



Corporate governance report 2018

This corporate governance report contains full details of the approach adopted by KAP in ensuring application of the King IV principles during the financial year ended on 30 June 2018. Further information on social and environmental aspects is available on the company's website at www.kap.co.za

CORPORATE RESPONSIBILITY

Corporate governance report

“Our consolidated approach to corporate governance, at both divisional and group level, remains focused on ensuring that the businesses and affairs of the group are managed in a responsible and ethical manner, to assist with the creation of value in the short, medium and long term, for the benefit of all stakeholders.” – Gary Chaplin: KAP Chief Executive Officer

The KAP group follows a decentralised management approach, however, the ultimate responsibility for ensuring full and effective control of the group's businesses rests with the KAP board of directors (“the Board”). With guidance from the Board, the day-to-day responsibility for ensuring that the group's businesses are managed appropriately, rests with divisional management. There exists a formal governance framework and defined reporting lines between divisional level and the Board to ensure that the divisions' approach to corporate governance remains in line with group policies. In addition to the formal Board committees, divisional boards and committees have been established to support executive management and the Board with its decision-making.

Decisions on strategy and other material matters are reserved for the Board, including but not limited to decisions on the allocation of capital resources to ensure an optimal return on shareholders' funds and the authorisation of procurement capital expenditure, property transactions, borrowings and investments, save where pre-approved materiality levels apply.

The Board exercises control *via* the group's governance framework, which includes:

- a governance structure, including Board committees and divisional boards and committees, each with approved terms of reference, which terms of reference are reviewed from time to time as necessary
- an approvals framework for the Board and the divisions, through which authority is delegated to management
- detailed reporting to the Board and its committees
- the maintenance and monitoring of a system of internal controls.

The Board has reviewed its delegation of authority framework during the review period and is satisfied that the framework contributes to role clarity and the effective exercise of authority and responsibilities by management.

Appliance of King IV

KAP as a listed public company is committed to maintaining a high standard of corporate governance. During the period under review, the group applied the corporate governance principles as recommended in the King IV Report on Corporate Governance for South Africa 2016 (“King IV”). The general principles of the King regime have been incorporated into the group's structures for many years, however, where necessary, policies, procedures, terms of references, charters, frameworks and structures were amended during the review period to align with the prescripts of King IV, which became effective for entities with financial years commencing from

1 April 2017. A substance-over-form approach was adopted with regards to alignment with King IV, firstly to depart from the so-called mechanistic tick-box approach, and secondly because this approach accommodates the achievement of the recommended King outcome/governance standards by applying practices other than those specifically detailed in the King report.

In October 2017, the KAP Internal Audit function completed an *ad hoc* readiness assessment to ascertain the status of KAP's alignment to King IV. At the time, remuneration policy alignment with the Six Capitals, formalisation of risk appetite and tolerance levels and formalisation of the Combined Assurance Model were highlighted for further attention. Internal Audit also developed a self-assessment tool which enables management to continuously assess areas of the business which might enhance the group's overall governance status.

The Board of directors

The Board charter

The detailed responsibilities of the Board are set out in a formal board charter, which was reviewed during the review period. The charter is aligned to King IV and the Companies Act number 71 of 2008 as amended (the "Companies Act") and is available on the KAP website at www.kap.co.za. The charter sets out the powers of the Board and provides a clear division of responsibilities and the accountability of Board members, both collectively and individually.

The responsibilities of the Board include responsibility for:

- approving the strategic direction of the group;
- approving the budgets necessary for the implementation of the group's strategic direction;
- serving as the focal point and custodian of corporate governance for the group and ensuring that an appropriate corporate governance framework is adopted and is applied across the group;
- providing effective leadership based on an ethical foundation, including the assumption of responsibility for the governance of ethics and setting the tone for ethical leadership;
- ensuring that the businesses of the group are conducted in accordance with the principles of fairness, accountability, transparency, responsibility, competence and integrity;
- defining levels of materiality, reserving specific powers to itself;
- ensuring that a code of ethics is adopted and implemented across the group;
- ensuring that the company and the group are seen to be responsible corporate citizens;
- ensuring the adequacy and efficacy of the group's internal control systems and procedures and reporting thereon;
- governing risk and opportunities in a way that supports the company in setting and achieving its corporate goals;
- ensuring that there is an appropriate, objective and effective risk-based internal audit approach;
- approving KAP's annual financial statements and interim reports and ensuring the integrity of the integrated report;
- making distributions in accordance with the provisions of the Companies Act;
- ensuring appropriate governance of the group's Information Communication Technology systems;
- ensuring that the group remunerates fairly, responsibly and transparently;
- communicating with internal and external stakeholders in a transparent and timely manner; and
- ensuring the overall sustainability of the group.

In carrying out its responsibilities, the Board strives to ensure that:

- there is a balance of power and authority at board level and that no single director has unfettered powers;
- an appropriate balance is maintained between strategy, risk, performance and sustainability;
- an adequate and effective process of corporate governance, including the process of risk and audit management, is established and maintained;
- the consequences of the group's activities do not adversely affect its status as a responsible corporate citizen in the workplace, in society, in the environment and in the economies in the geographical areas within which it operates;
- reasonable procedures to ensure compliance by the group with all legislation and regulations which may be material to its businesses and affairs are adopted; and
- effective and sustainable succession plans are in place for the group's leaders.

The Board is satisfied that it has fulfilled its responsibilities in accordance with its charter for the period under review.

Composition

Details of the directors, including a brief curriculum vitae for each director, are given on pages 74 to 77 in the integrated report. In addition, a curriculum vitae for each candidate that stands for appointment or whose appointment by the Board requires ratification by shareholders, has been included into the notice of the annual general meeting, to be held on 13 November 2018, and is also disclosed on the KAP website at www.kap.co.za.

Throughout the review period, the Board comprised of twelve directors, with two executive directors and ten non-executive directors, of whom six are independent non-executive directors. The two executive directors comprise of a Chief Executive Officer ("CEO") and a Chief Financial Officer to ensure that the Board has more than one point of direct interaction with management.

As a collective, the Board has a wide range of knowledge, skills and industry experience. This diversity of skills and attributes allow the collective, and each individual director, to bring significant influence to bear on Board and committee deliberations.

There exists a clear division of responsibilities at Board level to ensure an appropriate balance of power and authority and no individual director has unfettered powers of decision-making.

Chairman, chief executive officer and lead independent non-executive director

The independent non-executive chairman of the board is Mr J de V du Toit and the CEO is Mr GN Chaplin. The roles of the chairman and the CEO have been formally defined and are separate. The chairman is primarily responsible for leadership of the Board and for ensuring that the Board plays an effective role, facilitating communication with shareholders and fostering constructive relations between the executive and non-executive directors. Amongst others, the CEO provides leadership to the executive team in managing the group's businesses. The chairman and the CEO are appointed by the Board and the chairman is elected by the Board on an annual basis. Succession planning is in place for the CEO and agreement has been reached with the chairman that he would not serve on more than three listed entities while also serving as chairman of the KAP Board.

