

ASPEN PHARMACARE HOLDINGS LIMITED, ITS SUBSIDIARIES AND SIGNIFICANT JOINT VENTURE ENTITIES

("the GROUP")

AUDIT & RISK COMMITTEE

TERMS OF REFERENCE

1. INTRODUCTION

- 1.1. The Audit & Risk Committee ("the Committee") is constituted as a committee of Aspen Pharmacare Holdings Limited ("the Company"), its subsidiaries and significant joint venture entities ("the Group"). In terms of section 94(7) of the Companies Act, 71 of 2008 ("the Companies Act") the Committee is constituted as a statutory audit committee and performs its statutory duties detailed in section 94(7) in relation to the Company and Pharmacare Limited. It is a committee of the board in respect of all other duties assigned to it by these terms of reference and by the board from time to time.
- 1.2. 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. Although the Committee has the full authority of the board in respect of the matters referred to it, the deliberations of the Committee do not reduce the individual and collective responsibilities of board members in regard to their fiduciary duties and responsibilities – they must continue to exercise due care and judgment in accordance with their legal obligations.
- 1.3. These terms of reference are subject to the provisions of section 94 the Companies Act in respect of the Company and Pharmacare Limited, the Company's Articles of Association or Memorandum of Incorporation (as is applicable) and any other applicable law or regulatory provision.

2. PURPOSE OF THE TERMS OF REFERENCE

The purpose of these terms of reference is to set out the Committee's role and responsibilities as well as the requirements for its composition and meeting procedures.

3. COMPOSITION OF THE COMMITTEE

- 3.1. The Committee shall comprise of at least three members to be appointed by the shareholders, on the recommendation of the board, which shall make the recommendation after having considered proposals made by the Remuneration & Nomination Committee.
- 3.2. All members of the Committee must be suitably skilled and experienced independent non-executive directors.
- 3.3. 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; economics; public affairs; human resource management; financial sustainability issues; information technology governance as it relates to integrated reporting; and governance processes within the Group.
- 3.4. The company secretary shall keep record of the professional qualifications and experience of the Committee's members.
- 3.5. The chairman of the board is not eligible to be the chairman or a member of the Committee.
- 3.6. The chairman of the Committee must attend the Company's annual general meeting to answer questions, through the chairman of the board, on the report on the Committee's activities included in the annual financial statements to shareholders and matters within the scope of the Committee's responsibilities.
- 3.7. The board elects the chairman of the Committee.
- 3.8. The board must fill vacancies on the Committee as soon as practically possible, but in all instances as statutorily prescribed, after the vacancy arises.
- 3.9. The Committee members must keep up-to-date with developments affecting the required skill-set.

4. 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.

5. RESPONSIBILITIES

The Committee has the following specific responsibilities:

5.1. *Reporting to Stakeholders*

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

- 5.1.1. have regard to all factors and risks that may impact on the integrity of the integrated report, including but not limited to significant judgments 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 and the like;
- 5.1.2. 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;
- 5.1.3. comment in the integrated report on the financial statements, the accounting practices and the effectiveness of the internal financial controls;
- 5.1.4. review the disclosure of sustainability issues in the integrated report to ensure that it is reliable and does not conflict with the financial information;
- 5.1.5. recommend the integrated report for approval by the board;
- 5.1.6. consider the frequency for issuing interim results;
- 5.1.7. consider whether the external auditor should perform assurance procedures on the interim results;
- 5.1.8. consider the appropriateness of publishing summarised integrated information and, as applicable, review the content for whether it provides a balanced view;
- 5.1.9. if applicable, engage the external auditors to provide assurance on the summarized financial information; and
- 5.1.10. express the Committee's formal opinion to the board on the Group's going concern status and whether it will continue to be a going concern in the financial year ahead.

5.2. Combined Assurance

The Committee ensures that a combined assurance model is applied to provide a coordinated approach to all assurance activities, and in particular the Committee should:

- 5.2.1. ensure that the combined assurance received is appropriate to address all the significant risks facing the Group; and
- 5.2.2. monitor the relationship between the external assurance providers and the Group.

