



KAP Industrial Holdings Limited
KING IV APPLICATION REGISTER 2017



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The purpose of this register is to provide an overview of the application by KAP of the principles contained in the King Report on Corporate Governance 2016 (King IV). The register should be read in conjunction with the documents cross-referenced below, all of which are available on the Company's website at www.kap.co.za.

Principle	Application / Explanation	Cross-references
<p>1. The governing body should lead ethically and effectively.</p>	<p><i>Ethics</i> The board of directors of KAP constitutes the governing body and the directors hold one another accountable for decision making and ethical behavior.</p> <p>The responsibilities of the board include providing effective leadership based on an ethical foundation.</p> <p>The board has adopted a Code of Ethics which is applicable across the group.</p> <p>The board's responsibility for setting the tone for an ethical organisational culture across the group is discharged by the group and corporate level governance, monitoring and reporting systems and structures in place, as detailed in the Corporate Governance Report.</p> <p>Board members are under a legal duty to prevent conflicts of interest with the company and are obliged to make full disclosure of any areas or potential areas of conflict prior to any consideration or discussion by the board of such items and may not take part in any discussions on such matters, being obliged to recuse themselves from any board meeting while such discussions are in progress. Disclosures of other directorships are tabled at the start of each board meeting and this is a standard agenda item.</p> <p><i>Effectiveness</i> To ensure that the Company's leadership is effective, board, committee or senior executive appointments are proposed by the nomination committee to ensure an appropriate mix of skills and independence of thought. Board members collectively possess a wide range of financial, commercial and technical knowledge, together with experience in the industries within which the Company operates.</p> <p>New directors appointed to the board from time to time are given an appropriate induction into the business and affairs of the group and into the duties of any committee on which they may be appointed to serve.</p> <p>Annual performance/effectiveness assessments of the board, the audit and risk committee, the human resources and remuneration committee and the nomination committee were undertaken during the review period. The results of these assessments were communicated to the board and its committees.</p>	<p>Corporate Governance Report</p> <p>Board Charter</p> <p>Code of Ethics</p>

