Social and ethics committee report

Ipeleng Mkhari
Social and ethics committee chairperson

The operations of the KAP social and ethics committee ('the committee') are guided by formal terms of reference and contain provisions that are in line with the requirements of the Companies Act of South Africa (No.71 of 2008), as amended, and the Companies Regulations (2011) (collectively 'the Companies Act'), the Listings Requirements of the JSE Limited ('JSE LR') and the recommendations of the King IV Report on Corporate Governance™ for South Africa (2016) ('King IV™'). The committee's terms of reference have been approved by the KAP board of directors ('the board') and are reviewed annually for relevance.

The committee is both a statutory committee and a board committee in respect of other duties assigned to it by the board.

The committee enjoys the support – and draws on the competencies and experience – of the members serving on the audit and risk committee, the nomination committee, the human capital and remuneration committee, and the executive committee ('Exco') in exercising certain overlapping duties. These occur in the areas of integrated reporting, remuneration, human capital, employment equity ('EE'), broad-based black economic empowerment ('B-BBEE'), and other aspects of the company's business.

Objective and scope

The role of the committee is to assist the board with the oversight of social and ethical matters relating to the KAP group. The overall objectives of the committee are:

- to monitor KAP's activities with regard to the duties that are required of it by the Companies Act, the JSE LR and King IV™, with a specific focus on those duties stated in regulation 43(5) of the Companies Act, which relate to:
  - social and economic development;
  - the prevention of fraud and corruption;
  - the promotion of ethical behaviour;
  - good corporate citizenship;
  - the environment, health, and public safety;
  - public relations and consumer relationships;
  - employment and labour relations;
  - compliance with applicable legislation; and
  - the impact of the company's activities, products and services on communities;
- to draw matters within its mandate to the board's attention as required; and
- to report to the company's shareholders on the matters within its mandate.

Duties and responsibilities

The committee's duties and responsibilities are as specified in the committee's own terms of reference, the Companies Act, the JSE LR, and King IV™. These are presented below as an overview, which is representative but should not be regarded as exhaustive:

Among others, the committee deals with issues and reports relating to:

- the company's standing in terms of the goals and purposes of the principles set out in the United Nations Global Compact ('UNGC') in the areas of human rights, labour, the environment, and corruption;
- the instruments of the Organisation for Economic Co-operation and Development ('OECD') that are aimed at combating corruption and averting the solicitation of bribes and extortion;
- the instruments of the OECD that are aimed at promoting economic and social well-being;
- the protocols and recommendations of the International Labour Organisation ('ILO') on decent work and working conditions, freedom of association, the right to collective bargaining, and the elimination of forced or compulsory labour and discrimination in the workplace;
- the company's employment relationships with its employees and labour unions;
- the company's contribution towards the educational development of its employees and other employee benefits;
- compliance with:
  - the Employment Equity ('EE') Act;
  - the Broad-Based Black Economic Empowerment ('B-BBEE') Act and the new Codes of Best Practice ('the Codes');
  - the Occupational Health and Safety Act (No. 85 of 1993) ('OHASA'); and
  - other relevant and applicable legislation in the areas of labour, the environment, health and public safety, insider trading, etc.

Review

During the course of the reporting period, the committee reviewed the company's position in terms of the issues specified above, its duties as well as management's compliance with legal and statutory requirements.

It concluded that:

