Corporate governance report 2019

This corporate governance report contains full details of the approach adopted by KAP Industrial Holdings Limited ('KAP') in ensuring application of the King IV Report on Corporate Governance™ for South Africa, 2016* (King IV™) principles during the financial year ended on 30 June 2019. 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.

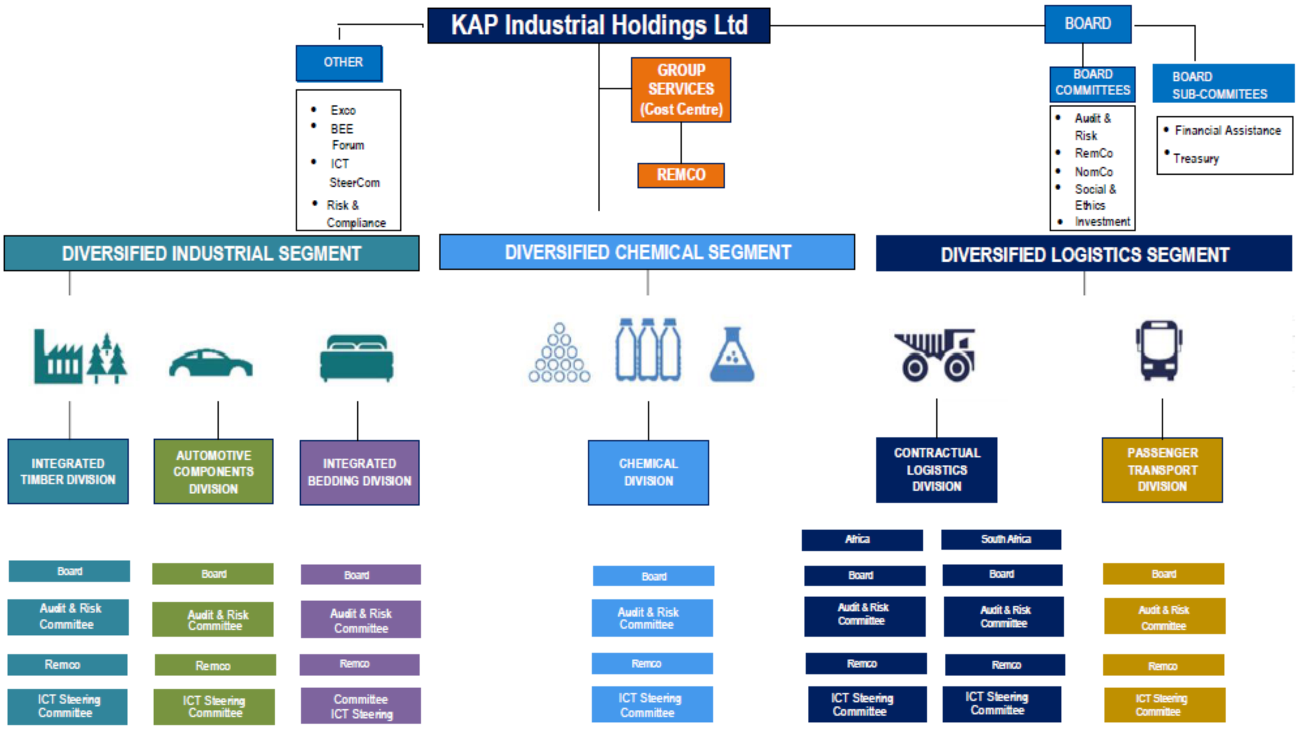
The board exercises control via the group's governance framework, which includes:

- 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; and
- 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.

Governance structure

The following diagram shows the group's governance structure as at 30 June 2019:



Application 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 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 are amended on an ongoing basis to refine alignment with the prescripts of King IV™. As recommended, a substance-over-form approach was adopted with regard to the application of the King IV™ principles, 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, in some instances, practices other than those specifically detailed in the King report.

During the review period, in response to an earlier King IV™-readiness assessment, KAP's remuneration policy alignment with the 'six capitals'; refinement of risk appetite and tolerance levels; and progress towards a formalisation of the combined assurance model received special attention. KAP's Internal Audit has scheduled a governance audit in the 2020 financial year to assess KAP Secretariat's compliance with the King IV™ practices.

The board of directors

The board charter

The detailed responsibilities of the board are set out in a formal board charter, which was formally reviewed during the previous financial year. The charter is aligned to King IV™ and the Companies Act number 71 of 2008 as amended ('the Companies Act') and the charter 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. In delegating some of its powers to committees, the board has retained material powers for itself. Among others, these relate to its key responsibilities as set out below, and include aspects around strategy, results and distributions, risk and governance management, corporate goal achievement and overall sustainability of the group.