5.3. Finance Function and Financial Director

- 5.3.1. The Committee reviews the expertise, resources and experience of the Group's finance function, and discloses the results of the review in the integrated report.
- 5.3.2. The Committee also considers and satisfies itself of the suitability of the expertise and experience of the financial director every year.

5.4. Internal Audit

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

- 5.4.1. be responsible for the appointment, performance assessment, and/or dismissal of the chief audit executive;
- 5.4.2. approve the internal audit plan;
- 5.4.3. ensure that the internal audit function is subject to an independent quality review at least once every five (5) years; and
- 5.4.4. ensure that the internal audit has adequate capacity to perform a review of all significant areas of financial reporting so as to enable the Committee to perform its responsibilities to oversee the integrity of the integrated report, specifically financial information published by the Group.

5.5. Risk Management

- 5.5.1. The Committee is an integral component of the risk management process and must ensure that the Group has implemented an effective policy and plan for risk management that will enhance the Group's ability to achieve its strategic objectives. The Committee must oversee:

- 5.5.1.1 financial reporting risks;
- 5.5.1.2 internal financial controls;
- 5.5.1.3 fraud risks as it relates to financial reporting; and
- 5.5.1.4 IT risks as they relate to financial reporting and the going concern of the company and in this regard ensure that –
 - 5.5.1.4.1 IT governance, as it relates to financial reporting and the going concern of the company, is on the agenda of each committee meeting and board meeting, respectively; and
 - 5.5.1.4.2 the use of technology to improve audit coverage and efficiency is considered; and
 - 5.5.1.4.3 the Group chief information officer appears before and reports to the board at least once each calendar year.

5.5.2 In addition to the above, the Committee must:

- 5.5.2.1 ensure that the disclosure in the Company's integrated report of risk is comprehensive, timely and relevant;
- 5.5.2.2 monitor the development and annual review of a policy and plan for risk management and measurement to recommend for approval to the board;
- 5.5.2.3 monitor the implementation of the policy and plan for risk management and measurement taking place by means of risk management systems and processes;
- 5.5.2.4 make recommendations to the board concerning the levels of risk within the Group;
- 5.5.2.5 oversee the wide dissemination of risk management throughout the Group and the integration thereof in the day-to-day activities of the Group;
- 5.5.2.6 obtain assurance from the Group's internal audit or from alternative assurance provider/s that the Group's risk policy and plan is appropriate and effectively implemented;

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- 5.5.2.7 ensure that risk is identified and assessed on a continuous basis;
- 5.5.2.8 ensure that frameworks and methodologies are implemented to increase the possibility of anticipating unpredictable risks;
- 5.5.2.9 ensure that management considers and implements appropriate risk responses;
- 5.5.2.10 express the Committee's formal opinion to the board on the effectiveness of the system and process of risk management;
- 5.5.2.11 ensure that the disclosures regarding risk management which are included in the integrated report are timely, comprehensive, relevant and reliable;
- 5.5.2.12 ensure that compliance, including but not limited to legal compliance, is adequately addressed in the Group through its compliance management, monitoring and assurance processes; and
- 5.5.2.13 ensure that the Group's health and occupation risks are adequately addressed through its risk management, monitoring and assurance processes.

5.6. *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:

- 5.6.1. nominate the external auditor for appointment by the shareholders;
- 5.6.2. approve the terms of engagement and remuneration for the external audit engagement;
- 5.6.3. monitor and report on the independence of the external auditor in the annual financial statements;
- 5.6.4. define a policy for non-audit services provided by the external auditor;
- 5.6.5. pre-approve the contracts for non-audit services to be rendered by the external auditor;

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- 5.6.6. ensure that there is a process for the Committee to be informed of any Reportable Irregularities (as identified in the Auditing Profession Act, 2005) identified and reported by the external auditor;
- 5.6.7. review the quality and effectiveness of the external audit process; and
- 5.6.8. ensure that the audit firm and, where appropriate, the individual auditor that will be responsible for performing the functions of auditor, are accredited as such on the JSE list of Auditors and their advisors as required by the JSE Limited Listings Requirements.

