenue, assets base.
Minor/ insignificant	No impact on business or core systems.	No environmental, safety or health impacts and/ or negative media coverage.	Use of unproven or emerging technology for non-critical systems/ project components.	Insignificant financial loss.

A.2 Qualitative assessment of probability of occurrence

The table below is to be used to assist management in quantifying the probability of a specific risk occurring in the business.

Probability factor	Qualification criteria
Almost certain	The risk is almost certain to occur in the current circumstances. The risk is already occurring or is likely to occur more than once within the next 12-months depending on the model life of the vehicle.
Likely	More than an even chance of occurring. The risk could easily occur, and is likely to occur at least once within the next 12-months depending on the model life of the vehicle.
Possible	Could occur quite often. There is an above average chance that the risk will occur at least once in the next 2-years depending on the model life of the vehicle.
Unlikely	Small likelihood but could happen. The risk occurs infrequently and is unlikely to occur within the next 2-years depending on the model life of the vehicle.
Rare	Not expected to happen – event would be a surprise. The risk is conceivable but is only likely to occur in extreme circumstances.

A.3 Qualitative assessment of control

The table below is to be used to assist management in quantifying the effectiveness of controls to mitigate or reduce the impact of specific risks on the business.

Effectiveness factor	Qualification criteria
Very good	Risk exposure is effectively controlled and managed.
Good	Majority of risk exposure is effectively controlled and managed.
Satisfactory	There is room for some improvement.
Weak	Some of the risk exposure appears to be controlled, but there are major deficiencies.
Unsatisfactory	Control measures are ineffective.

B Risk definitions

Risk	Risks are uncertain future events (threats and opportunities) that could influence the achievement of the goals and objectives.
Risk management	Risk management is a systematic approach to setting the best course of action under uncertainty by identifying, assessing, understanding, acting on and communicating risk issues and opportunities.
Risk assessment	The overall process of identifying, analysing and evaluating risk.
Enterprise Risk Management (ERM)	Enterprise Risk Management is a structured and consistent approach across Metair that aligns strategy, processes, people, technology and knowledge with the purpose of evaluating and managing the risks (threats and opportunities) that Metair faces to create stakeholder value. or Choices made under conditions of uncertainty, bound by acceptable levels of risk, designed to sustain/ maximise shareholder value.
Residual risk	Risk after considering the effectiveness of management's risk responses.
Risk mitigation	The process of selecting and implementing measures to modify risk (encompasses risk avoidance, risk reduction, risk retention and risk transfer).
Risk categories	Grouping of risks with similar characteristics used in establishing the clients risk portfolio (see risk profile). Ultimately determined by the client, the characteristics used to define risk categories typically reflect the client's business model, industry or other factor that drives risk within the organisation.
Risk profile	Identification and listing of risks, typically in order of highest to lowest based on a qualitative or quantitative scheme approved by Metair management.
Risk strategy	The approach adopted for associating and managing risks based on the enterprise objectives and strategies.
Risk appetite	The amount of risk taken in pursuit of value.
Key performance indicators (KPIs)	Key performance indicators (KPIs) are quantitative measurements, both financial and non-financial, of the process's ability to meet its objectives and of the process performance. They are usually analysed through trend analyses within a company or through benchmarking against a peer of the company or its industry.
Process	Structured set of activities within an entity, designed to produce a specified output.