The key obligations 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 are adopted to ensure compliance by the group with all legislation and regulations which may be material to its businesses and affairs; and
- effective and sustainable succession plans are in place for the group's leaders.

The board has carried out a self-assessment during the review period (see details elsewhere in this report) and concluded 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 90 to 93 of the integrated report. In addition, a curriculum vitae has been included into the notice of the annual general meeting for each candidate that stands for re-election following retirement by rotation on 13 November 2019. The notice of the annual general meeting ('AGM') is disclosed on the KAP website at www.kap.co.za.

At the AGM in November 2018, pursuant to a resolution by shareholders not to immediately fill two board vacancies, the board decreased in size from twelve directors to ten. Following the sale by Ainsley Holdings Proprietary Limited (a wholly owned indirect subsidiary of Steinhoff International Holdings N.V.) of its last remaining shareholding stake in KAP, Messrs TLR de Klerk and LJ du Preez resigned from the board on 3 April 2019. As a consequence, the board currently comprises of eight directors, of which two are executive directors and six are non-executive directors, of whom five are independent non-executive directors. The two executive directors comprise of a chief executive officer ('CEO') and a chief financial officer ('CFO') to ensure that the board has more than one point of direct interaction with management. The board will fill the vacancies in due course (refer to 'appointment requirements' below).

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. Among 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. Succession planning is in place for the CEO and the chairman 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 is 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.

Accordingly, 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 and remuneration committee. The non-executive deputy chairman has been earmarked to stand in for and/or succeed the chairman.

Appointment requirements and diversity

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. Hence, 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. The nomination committee is mandated to review the state of the board's race and gender representation in accordance with the existing board gender policy and the board race diversity policy. 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. Due to the potential risk of conflict and dilution of focus, the CEO and CFO may not serve on external commercial boards without the explicit prior approval of the board.

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. Executive directors shall retire from the board by rotation after every fifth year following approval of their appointment by shareholders in general meeting. 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 on 13 November 2019, approval will be sought from shareholders to confirm the re-election of the following 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 reappointment:

- Mr GN Chaplin (chief executive officer);
- Mrs IN Mkhari (independent non-executive director); and
- Mr SH Nomvete (independent non-executive director).

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

The directors proposed for re-election at the annual general meeting by the nomination committee has received the support of the board and a brief curriculum vitae for each of those directors is contained in Annexure A to the notice of the annual general meeting.

Classification of independent non-executive directors

Mrs IN Mkhari and Messrs SH Nomvete, J de V du Toit, PK Quarmby, 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 nomination committee 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 (three terms) are:

- Mrs 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 and that they were still fulfilling a crucial role of bringing balance to board deliberations. 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, Mrs Mkhari served as chair of the social and ethics committee and as a member of the human resources and remuneration committee and the nomination committee, while Mr Nomvete served as a member of the audit and risk committee.

The nomination committee also assessed the independence status of the deputy chair, who is nearing the end of his cooling-off period. The committee recommended that he may serve in an independent capacity on the KAP board and its committees following the lapsing of his cooling-off period in February 2020.

Board meetings, attendance and declarations of interests

The board meets at least four times a year or more often if necessary. Should circumstances so require, directors may meet without the executive directors being present.

At each board meeting, directors formally declare their interests in contracts, shareholdings and appointments to other boards in writing. Involvement in related-party transactions and other interest and relationships are declared twice annually. Potential conflicts of interest are taken into consideration when decision-making is effected by way of written resolutions. These declarations do 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, amongst others, in section 75 and 76 of the Companies Act. 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, 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 is applied at all board and board committee meetings.

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 scheduled meetings of the KAP board during the period under review:

	14 August 2018	13 November 2018	12 February 2019	22 May 2019
GN Chaplin*	√	√	√	√
FH Olivier*	√	√	√	√
KJ Grové#	√	√	√	√
TLR de Klerk#@	√	√	√	N/A
LJ du Preez#@	√	√	√	N/A
DM van der Merwe#$	√	√	N/A	N/A
J de V du Toit&	√	√	√	√
IN Mkhari&	√	√	√	√
SH Müller&	√	√	√	√
SH Nomvete&	√	√	√	√
PK Quarmby&	√	√	√	√
CJH van Niekerk&$	√	Apology	N/A	N/A