<p>2. The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.</p>	<p>The ultimate responsibility for the governance of ethics rests with the board. The board serves as the focal point and custodian of corporate governance for the group.</p> <p>The board commits to the Constitution of the Republic of South Africa (including the bill of rights) and accepts the principles of fairness, accountability, integrity and transparency. The board strives, as a minimum to ensure compliance with all applicable legislation and regulations, leading standards and with its own code of ethics.</p> <p>The board is assisted in governing the ethics of the organisation by the social and ethics committee.</p> <p>The board, assisted by its committees is committed to maintaining an ethical culture, on transformation within the group, on fair, transparent and responsible remuneration and on the continued development and training of its employees.</p> <p>Whistle-blowing or “Hotline” facilities have been established across the group to afford employees a facility for the reporting of unethical or fraudulent behavior. All reports are diligently investigated by senior managers/executives not involved with the alleged incident and the results of such investigations are reported to the audit and risk committees, at divisional and main board level. The board has adopted a zero tolerance approach to fraud and the appropriate remedial action is taken should there be found to be any substance to the matter reported.</p> <p>The code of ethics adopted by the board, commits KAP and its employees to the highest ethical standards of conduct and amongst others regulates aspects of confidentiality, non-discrimination, the acceptance of gifts, bribes and political contributions.</p> <p>Through the social and ethics committee, the board adopted the 10 principles of the United Nations Global Compact in the areas of human rights, labour, the environment and anti-corruption, as well as the nine instruments of the Organisation for Economic Co-operation and Development, aimed at combating the fight against corruption and averting the solicitation of bribes and extortion, as well as promoting economic and social well-being of people.</p> <p>The policy on price-sensitive information and insider trading was renewed and the declarations of interest policy allows for the governing of conflicts of interest.</p> <p>Planned areas of future focus will include the continued training of employees to ensure that the group embeds a culture of ethical behavior in all of its operations and at all levels.</p>	<p>Corporate Governance Report</p> <p>Code of Ethics</p> <p>Corporate Governance Report</p>
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<p>5. The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short, medium and long-term prospects.</p>	<p>The board assumes responsibility for the integrity and transparency of the Company's reporting and, assisted by the audit and risk committee and the external auditors, oversees the issue of the Company's annual financial statements and integrated reports.</p> <p>The integrated report provides stakeholders with information relating to the group's performance.</p> <p>Information is also made available to stakeholders via investor conferences, roadshows and on the company's website at www.kap.co.za.</p> <p>The company has adopted policies governing the use of social media and the dissemination of price-sensitive information and insider trading.</p> <p>The publication of external reports and press releases, including releases on the electronic news service of the JSE Limited (SENS), requires the prior approval of the Company's Chief Executive Officer, or as may be otherwise instructed.</p>	<p>Corporate Governance Report</p> <p>Integrated Report, pages 8 – 23</p>
<p>6. The governing body should serve as the focal point and custodian of the corporate governance in the organisation.</p>	<p>The board charter documents the board's role and responsibilities, including the focal role of setting the strategic direction of the group, approving policies and plans to give effect thereto, oversight and monitoring of the implementation of policies and plans by management together with reporting and disclosure. Although, to accommodate the diversity of the group's operations, certain policies may be set at divisional level, all policies are subject to compliance with the over-arching policies set at board level. The board is supported by the committee and management reporting structures detailed in the Corporate Governance Report but remains ultimately responsible for corporate governance in the group and for the appropriate and transparent reporting of corporate governance.</p>	<p>Board Charter</p> <p>Corporate Governance Report</p>
<p>7. The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.</p>	<p>The names of the board members during the review period, together with details of their age, qualifications, knowledge, skills and experience are disclosed in the integrated report. Details relating to Messrs. du Preez and de Klerk, who were appointed to the board with effect from 1 October 2017, are contained in Annexure A to the notice of annual general meeting to be held on 13 November 2017.</p> <p>King IV requires that the majority of directors shall be non-executive directors, the majority of whom shall qualify as independent and this requirement has been met. The independence of the non-executive directors is reviewed on an annual basis by the nomination committee against the criteria stipulated in King IV.</p> <p>A chief executive officer and chief financial officer have been appointed to the board. The arrangements for periodic, staggered rotation of board members are contained within the Company's memorandum of incorporation and are duly applied.</p>	<p>Integrated report, pages 86 – 89</p> <p>Notice of Annual General Meeting 2017 (Annexure A)</p>

	<p>The process for nomination, election and appointment of board members is formal and transparent, as outlined in the Corporate Governance Report</p> <p>The board, as a whole considers and, if appropriate, approves recommendations of the nomination committee, subject to shareholder approval.</p> <p>New directors appointed to the board are given an appropriate induction into the business and affairs of the Group and into the responsibilities of any committee(s) on which they may be appointed to serve. (Refer to the Corporate Governance Report for further details).</p> <p>The board has carried out a formal self-evaluation and is satisfied that the composition of the board reflects the appropriate mix of knowledge, skills, experience, diversity and independence.</p>	Corporate Governance Report
<p>8. The governing body should ensure that its arrangements for delegation within its own structures promote independent judgment, and assist with balance of power and the effective discharge of its duties.</p>	<p>The board has adopted a decentralised structure with defined accountability levels and reporting lines set at divisional level. Divisional management boards, supported by division executive committees, audit and risk committees and human resources and remuneration committees promote independent judgement and assist the board with the effective discharge of its duties. Meetings of the divisional boards and committees are formally minuted. Standing board committees have been established, under written terms of reference, in accordance with statutory requirements. These committees assist the board to effectively discharge its duties. The composition of these standing committees, as detailed in the Corporate Governance Report, ensures that there is an appropriate balance of power and that an independent perspective is brought to board deliberations and that no single director has unfettered powers.</p> <p>An executive committee has been established with primary responsibility for assisting and advising the chief executive officer in implementing the strategies and policies determined by the board and in managing the business and affairs of the group, prioritising the allocation of capital, technical and human resources and ensuring best management practices.</p> <p>A separate BEE executive committee, which meets on a regular basis, has been established to advise on and implement the group's BEE strategies.</p> <p>The standing committees of the board, which are reported on more fully in the Corporate Governance Report are:</p> <ul style="list-style-type: none"> - The audit and risk committee - The human resources and remuneration committee - The social and ethics committee 	Corporate Governance Report