- The company's practices are aligned with the principles and guidelines of the UNGC, the OECD, and the recommendations of the ILO.
- The controls in place are sufficient to mitigate the risks of fraud, bribery, and extortion, as well as to monitor risk associated with money-laundering, corruption, embezzlement, and related criminal activities.
- The company has filed its statutory EE reports with the Department of Employment and Labour. Progress towards achieving the three-year EE targets, as set and agreed with the Department, is being monitored on an ongoing basis and is materially on track.
- Transformation progress is monitored on a regular basis by, among others, the various divisional human capital and remuneration committees and the executive committee.
- The B-BBEE transaction in the Unitrans South Africa environment, with black business partners owning 45% of Unitrans Supply Chain Solutions ('USCS'), is compliant with the statutory requirements of the B-BBEE Act and the Codes, following amendments to the trust deeds and beneficiary structures of the empowerment partners.
- The newly created Unitrans Empowerment Trust ('UET') is an employee share ownership scheme ('ESOP') and 65% of the trust's value will flow to individually identified black women in the employ of the USCS group, while 35% will flow to individually identified black managers in the employ of the KAP group in South Africa.
- Stakeholder and labour relationships with key government institutions, regulatory authorities, industry associations, communities, and local authorities were well managed, with the company playing a positive influencing role in many of the negotiating structures.
- Management has made all reasonable endeavours to provide affordable medical access to its employees and to maximise employees' benefits in respect of retirement and risk insurance.
- Compliance with relevant health, safety, and environmental regulations are well managed and are reported on a quarterly basis to divisional audit and risk committees. No concerns of a material nature were noted.

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Under guidance from the committee, management succeeded in improving the company's overall B-BBEE score to a Level 5 contributor status. KAP's B-BBEE certificate is available on the company's website.

The committee was appraised of and expressed satisfaction with the controls and safeguards relating to conflicts of interests, ethics, and codes of conduct, as well as the awareness programmes relating to corruption and fraud, which include a fraud-prevention hotline through which unethical actions can be reported anonymously for investigation by independent investigators. The audit and risk committee takes responsibility for monitoring the hotline process. Fraud and corruption were addressed through the application of policies, the hotline process, the awareness campaigns, and through training at induction.

In view of the events relating to state capture and other unethical incidents in South Africa, the KAP Exco directs all divisions to investigate and evaluate the risk that corruption poses to each business. On an annual basis, each division investigates whether there are areas of risk in their businesses in which politically exposed persons or prominent and influential persons may potentially abuse their positions or their influence for the purpose of money laundering, corruption, bribery, fraud, and related activities. The assessments were conducted as directed during the reporting period and it was concluded that this risk is very low throughout the group.

No material incidences of non-compliance with the code of ethics or the supplier code of conduct were recorded, both of which demand high ethical conduct. The committee saw this as evidence that the code of ethics has been embedded deeply into the daily operations and lives of the company's employees. The company also has a code that encourages suppliers of goods and services to adopt values comparable to those of KAP and in a manner that is consistent with good corporate governance.

There were no prosecutions for non-compliance with regulations or legislation during the period. PG Bison, a subsidiary of KAP, and the Competition Commission remain involved in legal proceedings relating to allegations that PG Bison had allegedly been involved in price-fixing or anti-competitive behaviour in the period between 2009 and 2016. This is reported as a contingent liability in the group's annual financial statements and a comprehensive explanation of the matter is available on the company's website. Competition law awareness and training are ongoing focus areas throughout the group.

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As specified by the committee, the company follows a consistent approach of actively pursuing and prosecuting perpetrators of fraudulent or other illegal activities throughout its business operations.

With the encouragement of the committee, KAP has published a number of important documents on its website for wider stakeholder disclosure. These include the group's HIV/Aids approach, its code of ethics, its promotion of access to information guide, its board diversity policy, the board charter, its value-added statement, and a register of directors' conflicts of interests.

Case studies that substantiate the group's fulfilment of its corporate social responsibilities can also be found on KAP's website. These deal with various community development initiatives, the protection of biodiversity, recycling, water and waste management, healthcare, and carbon emissions. They also give an overview of the company's contributions to training and development as well as general socio-economic development.

The committee once again endorsed the company's corporate social investment ('CSI') approach, which is primarily focused on child welfare, health, and educational activities. CSI activities are carried out by each division in the areas in which it operates and in which its products and services are marketed.

In October 2020, the company was accepted as a participant in the UNGC. The company conducts an annual assessment of the business against the principles of the UNGC, including human rights, labour, environment, and corruption as well as the four OECD principles aimed at combating corruption and averting the solicitation of bribes and extortion.