* *Executive directors*

\# *Non-executive directors*

& *Independent non-executive directors*

$ *These non-executive directors did not stand for re-election at the company's AGM and retired from the board with effect from 13 November 2018*

#@ *Following the disposal by Ainsley Holdings Proprietary Limited (a wholly owned indirect subsidiary of Steinhoff International Holdings N.V.) of all its interest in the ordinary shares of KAP, Messrs TLR de Klerk and LJ du Preez resigned from the board with effect from 3 April 2019.*

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, including the company's functional structure, its memorandum of incorporation, KAP's code of ethics, the latest integrated report and financial statements, as well as the board charter, key policies, etc. If a director is assigned any committee duties, he/she would also receive the relevant committee's terms of reference. The induction programme is bespoke in order to cater for the needs of each individual director, depending on 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 and strategy. In certain instances, a tour of KAP's facilities and plants is included to fast-track the orientation process. KAP Secretariat provides statutory, legal and other governance training to inexperienced directors, which includes insights into key aspects of the Companies Act, insider trading and securities dealings, King IV™ and other relevant legislation that are applicable to KAP's business and the director's role. New directors who encounter JSE Listings Requirements obligations for the first time, receive training from KAP's JSE sponsor.

Ongoing formal director development includes arrangements for director training and development via the Institute of Directors or any other suitable institution in the discretion of the chairman of the board or the CEO of KAP. Informal development takes place through access to seminars, workshops, the circulation of relevant reading material, as well as articles, analyses, reports and presentations in the board and committee papers. Similar documents are from time to time also circulated by e-mail, on an individual basis, to selected directors when a topic may have relevance to a particular director's field of expertise. Directors are aware of and committed to 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 2019 are contained in note 35 in the financial statements, on pages 188 and 189 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 2019 to the date of the 2020 annual general meeting, including fees for service on the board committees, are reflected on page 7 of the notice of the annual general meeting, which is 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 and 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 2019.

All reasonable travelling and accommodation expenses to attend board and committee meetings are paid by the company.

The greater part of the non-executive directors' total fee is earned though attendance and participation at meetings, with the retainer representing only a small portion of the fee.

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 relating to the period when he was in the full-time employment as an executive of the company.

Chief financial officer

The full-time chief financial officer ('CFO') of the company is Mr FH Olivier. An annual review of the function of the CFO was undertaken by the audit and risk committee. The committee concluded that Mr Olivier possesses the appropriate experience, expertise and qualifications for this position. It also found that the finance function has the appropriate expertise, resources and experience to function effectively and that appropriate financial reporting procedures exist and that these were functioning well. Details of the aforementioned are contained in the report of the audit and risk committee in the financial statements on page 111 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 at least three times a year, or more often if necessary, 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 and to ensure balance in the decision-making process.

The following four standing board committees are in operation within the group in accordance with statutory, regulatory and best-practice code requirements:

- an audit and risk committee
- a social and ethics committee
- a human resources and remuneration committee
- a nomination committee.

On a voluntary basis, the board also appointed the below-mentioned key committees to assist the board in discharging its obligations effectively:

- an investment committee, comprising five members, of which the majority is non-executive members, to make recommendations to the board in respect of all potential corporate actions and to identifying associated risks
- a financial assistance subcommittee, comprising three members, of which the majority is executive members, to attend to day-to-day statutory obligations in terms of sections 44 and 45 of the Companies Act and related matters
- a treasury subcommittee, comprising three members, of which the majority is executive members, to attend to day-to-day obligations relating to general banking matters and transactions, including guarantees, suretyships and other security documents and to operate KAP's domestic medium term note programme.

In addition to the aforementioned committees, ad hoc committees are appointed by the board from time to time for a specific purpose. In this regard, three meetings of an independent committee of the board were convened during the review period to deal with special matters of a confidential nature.

The below-mentioned standing board committees are in operation within the group in accordance with legislative and regulatory requirements. A summary of their composition and operations is presented below.

Audit and risk committee

The board has appointed an audit and risk committee that 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 in the prior financial year for alignment with King IV™. 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 report of the audit and risk committee for the period under review is available on pages 109 to 111 of the integrated report.

The audit and 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 reporting 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 is adequate and that appropriate financial reporting procedures exist and that these are working efficiently;
- review and ensure that 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; and
- ensure that appropriate arrangements are in place for obtaining effective combined assurance.

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

The audit and 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 and 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 and risk committee were:

- Mr PK Quarmby*# (chairman)
- Mr SH Müller*#
- Mr 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 chief audit executive ('CAE') and the external auditor attend these committee meetings by invitation.