5.7. *Additional and Ancillary Responsibilities*

The Committee is also responsible for the following additional and ancillary responsibilities and in this regard the Committee must –

- 5.7.1. conclude and report yearly to the Group's stakeholders and the board on the effectiveness of the Group's internal financial controls;
- 5.7.2. report all weaknesses in financial controls, that are considered material (individually or in combination with other weaknesses) to the Group's stakeholders and the board;
- 5.7.3. review the Group's whistle-blowing arrangements relating to matters that may have an effect on the Group's integrated reporting;
- 5.7.4. approve all or any amendments to the Group's code of conduct as it applies to integrated reporting;
- 5.7.5. assess whether the Group's management monitors compliance with the Group's code of conduct;
- 5.7.6. consider the potential for fraudulent acts to result in material misstatements in the Group's integrated report;
- 5.7.7. adopt and maintain a process that allows the Committee to deal with its own or other individual concerns relating either to the accounting practices and integrated audit of the Group or to the content or auditing of the Group's financial statements, the internal financial controls of the Group or to any related matter;

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- 5.7.8. review concerns identified by the internal or external auditors and ensure that these are appropriately dealt with by the Group's management;
- 5.7.9. in circumstances where the Group's auditors report is modified as a result of a reportable irregularity, review the completeness and accuracy of the disclosure of such matters in the Group's financial statements;
- 5.7.10. insert in the annual financial statements of the Company and Pharmacare Limited a report:
 - 5.7.10.1 describing how the Committee carried out its functions;
 - 5.7.10.2 stating whether the Committee is satisfied that the auditor was independent of the Company and Pharmacare Limited; and
 - 5.7.10.3 commenting in any way the Committee considers appropriate on the financial statements, the accounting practices and the internal financial control of the Company and Pharmacare Limited.
- 5.7.11. approve all announcements to the Johannesburg Stock Exchange News Service ("SENS") and ensure the circulation thereof to the board prior to publication, other than announcements in respect of Category 1 Transactions or profit warnings which shall stand to be approved by the board; and
- 5.7.12. deal with all complaints and queries from stakeholders in relation to the Group's financial matters.

6. AUTHORITY

- 6.1. 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, unless a prior apology has been given, with compelling reasons. In the event of the chairman of the Committee not being present at an annual general meeting, then he shall appoint another member of the Committee to so attend in his stead.
- 6.2. On all responsibilities delegated to it by the board outside of the statutory duties, the Committee makes recommendations for approval by the board.

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- 6.3. 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.
- 6.4. The Committee, in the fulfilment of its duties, may call upon the chairmen of the other board committees, any of the executive directors, Group officers, company secretary or assurance providers to provide it with information subject to board approved process.
- 6.5. The Committee has access to the company's records, facilities, employees and any other resources necessary to discharge its duties and responsibilities subject to following board approved process.
- 6.6. The Committee may form, and delegate authority to, subcommittees and may delegate authority to one or more designated members of the Committee. Such delegation does not absolve the full Committee from all or any of its responsibilities.
- 6.7. 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.

7. DIFFERENCES OF OPINION BETWEEN THE BOARD AND THE COMMITTEE

- 7.1. In the event of a difference of opinion arising between the board and the Committee in regard to –
 - 7.1.1. the Committee's statutory duties, then the opinion of the Committee shall prevail; and
 - 7.1.2. the Committee's delegated duties, then the opinion of the board shall prevail.
- 7.2. Notwithstanding the provisions of clause 7.1 in all instances where there is a difference of opinion between the board and the Committee the chairman of the board and the chairman of the Committee shall immediately engage the Group Chief Executive or Deputy Group Chief Executive who shall mediate the difference. If mediation fails the provisions of clause 7.1 shall apply.

8. INDEPENDENT PROFESSIONAL ADVICE

- 8.1. Members of the Committee have the right to seek professional advice from the Group's professional advisers, at the Company's expense, on all issues relevant to his/her rights, duties and/or responsibilities as a member of the Committee.