Mr KJ Grové serves as the non-executive deputy chairman. The Board did not appoint a lead independent non-executive director ("LINED") since the obligations and duties of a LINED are in

practice fulfilled by the non-executive deputy chairman. The Board assigned to the non-executive deputy chairman all the obligations and duties of a LINED as set out in King IV, save for the duty to lead the performance appraisal of the chairman, which duty was assigned to the independent chairman of the Human Resources & Remuneration Committee.

Appointment requirements and diversity

Appointments to the Board are based on levels of skill, acumen, qualifications, experience and actual or potential contributions to the group, having due regard to employment equity, gender and race diversity requirements to ensure that the Board and committees' compositions are appropriately balanced. In addition to the existing Board gender policy, a Board race diversity policy was adopted during the review period, in terms of which the Nomination committee is mandated to review the state of the board's race representation on an ongoing basis and to identify suitable previously-disadvantaged persons for appointment to the Board. When Board vacancies arise, potential candidates are considered on merit against objective criteria and with due regard for the potential benefits of gender and race diversity at Board level. No firm targets have been set for race and gender at Board level, but this aspect will receive further contemplation. After the forthcoming annual general meeting, Black people will comprise 20% of the total Board membership and Black Woman 10%. The company's policies on gender and race diversity is available on the KAP website at www.kap.co.za.

Non-executive directors are required to dedicate sufficient time to Board matters and may serve on other boards, provided that such other appointments do not create a conflict of interest or interfere with their duties to the KAP Board, but rather extend beyond the scope of KAP's operations and bring a value-adding, broader, independent perspective and dimension to Board deliberations.

Appointments to the board are formal and transparent. Proposals for election/re-election to the Board are, after review, recommended by the Nomination committee and are considered by the Board as a whole, subject to the approval/ratification thereof by shareholders at the first subsequent general meeting or annual general meeting following their appointment.

The memorandum of incorporation of the company provides that, at every annual general meeting of the company, at least one-third of the non-executive directors shall retire from the Board by rotation, and executive directors shall retire from the board by rotation after every fifth year of service on the Board. Directors who have reached the age of 71 are required to retire from office at every annual general meeting. If eligible, the retiring directors may offer themselves for re-election.

At the annual general meeting of shareholders to be held in November 2018, approval will be sought from shareholders to confirm the re-election of the following non-executive directors who will be retiring by rotation in accordance with the provisions of the company's memorandum of incorporation, but who are eligible and available for re-appointment:

- Mr SH Müller (independent non-executive director)
- Mr PK Quarmby (independent non-executive director)

Mr DM van der Merwe (non-executive director), who also retires by rotation, did not make himself available for re-election to the board as a result of his various other responsibilities.

The company's memorandum of incorporation requires that after attaining the age of seventy-one, board members will be required to retire by rotation on an annual basis. At seventy-one

years of age, Mr CJH van Niekerk (independent non-executive director) has decided to retire and as a result, has not made himself available for re-election to the board.

The vacancies left by the afore-mentioned two directors will not be filled at the forthcoming annual general meeting, resulting in a reduction of the number of Board members.

The Board has not made any director appointments since the previous annual general meeting that require confirmation/ratification by shareholders.

The proposed election of the directors who stand for re-election at the annual general meeting has received the support of the Nomination committee and the Board and a brief curricula vitae for each of those directors is contained in Annexure A to the notice of the annual general meeting. These, and the curricula vitae of all directors on the Board, are also available on the KAP website at www.kap.co.za.

Classification of independent non-executive directors

Ms IN Mkhari, Messrs SH Nomvete, J de V du Toit, PK Quarmby, CJH van Niekerk and SH Müller have been classified by the Nomination committee as independent non-executive directors in accordance with the classification guidelines detailed in the JSE Listings Requirements and in King IV, i.e. in a holistic manner on a substance-over-form basis. The classification evaluation was undertaken by the Nomination committee, which found that these directors, through their actual conduct at Board and committee meetings, have displayed independence of mind in their decision-making, that they were independent in character and judgement and that there were no relationships or circumstances which affected, or could appear to affect, their independence. The Board was satisfied with the Nomination committee's conclusions and agreed with these classifications.

As at the date of this report, the non-executive directors on the Board who have served in an independent capacity for longer than nine years are:

Ms IN Mkhari
Mr SH Nomvete.

These directors were appointed to the board on 12 November 2004. KAP is an industrial holding company, with a portfolio of diverse businesses that are complementary to the group's overall strategy. Since 2012, the KAP group has undergone a strategic transformation, together with extensive restructuring and expansion. The knowledge that the above directors individually possess relating to the history and affairs of the group and across a wider spectrum of industry and commerce, together with their individual competencies, capabilities and experience, has assisted the Board in shaping the group's growth and in determining the group's strategy and has contributed to the effectiveness of the Board and the committees on which they serve.

As recommended by King IV, the Nomination committee has separately assessed the long-term nature of their directorships. Their individual skills, experience and diversity disposition were weighted against the appointment of new directors to bring a fresh perspective to Board deliberations and it was concluded, notwithstanding their long service, that each remains independent in character and exercises objective judgement at the Board and committees where they serve, and that there is no interest, position or relationship which is likely to influence or cause bias in their decision-making. It was accordingly determined that the length of service of these directors has not compromised their independence. The Nomination committee has further confirmed that the outside directorships and interests of these directors have not impeded them in the fulfilment of their fiduciary duties as KAP directors, but rather have assisted in bringing a broader dimension to Board deliberations.

During the review period, Ms Mkhari served as chair of the Social & Ethics committee and as a member of the Human Resources & Remuneration committee, while Mr Nomvete served as a member of the Audit & Risk committee.

Board meetings, attendance and declarations of interests

The Board meets at least four times a year or more often if necessary. During the review period, two additional *ad hoc* meetings were convened to deal with special matters. Should circumstances so require, directors may meet without the executive directors being present.

Directors declare their interests in contracts and other appointments at all board meetings. Following the publicised investigation into accounting irregularities at the company's major shareholder, and in line with the ethical obligations contained in the Board Charter, each director made a special extraordinary declaration of interests in relation to business or personal relationships with Steinhoff and its former CEO and the latter's associates. These declarations did not only promote good governance, transparency, integrity and accountability, but also assisted the Board members individually and KAP as a corporate citizen, to limit the risk of potential reputational damage.

The Board strictly abides by the standards and procedures of directors' conduct and personal financial interests as set out in section 75 and 76 of the Companies Act, and whenever any potential conflict arises or a director (or a related person to such director) has a personal financial interest in respect of a matter to be considered at a meeting of the Board, the director leaves the meeting immediately after having made the disclosure and does not take part in the further consideration of the matter. This process was applied at various Board meetings during the year.