	<p>- The nomination committee.</p> <p>In addition to the above, <i>ad hoc</i> committees are formed from time to time to assist the board in discharging its duties.</p>	
<p>9. The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.</p>	<p>The board, the audit and risk committee, the social and ethics committee and the human resources and remuneration committee conduct annual assessments as disclosed in the Corporate Governance Report. Items identified for improvement are discussed and followed up to ensure the implementation of recommended actions. An assessment of the suitability and effectiveness of the chief financial officer is conducted annually by the audit and risk committee and is confirmed in the audit and risk committee's report in the annual financial statements.</p> <p>The suitability and effectiveness of the company secretary is reviewed by the board on an annual basis.</p> <p>The appointment of the chairman is reviewed by the board on an annual basis.</p> <p>Long-serving directors were subjected to a more rigorous assessment prior to recommendation for re-appointment.</p>	<p>Corporate Governance Report</p> <p>Annual Financial Statements, pages 121 –123</p>
<p>10. The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and effective exercise of authority and responsibilities.</p>	<p>The chief executive officer has a clearly defined role and, assisted by the executive committee under his chairmanship, is responsible for the implementation and execution of the board's strategy, policies and proposals presented to and approved by the board.</p> <p>To provide continuity of executive leadership, succession planning is in place for the chief executive officer, executive management and other key positions. Succession plans are regularly reviewed to provide for succession in both emergency situations and over the longer term.</p> <p>The chief executives of the group's divisions operate under clearly defined guidelines.</p> <p>The Company has appointed Steinhoff Secretarial Services Proprietary Limited as company secretary to provide professional corporate governance services to the Company. The board of Steinhoff Secretarial Services Proprietary Limited is comprised of individuals with, collectively, many years of experience in the legal, administrative, company secretarial and corporate governance fields. The company secretary reports to the board on all statutory, regulatory and governance matters concerning the group and to the chief financial officer on all other duties and administrative matters.</p> <p>The performance and independence of the company secretary is evaluated by the board on an annual basis and the board has satisfied itself as to the appropriateness of this appointment and as to the arms-length nature of this appointment.</p>	

	<p>In instances where delegation has taken place to management or committees, pre-approved materiality levels and terms of references apply, respectively.</p> <p>Although the board has delegated certain powers and authorities to executive management and to board committees, the ultimate responsibility for retaining full and effective control of the group rests with the board. Decisions on strategy and other material matters are reserved for the board and there is a clear delineation of power between the board and management at all times.</p>	
<p>11. The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.</p>	<p>The board assumes responsibility for the governance of risk by setting the direction for how risk is to be approached and addressed across the group in order to achieve its strategic objectives. Without derogating from its overall responsibility for risk management, the board delegates the implementation and execution of effective risk management to divisional management.</p> <p>The board exercises oversight of risk via inter alia:</p> <ul style="list-style-type: none"> - The establishment of audit and risk committees at both divisional and group level. - The receipt and review of divisional and group risk and internal audit reports. - Due diligence processes to evaluate and understand risks and opportunities that merger/acquisition proposals may contain. - Oversight of the group's insurance portfolio. <p>The formalised reporting structures established across the group ensure that the board receives regular risk reports from the divisional management, which considers the risks that could impact their division. The risk reports, which are updated on a regular basis, categorise the estimated impact and likelihood of the risks identified by each division, differentiating between residual risks and inherent risks and advising the board of the controls established/remedial action taken at divisional level to mitigate the risks identified.</p> <p>The Company has adopted an Enterprise Risk Management Policy and Framework that provides management direction and support to the group's divisions in accordance with the board's risk appetite and the applicable legal and regulatory requirements. The policy and framework encompasses:</p> <ul style="list-style-type: none"> - Assisting management to achieve the group's performance and probability targets and prevent loss of resources. - Aligning risk appetite and strategy. - Enhancing risk-response decisions. - Identifying opportunities. - Improving the deployment of capital. 	<p>Corporate Governance Report</p>