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- 8.2. If a member of the Committee is not satisfied with the advice given to him/her by the Group's professional advisers, then the member of the Committee concerned may, subject to what is stated below, seek independent professional advice:
- 8.2.1. the member of the Committee concerned must give prior written notice to the chairman of the board (or in the instance of the chairman of the board giving written notice to the lead independent director) and the company secretary of:
 - 8.2.1.1. his/her intention to seek independent professional advice;
 - 8.2.1.2. the name of the Group's professional adviser/s which he/she initially consulted and reasons for he/she not being satisfied with that advice; and
 - 8.2.1.3. the name of the independent professional adviser/s that he/she proposes to instruct together with a brief summary of the subject matter and an estimate of the proposed cost.
 - 8.2.2. the chairman of the board (or the lead independent director, as the case may be) shall provide a written acknowledgement of receipt of the notification which shall state whether the fees for the independent professional advice sought are payable by the company. In the event of the chairman (or the lead independent director, as the case may be) stating that such fees are not payable by the company, then the member of the Committee concerned shall be solely liable for such fees. The chairman (or the lead independent director, as the case may be) in exercising his/her rights and obligations under this clause 8.2 shall act reasonably and without delay.
- 8.3. The independent professional advice obtained by the member of the Committee in question shall be made available to the Committee and the board by the member of the Committee concerned and shall be for the benefit of the board and the Committee as a whole.
- 8.4. The member of the Committee concerned shall ensure that no potential conflicts of interest exist or can arise between the Group and the independent professional adviser/s to be engaged.
- 8.5. The member of the Committee who is seeking independent professional advice shall ensure that the costs to the Group of the independent professional adviser/s shall be reasonable.

- 8.6. The aforesaid restrictions shall not apply to executive members of the Committee acting in the furtherance of their executive responsibilities and within their delegated powers.
- 8.7. Independent professional advice for the purposes of this policy shall exclude advice concerning the member of the Committee's personal interests (such as service contracts with the Group or his/her dealings in the Company's securities or disputes with the Group unrelated to his/her membership of the Committee.)

9. MEETINGS AND PROCEDURES

9.1. Frequency

- 9.1.1. 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 four meetings per year.
- 9.1.2. Meetings in addition to those scheduled may, with approval of the chairman, be held at the request of the external auditor, the group chief executive, deputy group chief executive, chief audit executive or other members of senior management or at the instance of the board.
- 9.1.3. The Committee must meet with internal and external auditors at least once a year without management being present.

9.2. Attendance

- 9.2.1. The group chief executive, the deputy group chief executive, chief audit executive, 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.
- 9.2.2. Committee members must attend all scheduled meetings of the Committee, 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. Committee members may participate in and act at meetings of the Committee through the use of a conference telephone or other communication equipment by means of which all persons participating in the meeting can hear each other at approximately the same time. Such participation by Committee members shall constitute attendance and presence in person at the meeting in question.

- 9.2.3. The company secretary is the secretary to this Committee.
- 9.2.4. 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.

10. AGENDA AND MINUTES

- 10.1. 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.
- 10.2. The annual plan must ensure proper coverage of the matters laid out in the 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.
- 10.3. The number, timing and length of meetings, and the agendas are to be determined in accordance with the annual plan.
- 10.4. A draft agenda must be circulated by the company secretary at least 10 (ten) days prior to each meeting to the members of the Committee requesting their input, unless urgent business dictates otherwise. A detailed agenda, together with supporting documentation, must be circulated by the company secretary at least five days prior to each meeting to the members of the Committee and other invitees, unless urgent business dictates otherwise.
- 10.5. Committee members must be fully prepared for Committee meetings, to provide appropriate and constructive input on matters discussed.
- 10.6. 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.

11. QUORUM

A representative quorum for meetings is a majority of members present. Individuals in attendance at Committee meetings by invitation may participate in discussions but do not form part of the quorum for Committee meetings.

12. EVALUATION

- 12.1. The board must perform an evaluation of the effectiveness of the Committee every year.
- 12.2. The Committee must perform a self-evaluation of its effectiveness every year.

13. APPROVAL OF THESE TERMS OF REFERENCE

These terms of reference were approved by the board and the Committee on 15 September 2010 and amended by the board on 3 March 2011 and 1 December 2011. They will be reviewed on or before 1 October of each subsequent year. In addition they may be updated more frequently should circumstances necessitate.

END