Meetings are conducted according to a formal agenda, ensuring that the Board properly addresses and follows up on all substantive matters. Directors are given the opportunity to add non-standard matters to the agenda at each Board meeting.

The following table indicates the attendance by each director at meetings of the KAP board during the period under review:

	14 August 2017	13 November 2017	15 December 2017 (ad hoc)	12 February 2018	26 March 2018 (ad hoc)	15 May 2018
GN Chaplin*	√	√	√	√	√	√
FH Olivier*	√	√	√	√	√	√
KJ Grové#	√	√	√	√	√	√
TLR de Klerk#@	N/A	√	√	√	Apology	√
LJ du Preez#@	N/A	√	√	√	Apology	√
DM van der Merwe#	√	√	Apology	√	Apology	√
J de V du Toit&	√	√	√	√	√	√
IN Mkhari&	√	√	√	√	√	Apology
SH Müller&	√	√	√	√	√	√
SH Nomvete&	√	√	√	√	Apology	√
PK Quarmby&	√	√	√	√	√	√
CJH van Niekerk&	√	√	√	√	√	√

Key:

* Executive directors

Non-executive directors

& Independent non-executive directors

#@ *These non-executive directors were appointed to the Board with effect from 1 October 2017 and replaced Messrs MJ Jooste and AB la Grange who resigned on this date. For the review period, the latter two directors maintained a 100% attendance recording prior to their resignation.*

Director induction and development

On appointment, directors are provided with an induction manual, incorporating key company-related documentation and guidelines on their duties as a director. The induction programme is bespoke in order to cater for the needs of each particular director, whether the individual is a seasoned or young inexperienced director. If required, meetings are arranged with the chairman, other directors and/or senior group executives to enable directors to familiarise themselves with the group's businesses. Ongoing development includes attendance of management forums, access to internally and externally run seminars and the circulation of relevant industry, regulatory and economic news and analyses. Directors are acutely aware of their responsibility for self-development to retain their high levels of competency in order to continuously add value at Board and committee deliberations.

Directors' access to management information and advice

All directors are afforded unrestricted access to management, including the company secretariat. Independent professional advice is available in appropriate circumstances and at the company's expense. During the year under review, none of the directors independently sought external advice paid for by the company.

Directors' remuneration

Details of the remuneration for executive directors for the year ended 30 June 2018 are contained in note 31 to the financial statements, on pages 164 to 166 of the integrated report. This includes the share rights granted to the executive directors under the KAP Performance Share Rights Scheme. The executive directors do not earn fees for their services as directors.

Non-executive directors receive fees for their Board and committee participation. Details of the proposed fees payable to the non-executive directors for the forward-looking period 13 November 2018 to the date of the 2019 annual general meeting, including fees for service on the Board committees, are included in the remuneration report on page 69 of the integrated report and also reflected in the notice of the annual general meeting, which is also available on the KAP website at www.kap.co.za.

Following a market analysis by an independent external remuneration expert, an inflationary increase over the fees paid in the preceding period has been proposed for all Board members. The proposed increases, which have been recommended by the Human Resources & Remuneration committee (with endorsement from the Board), will be submitted to shareholders for consideration, at the annual general meeting to be held on 13 November 2018. All reasonable travelling and accommodation expenses to attend Board and committee meetings are paid by the company. While specific details on the directors' remuneration are set out in the aforementioned remuneration report, it is suffice to note that the non-executive directors' retainer represents only 14% of their total fee, with 86% of the fee being earned through attendance and participation at meetings.

The non-executive directors do not have service contracts and are not members of the group's retirement funding schemes. Payment of the non-executive directors' fees is not contingent on the performance of the group. The non-executive directors hold no share rights or options under the group's share incentive schemes, other than the share rights awaiting maturity, granted to the

non-executive deputy chairman under the KAP Performance Share Rights Scheme during the period when he was in the full-time employment as an executive of the company.

Chief financial officer

The chief financial officer (“CFO”) of the company is Mr FH Olivier. A review of the function of the CFO was undertaken by the Audit & Risk committee and the committee is satisfied that Mr Olivier possesses the appropriate experience and qualifications for this position and that the finance function has the appropriate expertise, resources and experience to function effectively. Details of the afore-mentioned are contained in the report of the Audit & Risk committee in the financial statements on pages 97 of the integrated report.

Committees

Executive committees

An executive committee exists with primary responsibility of assisting and advising the CEO in implementing the strategies and policies determined by the Board and in managing the business and affairs of the company, prioritising the allocation of capital, technical and human resources and ensuring best management practices.

The committee is comprised of the CFO, the divisional CEOs, the group human resources executive, the group business development executive and the stakeholder relations executive, under the chairmanship of the CEO. The committee meets formally on a monthly basis together with additional ad-hoc meetings as required from time-to-time. The chairman of the Board and the non-executive deputy chairman attend committee meetings on an ad hoc basis by invitation.

A separate BEE Executive committee, which meets three times a year, advises on the implementation of the group’s BEE strategies. The committee is comprised of the executive committee members under the chairmanship of the CEO.

Board committees

From time to time, the Board delegates certain functions to committees and to management, but without abdicating its own responsibilities.

After committee meetings, in the interest of prudent oversight, each committee chairperson provides feedback at the first subsequent Board meeting (either verbally or by way of minutes), on the key activities addressed by each committee.

In accordance with the recommended practise from King IV, a number of directors serve on multiple committees in order to promote effective communication between committees of the Board.

In addition to *ad hoc* committees appointed by the Board from time to time, the below-mentioned standing Board committees are in operation within the group in accordance with legislative and regulatory requirements.

Audit and risk committee

The Board has appointed an Audit & Risk committee which operates under terms of reference that are aligned with the requirements of the Companies Act and King IV. These terms of reference have been reviewed during the review period for alignment with King IV.

The report of the Audit & Risk committee for the period under review is available on pages 95 to 97 in the integrated report.

The Audit & Risk committee is an integral component of the risk management process. The committee has the responsibility of reviewing the internal business risk and controls of the company which include, *inter alia*, to:

- ensure the integrity of the group's financial and integrated reporting and to recommend steps to mitigate any financial, fraud, and information technology risks that relate to financial reporting
- ensure that appropriate financial procedures are in place and are operating effectively
- ensure that appropriate risk management standards and control systems are maintained and aligned to the group risk management framework, with a specific focus on internal financial controls
- review and ensure that the expertise, resources and experience of the company's finance function and the experience and qualifications of the CFO are appropriate
- review the accreditation and appropriateness of the external auditor, ensure its independence and recommend the appointment of both the firm and the individual leading the audit
- determine the fees payable for the external audit and also the fees for non-audit services, which are regulated *via* a stand-alone policy that has been updated during the review period
- review and approve the plan for the external audit and monitor progress against these plans
- assess whether the external audit was of a satisfactory standard and quality and whether the process was effective
- review the plan and performance of the internal auditors
- ensure that appropriate arrangements are in place for obtaining effective combined assurance.