	<p>Responsibility for effective risk management is spread across the group's workforce and management.</p> <p>The group risk function assists the board to oversee the risk management processes within the group and the audit and risk committee plays an integral oversight role in ensuring the ongoing effectiveness of these processes. The audit and risk committee assists the board by providing an independent and objective view on the group's financial, accounting and control mechanisms and policies, information systems and internal controls, the going concern status of the group and compliance with all relevant statutory and regulatory requirements. Internal audit assists with risk management by examining, evaluating, reporting and making recommendations regarding the adequacy and effectiveness of the group's risk management process. Divisional/operational risk officers are responsible for the development, implementation and maintenance of divisional/operational risk management plans and systems and the chief executive officers of the divisions/operations are responsible for the management of risk. All group personnel are responsible for compliance with the various established risk management and risk control policies and procedures.</p> <p>Cyber-crime has been recognised as a potential risk facing all of the group's divisions/operations and, in recognition of this, the security and integrity of the group's information and communications systems has been evaluated by an independent third party. Remedial action has been taken where appropriate and, going forward, this is an area that will continue to receive focused attention. An Information, Communications and Technology (ICT) steering committee has been established at group level to ensure the ongoing security and integrity of the group's ICT.</p>	
<p>12. The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.</p>	<p>The board is responsible for the governance of ICT, which is a key factor in the board setting and achieving its strategic objectives. It is assisted by the audit and risk committee, which, together with the divisional audit and risk committees, reviews ICT risks. Subject to compliance with over-arching policies and directives set at group level, divisional executives are responsible for:</p> <ul style="list-style-type: none"> - Aligning divisional ICT with the performance and sustainability objectives of the company. - Establishing and maintaining strict standards of corporate conduct relating to the use of ICT including compliance with ICT legislation and relevant regulations such as legislation to protect the privacy of personal information. - Monitoring, assessing and managing the security of information in the division. <p>At group level, a dedicated group ICT manager oversees the implementation of the group's ICT policy and a group information systems manager oversees the group's information systems.</p>	

	<p>External specialists are used where independent ICT services are required and a risk review of the group's ICT platforms has been conducted using external specialists.</p> <ul style="list-style-type: none"> - Ensuring that business resilience arrangements are in place to allow for the business to continue in the event of significant incidents and disruptions to ICT systems. - Monitoring and assessing the ICT delivery chain, from acquisition to disposal of products/services. - Reporting regularly to the divisional management boards, divisional audit and risk committees, the KAP audit and risk committee and to the board. 	
<p>13. The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that it supports the organisation being ethical and a good corporate citizen.</p>	<p>Responsibility for the implementation and execution of effective compliance management is delegated by the board to management. The board however retains ultimate responsibility for compliance with applicable laws, adopted non-binding rules, codes and standards.</p> <p>Through its divisionalised board, committee and reporting structures, the board and the audit and risk committee will be apprised of any incidences of non-compliance with legislative and regulatory requirements and/or internal compliance benchmarks set by the group. Divisional management present compliance certificates to the divisional audit and risk committees and to the divisional boards at their scheduled meetings, highlighting any areas of non-compliance with the legislative or regulatory requirements applicable to the activities of their division. Any material incidences of non-compliance and/or significant fines or penalties incurred are reported to the board and/or the audit and risk committee of the board to ensure that appropriate remedial action is taken.</p> <p>Relevant new legislation or regulations introduced from time to time are brought to the attention of the respective board and committee members to ensure that compliance requirements are kept up to date.</p> <p>Should any material or repeated regulatory penalties, sanctions or fines for non-compliance with the group's statutory obligations be incurred, or should the group face criminal sanction or prosecution in respect thereof, details will be disclosed in the Company's integrated report.</p> <p>During the review period, there were no material findings of non-compliance with applicable legislation or regulations and there were no criminal sanctions or prosecutions. Repeated findings, for example minor road traffic offences, are recorded in the divisional compliance certificates and are reviewed by the respective audit committees and boards to detect and prevent any trends of non-compliance.</p> <p>Given the diversity of the group's operations and of the legislation and regulations attaching thereto, there were no particular areas of focus during the review period, other than to ensure that the group continues to operate as a responsible corporate citizen.</p>	

