ARC INVESTMENTS

Risk Management Policy

1. INTRODUCTION

Each company experiences different risks depending on the nature of their business, the extent of their financial obligations and other resources and aptitudes of its people. Risk can be defined as the potential future harm that may arise from some present action or omission.

Risk Management is defined in The King Report on Corporate Governance for South Africa, ("King IV") as "a process that utilizes internal control as a measure to mitigate and control risk". This report highlights that risk management goes beyond the control of financial risks only and that the reputation and future survival of the business are also at stake.

The Board is ultimately accountable for the risk management process and system of internal control within ARC Investments Limited ("the Company"). The board of the Company ("the Board") must review the comprehensive Risk Management Policy, which is to be implemented by management of the Company. This incorporates continuous risk and opportunity identification, assessment and internal control embedment as well as risk reduction.

The Audit and Risk Committee of the Company ("the Committee") is mandated to monitor the effectiveness of the risk management process and systems of internal control. The Company's internal and external auditors, along with management, are tasked to render combined assurance reports to the Committee.

Ethical leadership and human capital are the cornerstones of the Company's risk management philosophy as these ensure entrepreneurial flair, sound corporate reputation and effective governance.

The risk management process in the Company comprises the arrangement of resources to ensure the achievement of strategy and business plans, including the exploitation of available opportunities that meet the risk appetite criteria to be set by the Board. Risk profiles inherent to existing activities and investments are furthermore maintained within the approved risk tolerance levels, thereby optimising the risk return parameters for the creation of sustainable growth and value for shareholders and other stakeholders.

Strategic risk assessment includes the consideration of probable future scenarios taking cognisance of, among other things, political, environmental, social, technological, economical and legislative developments in both the Company environment as well as the market sectors that it invests in.

2. RISK MANAGEMENT PROCESS

The Risk Management Policy is based on the principles of the international COSO (Committee of Sponsoring Organisations of the Treadway Commission) Enterprise Risk Management – Integrated Framework and complies with the recommendations of the King Report on Governance for South Africa 2009 (King III). This policy defines the objectives, methodology, process and responsibilities of the various risk management role players in the Company. The Risk Management policy is subject to annual review and any proposed amendments will be submitted to the Committee for consideration and recommendation to the Board for approval.

The Company's risk management process takes cognisance of risks and opportunities within the Company as well as the risks and opportunities inherent to its investment portfolio.

Below is a table that outlines the key control objectives and key controls of the Company's risk register:

KEY CONTROL OBJECTIVES	KEY CONTROLS
The appointment and retention of suitably skilled and experienced directors and officers possessing the required values and drive.	• Effective functioning of the Remuneration and Nomination Committee. • Performance assessments and committee evaluations. • Strong ethical leadership.
Ethical and visible leadership via governance structures and related processes.	• Anti-corruption procedures. • Embedded system of values and ethics and maintenance thereof via visible leadership. • Formalised ethics policies and codes of conduct. • Corporate culture focused on excellence in execution and fairness in dealing and transparency in reporting. • Comprehensive and King IV compliant corporate governance structures and systems.
Effective internal operations, including secretarial, financial, human resources and all other departmental activities in the service company.	• Skilled and experienced managers regularly review policies and practices governing internal controls designed to ensure the consistent achievement of relevant objectives.
Adoption and implementation of appropriate long-term strategy within approved risk appetite duly communicated and delegated to the executive.	• Effective management board supported by executive management and an experienced investment Committee and deal team. • Dedicated focus on external risks such as country and economic risk.
Accurate, transparent and reliable reporting and interaction with stakeholders.	• Formalised stakeholder and communication policies. • Effective internal financial controls. • Comprehensive combined assurance plans and processes. • Structured and considered integrated reporting.
Maintaining the significance of the Company's corporate presence in the investment environment as this enables it to acquire meaningful stakes in selected investment opportunities.	• A conservative business approach with long-term investment criteria focused on growth, sustainability and liquidity. • Corporate actions are aligned with the long-term strategy and responsible investment criteria.
Ensuring that opportunity risks are managed to avoid lost investment opportunities that meet the Company's stringent investment criteria.	• Good corporate reputation and brand as investor of choice. • Skilled and experienced investment division with efficient operational processes and controls. • Effective support structures and negotiation processes supported by proven due diligence processes. • Workgroups focused at future scanning and key investment strategy objectives reporting to the Management Board.
Effective group structuring to house existing and new investments.	• Appropriate control structures supported by skilled and experienced legal and corporate tax specialists.
Full compliance with taxation and other relevant legislation and industry practices.	• Consultation with independent tax and legal professionals.

Material external risks include uncertainty on government ability to deliver on its mandate and the sustained global economic downturn impacting on market confidence and global, regional and local stability.

The Company ensures that proper corporate governance is implemented and maintained in all entities it invests.

3. ROLES AND RESPONSIBILITIES

The allocation of roles and responsibilities is consistent with the guidelines provided in the King IV report on Corporate Governance and the COSO (The Committee of Sponsoring Organisations of the Treadway Commission) Framework.

The Board is responsible for the total process of risk management as well as forming an opinion on the effectiveness of the process.

The Board provides oversight regarding risk management by:

- Knowing the extent to which management has established effective risk management in the organization;
- Being aware of and concurring with the entity's risk appetite;
- Reviewing the entity's portfolio view of risks and considering it against the entity's risk appetite; and
- Being apprised of the most significant risks and whether management is responding appropriately.

4. RISK APPETITE

Risk appetite is defined as the risk that the Company is prepared or willing to accept without further mitigating action being put in place or the amount and nature of risk the Company is willing to accept in pursuit of objectives.

The following qualitative and quantitative factors are considered by the Board in evaluating risk appetite:

- risk and return profile of the current investment portfolio;
- available funding opportunities;
- risk return profile of prospective opportunities;
- financial ratios relevant to measuring performance;
- international and local economic cycles and trends; and
- foreign currency rates and trends.

5. RISK TOLERANCE

The Company encourages the taking of controlled risks, the grasping of new opportunities and the use of innovation to further the interest of the organisation and achieve its objectives provided the resultant exposures are within the risk tolerance range of the Company. The assumption of any substantial risk outside its tolerance will be specifically discussed and approved by the Board.

The risk tolerance may be defined by reference to the following components. Where practical, risk tolerance will be specified in quantifiable terms:

5.1 Acceptable Risk

Management should be willing and able to take calculated risks to achieve the objectives of the Company to benefit the Company. The associated risks of proposed actions and decisions should be properly identified, evaluated and managed to ensure that exposures are acceptable.

5.2 Prohibited Risk

The Company should exercise caution in all its dealings. Adherence to applicable regulations in force will always be mandatory. Actions leading to the following will constitute prohibited risk:

- non-adherence to applicable laws and regulations;
- censure / fines by regulatory bodies;
- threat to the existence of the Company;
- engaging in activities that impair objectivity and independence in decision making; and
- creation of material level of adverse publicity and reputational damages.

6. UNEXPECTED OR UNUSUAL RISK EXPERIENCES

The risk management process is furthermore also externally focused to ensure the timely identification of new emerging risks and the assessment of the effectiveness of risk responses thereto.

7. INTERNAL CONTROL AND INTERNAL AUDIT

Given the current nature and scale of the company, in accordance with the Board Charter, an internal audit function has not been established and assurance by the external audit and management is deemed sufficient.

8. EFFECTIVENESS OF RISK MANAGEMENT PROCESS AND SYSTEM OF INTERNAL CONTROL

The Board, via the Committee, must consider the documented policies, procedures and independent assurance reports to satisfy itself that the internal control process and risk management process implemented in the Company are effective.