On 1 January 2018, the group appointed its own KAP Internal Audit ("KIA") function, replacing Steinhoff Internal Audit ("SIA"), which historically delivered internal audit services in terms of a service level agreement. After the financial year-end, a benchmarking exercise has commenced by an independent firm to determine the best-practice status of the processes, procedures, resources and capabilities of KAP's new Internal Audit function, with particular reference to the industry and KAP as a diversified industrial business.

The charter of KIA has been aligned with the requirements of King IV, and the committee receives regular communications from the chief internal audit executive ("CAE") on the results of the internal audit activities and other related audit matters. The CAE attends all meetings of the Audit & Risk committee and has direct access to the chairman of the committee, the chairman of the Board and the CEO.

The Audit & Risk committee is satisfied that KIA appropriately carried out its duties in accordance with its charter and to the standard required.

The standard agenda for the Audit & Risk committee allows for private meetings to be convened, between the committee, KIA and the external auditor, without management being present. There was no request for such meetings during the period under review.

The Audit & Risk committee has decision-making authority in regard to its statutory duties and is accountable in this respect to both the Board and shareholders. As regards its other mandated duties, it reports and makes recommendations to the Board.

The members of the Audit & Risk committee are appointed annually by shareholders as required by statute, while the chairman of the committee is appointed by the Board, in accordance with the recommended practices of King IV. During the review period, the members of the Audit & Risk committee were:

Messrs:

PK Quarmby* (chairman)

SH Müller**

SH Nomvete*

** Independent non-executive directors*

Cross-committee membership

The re-election of these committee members, which has the support of the Nomination committee and the Board, is subject to the approval of shareholders at the forthcoming annual general meeting of the company.

During the period under review, two committee meetings were held, both of which were attended by all members. The CEO, the CFO, the CAE and the external auditor attend these committee meetings by invitation.

Divisional sub-committees, with a reporting line through to the committee, have been established to assist the Audit & Risk committee in the fulfilment of its duties. The reports of the external auditor are reviewed and discussed in detail at the Audit & Risk committee meetings and at meetings of the divisional audit & risk sub-committees. In addition to the afore-mentioned audit reports, the committees also consider risk, health, safety, information technology and other compliance-related reports from management, the external and internal auditors, as well as from external consultants appointed.

Meetings of the divisional sub-committees are attended by the CEO, the CFO, the CAE and the external auditor, together with the respective divisional CEOs and CFOs, as well as other members from key functions, such as finance, risk and compliance.

The three key audit matters (“KAMs”) considered by the external auditors and the committee, are disclosed in the external auditor’s report on pages 84 to 87 in the integrated report.

The Audit & Risk committee also reviewed the report from the JSE Limited concerning the proactive monitoring of financial statements for compliance with IFRS and the de-cluttering of financial statements. Following a review, it was concluded that KAP’s financial statements for the year ended 30 June 2018 were materially aligned with best-practice standards, and where necessary, action would be taken to refine future disclosures in line with the findings as highlighted in the JSE report.

No complaints on the accounting practices and internal audit of the company, the content or auditing of its financial statements, internal financial controls, or related audit matters have been received for attention by the committee. Similarly, no reportable irregularities for reporting to IRBA were identified or reported by the external auditor.

The Audit & Risk committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference and the report of the duties carried out by the committee can be read on pages 95 to 97 in the integrated report.

Human Resources & Remuneration committee

The Human Resources & Remuneration committee (“RemCom”) operates under terms of reference that are aligned with King IV. The terms of reference were reviewed and updated during the review period.

Details of the group’s remuneration policy are contained in the remuneration report on pages 60 to 71 of the integrated report and has also been incorporated into the notice of the annual general meeting and are disclosed on the KAP website at www.kap.co.za

The RemCom is responsible for determining and approving the group’s general remuneration policy, which is presented at each annual general meeting, together with the remuneration implementation report, for a non-binding advisory vote by shareholders. The RemCom is responsible for making recommendations to the Board on the company’s framework of remuneration, with a specific focus on executive remuneration, and for ensuring that incentives are appropriately structured and awarded, so as to drive the group’s performance and assist the group in reaching its strategic goals in the short, medium and long term. Based on input from independent advisers following industry benchmark studies for comparable companies, the CEO and the chairman of the RemCom jointly determine and recommend non-executive directors’ fees to the RemCom for endorsement by the Board and onward recommendation to shareholders for approval at each annual general meeting.

Divisional sub-committees, with a reporting line through to the committee, have been established to assist the RemCom in the fulfilment of its duties. Meetings of the divisional sub-committees are attended by the CEO, the CFO, the group human resources executive, together with the respective divisional CEOs and divisional human resources managers, as well as other management representatives as may be necessary, in the discretion of the committee chairman.

Regular invitees to the RemCom meetings include the CEO and the group human relations executive. Whilst the CEO attends RemCom meetings, he has no decision-making status and he does not participate in discussions on his own remuneration, which is set by the committee in his absence.

From time to time, RemCom makes use of independent remuneration advisers to provide benchmarking information, market trends and the competitive positioning of the company’s remuneration.

During the review period, the members of RemCom were:

Mr SH Müller (chairman)**

Mrs IN Mkhari**

Mr DM van der Merwe &#

* *Independent non-executive directors*

& *Non-executive director*

Cross-committee membership

The composition of the RemCom, which has been reviewed and approved by the Nomination committee, meets with the recommendations of King IV, namely the committee comprises solely of non-executive directors, the majority of whom are independent non-executive directors.

Subsequent to year end and with effect from 14 August 2018, Mr DM van der Merwe resigned from this committee and Mr KJ Grové was appointed in his stead by the Nominations Committee.

The RemCom meets annually (or more if circumstances dictate otherwise) and for purposes of urgent decisions, pass written resolutions from time to time. All members were in attendance at the committee's meeting held on 14 August 2017.

Key areas of focus by the committee during the reporting period included employment equity, training and development of employees, as well as a review of the company's remuneration policy, with a specific focus on the efficiency of the group's various incentive schemes. The remuneration policy will be presented to shareholders at the company's annual general meeting for a non-binding advisory vote. The RemCom is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference.

Social & Ethics committee

The Social & Ethics ("S&E") committee operates under terms of reference that incorporate the statutory functions ascribed to the committee under regulation 43(5) of the Companies Regulations 2011, the recommendations of King IV and the prescripts of the JSE Listings Requirements. Hence, the committee is both a statutory committee and a committee of the KAP Board in respect of other duties assigned to it by the Board. The committee's terms of reference were reviewed and updated during the review period.