The committee received and considered reports confirming KAP's stance and constructive approach in, among others:

- the promotion of equality throughout the company's operations;
- the prevention of unfair discrimination in labour practices;
- the promotion of collective bargaining;
- the promotion of freedom of association;
- the promotion of human rights as espoused in the Constitution; and
- the application of anti-fraud/corruption policies and awareness programmes within its business operations.

Under the guidance of the committee, the following policies have been adopted for application throughout KAP's operations, some of which had been updated and revised during the review period:

- a communications policy, which, in particular, also makes provision for 'crisis communication';
- a communications policy for financial analysts;
- a CSI policy, including the company's donations policy;

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- a social media policy;
- an environmental policy statement and strategy, which are in the process of being refined further;
- a hotline policy for the prevention of fraud, crime, and unethical behaviour; and
- a board diversity policy.

The committee chairperson is a member of an annual ad hoc board committee that oversees the production and publication of a suite of reports for KAP's integrated report. As part of her role on that committee, she reviewed the social and ethics-related information that was publicly disclosed to the market during the reporting period and concluded that the integrity of that information was sound.

FTSE4Good rating

The company continued to use the FTSE4Good assessment criteria to benchmark its ESG activities as this remains the methodology adopted by the JSE. FTSE4Good published its final assessment for the period in June 2021 and gave KAP a 3/5 score based on the ESG information that was in the public domain as of December 2020. The score declined year-on-year due to changes in assessment standards, but has continued to show improvement over the longer term.

KAP's overall FTSE4Good score remains above the industrial sub-sector average and the South African country average for industrial companies.
In April 2021, MSCI, a leading provider of investment tools and services to the global investment community, published its ESG assessment of KAP and its rating improved to 'AA', which is again above the sector average.

Performance effectiveness assessment

In 2020, the effectiveness of the committee was evaluated against the relevant King IV™ principles. During the year – and in line with the King IV™ guidelines – the committee reflected on the prior year's outcomes and concluded that a perceived succession weakness had been addressed by the appointment of two new and well-suited members since the date of the 2020 performance assessment.

A further performance assessment of the committee took place after the 2021 year-end and the members were satisfied that the committee had functioned efficiently during the reporting period and that it has adequately fulfilled all its obligations.

Membership

The committee comprises six members, five of whom are independent. The composition of the committee satisfies the requirements of the Companies Act and its regulations and meets the higher composition recommendations of King IV™, as the majority of its members are independent non-executive directors. On the last day of the financial year, 30 June 2021, TC Esau-Isaacs, an independent non-executive director, was appointed as a member of the committee.

At the date of this report, the committee members were:

- IN Mkhari (independent chairperson and member of the human capital and remuneration committee and the nomination committee)
- SH Müller (independent non-executive director and chairperson of the human capital and remuneration committee and a member of the audit and risk committee and the investment committee)
- GN Chaplin (group chief executive officer and member of the investment committee)
- V McMenamin (independent non-executive director)
- Z Fuphe (independent non-executive director and member of the audit and risk committee)
- TC Esau-Isaacs (independent non-executive director and a member of the audit and risk committee)

The committee is satisfied that, as a whole, it is appropriately diverse and has the required knowledge, experience, and skills to discharge its responsibilities effectively. As recommended by King IV™, it has appropriate cross-membership with other committees in order to minimise fragmented functioning and to ensure a balanced distribution of power across committees. This is to ensure that no single individual has the ability to dominate decision-making and that no undue reliance is placed on any one person.

The committee has fulfilled its mandate as prescribed by the Companies Regulations, 2011, and there were no instances of material non-compliance to disclose.

Meetings and attendance

To date, the committee has convened at least once every year. Going forward, the committee will meet twice a year. It met on 3 September 2021 and all members were in attendance.

Attendance at meetings by other directors, officers, or advisors is by way of invitation. The company secretary is the secretary of the committee and formal minutes are recorded.

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