<p>14. The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in short, medium and long term.</p>	<p>The board assumes responsibility for the governance of remuneration and sets the direction for remuneration across the group.</p> <p>The board has appointed a human resources and remuneration committee to ensure that the group's executives and managers are fairly rewarded for their individual and joint contributions to the Company's performance and that the Company remunerates fairly, responsibly and transparently in the context of overall remuneration in the group to enable the Company to achieve its strategic objectives and to secure positive outcomes in the short, medium and long term To this end, the board has approved a Remuneration Policy. The main provisions of this policy are disclosed in the Company's integrated report, together with a background statement and an implementation report.</p> <p>The Remuneration Policy, together with the implementation report, will be presented to shareholders at the Company's annual general meeting to be held on 13 November 2017 for a non-binding, advisory vote by shareholders. Voting at annual general meetings on the Remuneration Policy and implementation report and any required actions flowing from the exercise by shareholders of their votes, will be conducted in compliance with the requirements of the Companies Act no. 71 of 2008, the listings regulations of the JSE Limited and King IV.</p> <p>Directors' remuneration has been disclosed comprehensively in the company's annual financial statements.</p>	<p>Remuneration Report (Integrated Report, pages 90 – 102)</p> <p>Annual Financial Statements, pages 188 – 190</p>
<p>15. The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports.</p>	<p>The board sets the direction for assurance services and functions but the responsibility for overseeing such arrangements is delegated to the audit and risk committee, which is charged with supporting the integrity of information for internal decision-making use and for external reports.</p> <p>A combined assurance model has been developed and formally implemented across the group to effectively cover the group's significant risks and material matters. The model includes but is not be limited to the group's established outsourced internal audit function, its risk management and compliance functions, the external auditors and regulatory inspectors, together with such other external assurance providers as may be appropriate or deemed necessary from time to time, including the company secretary, which provides assurance on aspects of corporate governance and a JSE sponsor which advises on the JSE listings requirements.</p> <p>The audit and risk committee has satisfied itself as to the independence of the external auditor as well as the effectiveness of the chief audit executive (internal audit) and the internal audit function.</p>	

	<p>An external quality review of the internal audit function is conducted on a regular basis and confirmation is obtained annually from the chief audit executive that internal audit conforms to a recognised industry code of ethics.</p>	
<p>16. In the execution of its governance roles and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.</p>	<p>The board determines the direction on stakeholder relationships and delegates to management the responsibility for implementation and execution thereof.</p> <p>Future areas of focus will include the following ongoing practices:</p> <ul style="list-style-type: none"> - overseeing methodologies for identifying individual stakeholders and stakeholder groupings; - the management of stakeholder risk as an integral part of the group’s risk management structure; and - Continued promotion of sound stakeholder relationships by encouraging engagement with material stakeholders. <p>To assist the board with interaction with stakeholders, the following appointments were made during the review period</p> <p>(These executives have been appointed to the executive committee):</p> <p>Business development and transformation executive: <i>Mr V Zondani</i></p> <p>Stakeholder relations executive: <i>Mr P Lunga</i></p> <p>Stakeholders are kept apprised of the Company’s performance by publication of the integrated report, the interim and year-end results announcements and, should these be required, trading updates., The Remuneration Policy and the Corporate Social Investment Policy have been designed to balance the needs, interests and expectations of material stakeholders in the best interests of the Company over time.</p>	<p>Remuneration Policy (Integrated Report, pages 90 – 102)</p>
<p>17. The governing body of an institutional investor organisation should ensure that responsible investment is practiced by the organisation to promote the good governance and the creation of value by the companies in which it invests.</p>	<p>Not applicable.</p> <p>The Company is not an institutional investor.</p>	