With respect to the prescribed duties of a social & ethics committee, the S&E committee acts on behalf of all subsidiaries in the KAP group. In addition to overall supervision by the Board, monitoring of the fulfilment of the prescribed duties takes place across various key forums within the KAP governance structure, at the divisional management meetings, the BEE Exco, the KAP Exco, the Audit & Risk Committee, the RemCom and ultimately at the S&E Committee. The S&E draws on the skills and experience of the members serving on the afore-mentioned committees in exercising certain overlapping duties in the areas of KAP's integrated reporting, remuneration, human resources, employment equity ("EE"), black economic empowerment ("BEE"), and other aspects of the group's business.

The S&E committee assists the Board, in an oversight role, to monitor all social and ethical matters relating to the group. The key objectives of the committee are as follows:

- to monitor KAP's activities with regard to the duties that are attributed to it by the above-mentioned statutes relating specifically to:
 - o social and economic development;
 - o transformation (BEE and EE)
 - o the prevention of fraud and corruption and the promotion of ethical behaviour
 - o good corporate citizenship
 - o stakeholder relationships, including public relations, consumer relationships, and employment and labour relations
 - o the environment, health and public safety
 - o compliance with applicable legislation
 - o the impact of KAP's activities, its products and services on communities
- to draw matters within its mandate to the attention of the Board as occasion requires.
- to report to the shareholders of the company on the matters within its mandate.

To this end, the S&E committee, amongst others, considered:

- KAP's standing in terms of the goals and purposes of the ten principles as set out in the United Nations Global Compact ("UNGC"), as well as the recommendations regarding corruption of the Organisation for Economic Co-operation and Development ("OECD") and concluded that KAP's practices are aligned with the principles and guidelines of the UNGC and OECD international codes
- the company's compliance with the requirements of the Employment Equity ("EE") Act and the progress made towards the three-year EE targets set and agreed with the Department of Labour

- the company's compliance with the Broad-Based Black Economic Empowerment ("B-BBEE") Act, and endorsed the black ownership transaction in terms of which 45% of Unitrans Supply Chain Solutions (Pty) Ltd ("USCS") was sold to black business partners, as a result of which greater than 51% black owned and greater than 30% black women owned entity could be established.
- statistics of the group's Ethics Hotline report as well as a report on compliance and control measures to prevent fraud
- the group's compliance, health and safety issues and the divisional environmental declarations
- the effectiveness of internal controls
- the group's corporate responsibility report
- reports in respect of industrial relations and human resources
- the S&E committee' report to shareholders
- the KAP Code of Ethics.

The Board recognises that social and transformation issues are crucial for the sustainability of the group and that continued investment in its employees and the communities within which it operates is key to the ongoing viability of the group's businesses. Accordingly, KAP is committed to transformation and the group's EE and BEE efforts are aligned with the Government's drive to effect inclusivity through economic transformation. The group is constantly working towards finding a balance between sustained financial and transformational goals.

Each of the KAP divisions is measured on their individual BEE compliance targets, as well as the EE targets agreed with the Department of Labour. Progress reports in this regard are considered three times a year at the BEE Exco, by the RemCom, and quarterly by the Divisional boards and the KAP Board.

At KAP group level, BEE activities and spend, reflect a Level 7 compliance under the revised generic codes. The latest KAP B-BBEE Certificate, can be viewed on the KAP website at www.kap.co.za

The S&E committee monitors that KAP maintains open and transparent relationships with key government institutions and other regulatory authorities through the facilitation of direct engagement and active participation in industry associations and other structures to further the group's business objectives.

Some of the KAP businesses are situated within communities that have been negatively affected by, amongst others, unemployment, poverty, poor service delivery and related socio-economic issues. The S&E committee monitors that KAP maintain mutually beneficial and stable relations with communities and local authorities in areas where its businesses are located and that the group's corporate social investment policy is primarily focused on child welfare, health and education.

KAP applies certified health & safety standards and has reviewed its environmental policy and its Board gender policy. During the review period, the S&E committee recommended a Board Race Diversity policy (as prescribed by the JSE Listings Requirements) to the Board for adopting.

KAP has been included into the JSE SRI FTSE4Good Index in the Industrial Goods and Services sector. KAP is committed to increasing its public ESG disclosures. To this end a senior executive of KAP Corporate Services has been tasked to manage the area of sustainability for the group.

During the review period, the S&E committee comprised of:

Mrs IN Mkhari (chair)**
 Mr GN Chaplin &#
 Mr SH Müller**

- * *Independent non-executive director*
- & *Executive director*
- # *Cross-committee membership*

The composition of the committee, which has been reviewed and approved by the Nomination committee, satisfies the requirements of the Companies Regulations and in addition meets the higher requirements of King IV, namely that the majority of members should be non-executive directors. Regular invitees to the committee meetings include the CFO, the group human resources executive, the stakeholder relations executive, the business development executive, the group compliance officer and the commercial executive.

The S&E convenes once every year (unless circumstances dictate otherwise) and met on 17 July 2018. All members were in attendance, save for Mrs IN Mkhari, who tendered apologies for unavoidable personal reasons. The meeting was chaired by Mr SH Müller in the absence of the regular chairperson.

The S&E committee was satisfied from the above that KAP pro-actively advances human rights on an on-going basis at the workplace and in those communities wherein it conducts its business and it was concluded that the S&E committee had fulfilled its responsibilities in accordance with its terms of reference.

Nomination committee

The Nomination committee's primary objective is to identify for recommendation to the Board and for appointment by shareholders through a formal statutory-prescribed process, suitable, high-calibre candidates with the capacity and ability to lead the company towards sustainable value creation and long-term growth.

To this end, the committee has the responsibility *inter alia* of reviewing:

- the composition and performance of the Board and its committees
- the classification of the directors
- the continuance in office of non-executive directors who have served on the Board for longer than nine years
- the rotation of directors
- succession planning in respect of the directors
- the induction of new appointments to the Board and the on-going development needs of the directors.

During the review period, the committee's terms of reference have been reviewed, updated and aligned with King IV.

The committee reviewed the Board and Board committee compositions, and it was confirmed that the Board and its committees were of an appropriate size, composition and balance, taking into account specific Board and committee requirements, the diversity of the group, the gender and race diversity policies at Board level, and the qualifications, skills and experience of the Board and committee members. The committee was of the view that, overall, the Board's size and diversity make it an effective decision-making and governing body.

The committee classified the directors in accordance with the classification criteria set out in the JSE Listings Requirements and King IV, and paid special attention to the classification of those non-executive directors who have served on the Board for longer than nine years.

The committee recommended to the Board and shareholders the re-appointment of those directors who retire by rotation and are standing for re-election at the company's forthcoming

annual general meeting in November 2018. The Board has made no appointments since the previous annual general meeting that require confirmation by shareholders at the forthcoming annual general meeting.

During the review period, the following members served on the Nomination committee:

Mr J de V du Toit (chairman)*

Mr SH Müller*#

Mr DM van der Merwe&#

* *Independent non-executive director*

& *Non-executive director*

Cross-committee membership

The composition of the committee meets with the recommendations of King IV, i.e. the committee is solely comprised of non-executive directors, the majority of whom is independent non-executive directors.

The committee meets annually (or more if circumstances dictate otherwise). During the review period, all committee members attended the meeting. The chairman of the S&E committee, Mrs IN Mkhari, attended meetings of the Nomination committee by invitation.

The Nomination committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference and related statutory requirements.

Subsequent to year-end, the nomination committee met on 14 August 2018 and again on 17 September 2018. At these meetings, the election/re-election of directors at the forthcoming annual general meeting to be held in November 2018 was considered, as well as the establishment of an investment committee and changes to the membership of the existing board committees. These included:

- the resignation of Mr SH Müller from the nominations committee;
- the resignation of Mr DM van der Merwe from both the nomination committee and the human resources and remuneration committee;
- the appointment of Mr KJ Grové to the human resources and remuneration committee;
- the appointment of Mrs IN Mkhari and Mr PK Quarmby to the nomination committee;
- and
- the appointment of Messrs GN Chaplin, FH Olivier, KJ Grové, TLR de Klerk, SH Müller and PK Quarmby to the newly formed investment committee.

Board and committee evaluations

The Board and its committees were not assessed during the review period as the previous assessment cycle overlapped with the financial-year cycle, however, formal self-evaluations commenced after the year end for the Board, the Audit & Risk committee, the RemCom and the S&E committee. These internal assessments cover the spectrum of the respective responsibilities and activities of the afore-mentioned forums with a specific focus on the recommendations and practices of King IV. The Board is satisfied that the evaluation process is a worthwhile exercise and that it serves to focus the attention of the directors on their contributions and opportunities for improving their performance.

Accountability

Although the Board has delegated certain powers and authorities to executive management and to committees, the ultimate responsibility for retaining full and effective control of the group rests with the Board.

The CEO is responsible for and accountable to the Board for all group operations. As the group operates on a decentralised basis, divisional CEOs of the group's main operating divisions have been appointed to the KAP Executive committee to assist the CEO in fulfilling his responsibilities.

Company secretary

All directors have access to the advice and services of the company secretary. The company secretary is responsible for the duties as set out in section 88 of the Companies Act and for ensuring compliance with the Listings Requirements of the JSE Limited. The company secretary is the custodian of the statutory records of the company and its subsidiaries in South Africa and acts as a central source of information and advice to the Board and to the company in general on matters of ethics and good governance. The secretary ensures that the proceedings and affairs of the Board, its committees and the company itself, are properly administered in line with pertinent laws.

The company secretary is appointed by the Board. At the Board meeting held on 15 May 2018, the Board appointed KAP Secretarial Services Proprietary Limited as the secretary of the company after the Board satisfied itself as to the relationship between the company secretary and the company secretary's shareholder, KAP Industrial Holdings Limited, as well as the competence, qualifications and experience of the below-mentioned individual directors of the juristic person, who jointly have skills, experience and expertise in the fields of tax, mergers, acquisitions, secretarial services, treasury, funding, finance, law and governance:

Karien Gey Von Pittius	CA(SA)
Reino Louw	BCom (Law) LLB LLM
Johann Pieterse	BA BCom (Law)
Philip Robinson	CA(SA), H Dip (International Tax)

No circumstances were foreseen by the Board, which would bring into question the maintenance of an arms-length relationship between the company secretary, the individual directors and the Board as a whole. The company secretary has unfettered access to the Board and the latter has empowered the company secretary to carry out its role of governance gatekeeper.

The company secretary was concurrently appointed as secretary of the standing committees of the Board.

Prior to the afore-mentioned appointments, and as part of its annual review process, the Board assessed the services rendered by the former company secretary, namely Steinhoff Secretarial Services Proprietary Limited ("SSS"). The Board was satisfied with the services rendered by SSS in terms of a historic service level agreement between KAP and Steinhoff, concluded on an arms-length basis and on market-related terms, and concluded that SSS had adequately performed its role of gatekeeper of good governance in the group. No incidences of non-compliance by the company secretary with regulatory or legislative corporate governance requirements, had come to the attention of the Board and the Board was further of the view that an arms-length relationship had existed between the company secretary and the Board at all times throughout the review period.

The certificate required to be signed in terms of section 88(2)(e) of the Companies Act appears in the financial statements on page 94 of the integrated report.

Reporting

Management reporting

Divisional management reporting disciplines include defined parameters for the reporting of litigation matters, compliance with legislation, any penalties incurred and risk analyses together with the preparation of annual budgets, which are approved by the Board. Operational and financial performance against the approved budgets is reported on a monthly basis by the divisions. Profit, balance sheet and cash-flow projections are reviewed regularly and capital and borrowing levels are monitored on an on-going basis.

Divisional management is additionally charged with the responsibility of reporting on risks and opportunities and on social, ethical and environmental concerns. Risk reports are reviewed by the divisional management boards/executive committees and major risks identified, together with remedial plans, are brought to the attention of the Audit & Risk committee and, if necessary, to the Board.

Compliance certificates, signed by executives of each division, are presented at their divisional audit & risk committee and board meetings. Any significant issues of non-compliance are escalated and brought to the attention of the Audit & Risk committee and/or the Board. Any significant social, ethical or environmental concerns are also brought to the attention of the S&E committee

Financial control and reporting

The Board is responsible for ensuring that the group companies maintain adequate systems and controls to ensure reasonable, accurate, timeous and reliable reporting on the financial position of the group and on the results of its activities. To assist the Board in effectively discharging this duty, financial reporting procedures and disciplines have been put in place at all levels across the group.

The Board, with assistance from the Audit & Risk committee, is responsible for ensuring that reports issued by the company enable stakeholders to make informed assessments of the group's performance and prospects.

Risk management

The Board is accountable for the governance of risk management within the group and for ensuring compliance with all applicable legislative and regulatory requirements. Divisional management is responsible for implementing the risk management process by identifying, assessing and evaluating risk on a regular basis and implementing the necessary controls in order to ensure that known risks remain within the group's risk appetite. Management is responsible for ensuring that risk management processes and systems are embedded in the business process of all operations.

The Board determines the group's appetite for risk, monitors the adequacy and effectiveness of the group's risk management procedures, reviews any significant risks identified and considers the necessity for further investigation of opportunities identified.

The Audit & Risk committee oversees group risk management. KIA examines, evaluates and reports on and makes recommendations to the Audit & Risk committee and the Board regarding the adequacy and effectiveness of the group's risk management processes.

Financial risks such as exchange rate risk, interest rate risk and liquidity risk are largely controlled centrally.

Where practicable, the group's risk management policy and framework has been standardised across the group.

During the review period, risk registers in the KAP group were reviewed. All risks were rated in line with the risk matrix, and response strategies and actions were agreed and implemented to effectively mitigate the risks.

As a governance principle, the Board, with assistance from the Audit & Risk committee, monitors that KAP complies with applicable laws and relevant and applicable non-binding rules, codes and standards. This compliance responsibility has been delegated to management, which is responsible for the day-to-day management of compliance risks within the divisions. This includes responsibility for implementing remedial action in instances of identified non-compliance. Key compliance and risk activities undertaken by the company during the review period include:

- approval of a compliance governance structure and framework
- definition and implementation of compliance-related roles and responsibilities and job profiles
- review of business continuity management readiness plans, with testing conducted at least once per year to identify any possible gaps that could exist

Management confirmed that no material compliance related fines or penalties had been recorded during the review period.

Internal financial and other control systems

The group's systems of internal controls, which are embedded in all key operations, promote the achievement of the company's business objectives, subject to risk tolerance levels. The Board has delegated implementation of the group's systems of risk management and internal financial control to executive management. The ultimate responsibility for ensuring the effectiveness of the internal control systems across the group rests with the Board.

The group undergoes a comprehensive annual planning and budgeting system at both divisional and at corporate level. The latter budget is approved by the Board and achievement of targets is monitored by the KAP Exco on a monthly basis and by the Board at its quarterly meetings. There is a financial reporting system which compares actual results achieved with monthly budgets, in order to identify any deviations from approved plans and to allow for timely corrective action to be taken.

The Chief Audit Executive (CAE) has executed the internal audit plan for the year and from the audit results obtained, provided the Audit & Risk committee with a formal written assessment indicating that the Governance and Risk management practices, as well as internal controls were assessed to be acceptable for the year under review. Based on the assurance work performed, it was highlighted that nothing came to their attention that would, in aggregate, and in all material aspects, negatively impact on this assessment. For any improvement areas noted, a robust process is in place in terms of which any key control improvement areas identified are followed up in terms of the internal audit methodology to ensure implementation and the mitigation of risks.

Internal audit

KAP Internal Audit ("KIA") provides an independent, objective assurance and consulting service to the group. The service provided is designed to add value and improve operations. It assists the group to accomplish its objectives by bringing a systematic, disciplined approach in order to evaluate and improve the effectiveness of risk management, internal control and governance

processes, in compliance with corporate governance standards required by the group and the group's Audit & Risk management committees.

The internal audit charter provides for the independence of KIA, whereby the function reports directly to the Audit and Risk Committee and functionally to the Group and Divisional Audit & Risk committees. Should the CAE wish to discuss any findings, he has unrestricted access to the chairman of the KAP Audit & Risk committee and is afforded the opportunity to meet with the committee without any executives or management representatives present. The CAE confirmed in writing the independence of the KIA in undertaking the audits for the period under review.

There is an administrative reporting line to the Group CFO and CEO to ensure effective and efficient assurance provision. The internal audit function assists executive management and the respective Audit & Risk committees in the effective discharge of their responsibilities by means of independent reviews of internal control implementation over various key business processes, covering various disciplines, both financial and operational in nature. Compliance with key sections of applicable legislation is an item on all Audit & Risk committee and board agendas and is evaluated and formally reported on by internal audit as part of its audit programme.

KIA outsources specialised internal audit services as and when required.

The internal audit activity is governed by adherence to the Institute of Internal Auditors' mandatory guidance, including the definition of internal auditing, core principles for the Professional Practice of Internal Auditing and the International Standards for the Professional Auditor. Internal Audit is required to:

- demonstrate integrity;
- demonstrate competence and due professional care;
- be objective and free from undue influence (i.e. be independent);
- align with the strategies, objectives and risks of the organisation;
- be appropriately positioned and adequately resourced;
- demonstrate quality and continuous improvement;
- provide risk-based assurance;
- be insightful, pro-active and future focused; and
- promote organisational improvement.

As part of the formal 5-year external quality review requirement, the KIA was assessed by an independent international assessor to be generally compliant with the International Professional Practices Framework (IPPF), which is the conceptual framework that organises authoritative guidance promulgated by the Global Institute of Internal Auditors. For the current financial year CAE has confirmed that the KIA generally complied with the requirements as set out in the internal audit charter, internal audit methodology, the IPPF and the company's code of ethics.

Internal audit is viewed across the group as a value-add service and the internal auditors liaise with management, and provides advice and recommendations, in order to develop or improve governance, risk and control systems. The co-operation between management and internal audit facilitates ongoing control system improvements. As part of a continuous improvement initiative, an external audit firm specialist was contracted at year-end to perform a strategic assessment of KIA. The objective was to identify opportunities to better align KIA with business requirements, best practices, and to ensure the function's activities are relevant considering the size and nature of operations in order to unlock optimal value. Recommendations from this assessment will be considered for implementation during the course of the 2019 financial year.

No material breakdowns in internal controls across the group were highlighted by internal audit during the period under review.

External audit

The report of the external auditor for the period under review, which details the key audit matters and significant risks, is available in the financial statements on pages 84 to 89 of the integrated report.

The external auditors report on their audit findings to the divisional Audit & Risk committees and to the Audit & Risk committee of KAP. Should the external auditors wish to discuss any findings, they have unrestricted access to the chairman of the Audit & Risk committee and are afforded the opportunity to meet with committee members without any executives or management representatives present.

The external auditor has confirmed in writing its independence in undertaking the audit for the period under review, including the provision of non-audit services, and the Audit & Risk committee concurs with this confirmation. A policy for the use of the external auditor for non-audit services is in place and is reviewed on a regular basis. During the period under review, fees earned by the external auditor for non-audit services, including taxation advice and assistance with government grants, amounted to R2 004 261 (2017: R2 059 042).

The reappointment of Deloitte & Touche as the company's auditor, with Dr D Steyn, a registered auditor and designated audit partner of Deloitte & Touche as the individual who will undertake the audit for the financial year ending 30 June 2018 has been recommended by the Audit & Risk committee and will be a matter for consideration by shareholders at the company's forthcoming annual general meeting in November 2018. If appointed, this will be Dr Steyn's third year of performing the external audit of the company and the 15th year that Deloitte will serve as the external auditor.

Combined assurance

A combined assurance model is applied in business to provide a coordinated approach to assurance activities, and is based on assurance providers (internal and external) working more closely together. The main objectives of combined assurance are:

- Assurance in the right areas is obtained, that is appropriate to address the significant risks facing the company;
- Assurance of good quality is obtained;
- The right resources are selected to provide the required level of assurance; and
- Assurance is obtained in a cost-effective way, which includes eliminating unnecessary duplication of effort.

The group's current combined assurance system includes:

- the receipt by the divisional boards and Audit & Risk committees of compliance certificates signed by the divisional management, confirming that, during the preceding quarter, there were no contraventions of applicable legislation or regulations relating to the division's operations. Should any contraventions take place, or penalties or fines be incurred these are reported to the divisional boards and, if material are referred to the KAP Board;
- the receipt by the divisional boards and Audit & Risk committees of Safety Health and Environmental (SHE) reports detailing any incidents, issues, injuries or fatalities during the preceding quarter. A collated SHE report is presented to the KAP Board;
- the receipt by the divisional boards and the divisional Audit & Risk committees of internal audit reports, detailing any audit findings made during the preceding quarter. Collated, summarised reports are also presented to the KAP Audit & Risk committee;

- the receipt by the divisional boards and divisional Audit & Risk committees of year end external audit reports, detailing any audit findings made during the external audit. A collated external audit report is presented to the KAP Audit & Risk committee and to the Board;
- ad hoc audits/investigations undertaken by external consultants where specific expertise is required. (Examples include network security auditing and environmental auditing);
- other gate-keeping roles fulfilled by various levels of management around compliance with risk, legal, ethics, anti-corruption and corporate governance requirements applicable to KAP's operations; and
- the internal audit function (KIA) meets separately during the year with the external financial auditors, to discuss opportunities on how to work together and share information that will assist with optimal assurance provision.

The group has enlisted the services of an external consultant to further formalise and embed the combined assurance framework in line with best practice, and identify any further continuous improvement opportunities which will further promote the achievement of combined assurance objectives.

Information and communication technology (ICT)

King IV places particular emphasis on the area of ICT and this receives on-going focused management attention, with ICT forming an integral part of the group's management and reporting processes. ICT is a standard item on the agenda of Board meetings.

A formal charter for ICT is in place. This charter sets out the responsibilities and authority that the Board has delegated to executive management for the effective, efficient and acceptable use and management of ICT resources in order to facilitate the achievement of corporate objectives, and to allow for objective evaluation of the corporate governance of ICT throughout the group, including the management of ICT related risks.

The value delivery of ICT across the group is driven by informal processes at divisional level.

Following the network security audit conducted in the prior reporting period by an external consultant to pinpoint areas that could be affected by cybercrime and hacking, appropriate short term initiatives were implemented and the roll-out of longer term initiatives continued. During the period under review, no remedial actions were required as a result of major incidents.

The ICT executive at corporate level reviews and reports to the Audit & Risk committee and the Board on the efficacy, suitability and reliability of the ICT systems employed by the group's businesses, with a particular emphasis on risk.

ICT is a standing item on the agendas for the divisional board and audit and risk committee meetings, and the KAP board. The KAP audit and risk committee receives a quarterly consolidated ICT report from the ICT executive. Via the budget approval process, the board evaluates significant ICT investments and expenditure.

Ethics

The group's code of ethics is available on the company's website at www.kap.co.za The code of ethics, which is reviewed on a regular basis, commits the group and its employees to the highest ethical standards of conduct and to compliance with all legal and regulatory requirements. The code *inter alia* governs conduct relating to:

- conflicts of interest
- the acceptance of gifts
- bribes and political contributions
- fraud-prevention
- record keeping
- financial transactions
- the promotion of competition
- compliance with laws
- intellectual property
- confidentiality
- non-discrimination.

The responsibility for the implementation and execution of the code of ethics, is delegated to management. The Board exercises on-going oversight of the management of ethics. The code of ethics is supplied to new employees as part of the group's employee induction process. Major suppliers of goods and services are required to ensure that they comply substantially with the code.

The company has established a confidential whistle-blowing facility across all operations of the group, using dedicated hot lines for the reporting of suspected frauds or irregularities on an anonymous basis *via* an independent body. All reports received are investigated on a confidential basis. Progressively, the whistle-blowing facility has proven its worth in identifying fraud and incidents of unethical behaviour. For this reason, the group constantly launches fresh awareness programmes to remind employees of this facility and to urge them to report all circumstances or situations where they have reason to suspect fraudulent or unethical activity. KAP strictly enforces disciplinary measures when transgressions of the group's code of ethics occur and in addition, any criminal activities are reported to the authorities/SAPS for investigation in line with regulatory requirements.

Stakeholder communications and investor relations

KAP values its relationships with both institutional and private investors and a proactive approach has been adopted to ensure that communications relating to the group's operations, structure and strategies are handled appropriately.

Regular and open dialogue with internal and external stakeholders not only informs stakeholders of the group's strategies and goals but also provides the group with input from stakeholders and informs the group's decision-making, facilitating the building and retention of sustainable, stable and mutually beneficial relationships.

Communications with journalists and analysts are governed by a policy adopted by the company to ensure maintenance of the confidentiality of price-sensitive information on the company.

For more information, please refer to the sustainability and stakeholder reports on pages 46 to 59 of the integrated report.

Insider trading

KAP has an insider trading policy which prohibits directors, prescribed officers and officers of the company and its major subsidiaries from dealing in the company's shares, either directly or indirectly, whilst in the possession of unpublished price sensitive information concerning the

business and affairs of the group and its subsidiaries. The policy also prohibits the dissemination of price-sensitive information pertaining to the company by employees.

No director, prescribed officer or officer who is privy to such information may trade in the company's shares during embargo periods determined by the Board, or during closed periods, and all dealings by such persons in the company's shares must receive the prior approval of the CEO. Dealings in the company's shares by the CEO must receive the prior approval of the chairman and dealings in the company's shares by the chairman must receive the prior approval of the CEO.

A report of any dealings in the company's shares by directors, prescribed officers and officers is tabled at each Board meeting and all share dealings by the directors of the company, directors of any major subsidiaries and the company secretary are notified to the listings department of the JSE Limited for publication on the Securities Exchange News Service (SENS).

Interest in contracts

All employees must disclose, as and when appropriate, any interest in contracts to allow for the assessment of any conflict of interest. This policy extends to directors and prescribed officers. Written declarations of interest are tabled at the commencement of Board meetings. When potential conflicts arise during deliberations at meetings, such conflicts are reported verbally and recorded in the minutes and the process and procedures of the provisions of sections 75 and 76 of the Companies Act are strictly enforced. The fiduciary duties of the directors to act in the best interests of the company on whose board they serve, are understood by the directors and this principle is applied judiciously.

Going concern statement

The group financial statements set out on pages 98 to 171 of the integrated report have been prepared on the going concern basis as the directors, after having made appropriate enquiries, have a reasonable expectation that the group has adequate resources to continue in operation for the foreseeable future. The external auditor concurred with the Board's going concern view.

Sustainable value

The robust committee and reporting structures in place across the group, underpin the group's commitment to sound corporate governance and afford stakeholders the assurance that the group's businesses are managed responsibly to create sustainable value for all stakeholders.