Divisional subcommittees, with a reporting line through to the committee, have been established to assist the audit and risk committee in the fulfilment of its duties. The reports of the external auditor are reviewed and discussed in detail at the audit and risk committee meetings and at meetings of the divisional audit and risk subcommittees. 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 subcommittees 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 key audit matters ('KAMs') considered by the external auditors and the committee, are disclosed in the external auditor's report on pages 100 to 103 of the integrated report.

The audit and risk committee reviewed the generic report from the JSE Limited regarding the pro-active monitoring of financial statements of listed entities to determine their compliance with IFRS and to promote the decluttering of financial statements. As a separate exercise, the JSE also reviewed KAP's own 2017 financial statements. KAP's financial statements were materially aligned with best-practice standards, and in the preparation of its annual financial statements for the year ended 30 June 2019, action would be taken where necessary, to refine future disclosures in line with the findings as highlighted by the relevant JSE reports and letters.

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.

During the review period, the company issued a trading statement informing the market to expect reduced headline earnings per share and earnings per share in comparison to the year-end financial results of the previous year.

The audit and risk committee has carried out a self-assessment during the review period and concluded that it has fulfilled its responsibilities in accordance with its terms of reference.

The report to shareholder of the duties carried out by the committee can be read on pages 109 to 111 of the integrated report.

Human resources and remuneration committee

The human resources and 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 78 to 87 in the integrated report and have also been incorporated into the notice of the annual general meeting, which is available 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 further 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. The company's incentive remuneration framework was comprehensively reviewed during the review period. Incentive benefits are no longer driven solely by financial indicators, but social, environmental and governance (ESG) aspects now also form part of the measurement criteria for determining vesting.

This broader incentive perspective was favourably accepted by shareholders at the 2018 AGM, as evidenced by their overwhelming majority votes in favour of both the remuneration policy and the remuneration implementation report (86.9% and 94.7% respectively), obviating any need for the company to have a post-meeting engagement with stakeholders around the policy or the implementation report.

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 subcommittees, 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 subcommittees are attended by the KAP CEO, the KAP CFO, the KAP group human resources executive and the KAP stakeholder relations 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 KAP RemCom meetings include the CEO and the KAP group human relations executive. While 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.

At the year-end date, the members of RemCom were:

- Mr SH Müller (chairman)*#
- Mr KJ Grové&#
- Mrs IN Mkhari*#

* *Independent non-executive directors*
& *Non-executive director*
# *Cross-committee membership*

During the review period, 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 nomination committee.

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.

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 2018, save for Mr Van der Merwe whose resignation was tendered at that meeting.

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 RemCom has carried out a self-assessment during the review period and concluded that it has fulfilled its responsibilities in accordance with its terms of reference.

Social and ethics committee

The social and ethics committee ('S&EC') 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 an S&EC, the 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 and risk committee, the RemCom and ultimately at the S&EC. The S&EC draws on the skills and experience of the members serving on the aforementioned 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&EC 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 abovementioned statutes relating specifically to:
  - social and economic development;
  - transformation (BEE and EE)
  - the prevention of fraud and corruption and the promotion of ethical behaviour
  - good corporate citizenship
  - stakeholder relationships, including public relations, consumer relationships, and employment and labour relations
  - the environment, health and public safety
  - compliance with applicable legislation
  - 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; and
- to report to the shareholders of the company on the matters within its mandate.

To this end, the S&EC, among 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
- 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&EC report to shareholders
- the board's race and gender policies
- 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.

KAP's latest accredited B-BBEE score reflects as a Level 6 contributor. Going forward, KAP may have to secure additional black ownership to maintain its 'Ownership' score above the priority element threshold. The most recent B-BBEE certificate can be viewed on the KAP website at www.kap.co.za.

The S&EC 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.

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

KAP applies certified health and safety standards. Its environmental policy was reviewed in the prior financial year.

The KAP board applies both a gender and a race policy. During the review period, the S&EC reviewed both these policies on behalf of the board.

Environmental, social and governance (ESG)

Under the oversight of the S&EC, the company secured inclusion on the FTSE4Good Responsible Investment Index, in the Industrial Goods and Services sector, for the second consecutive year. There has been significant improvement in KAP's ESG scorecard following improved reporting in respect of health and safety matters, water usage and greenhouse gas emissions. The setting of operational improvement targets and measuring progress against targets will receive attention into the future. A framework for developing a comprehensive ESG strategy has been presented to the KAP board for consideration. Management believes that ESG and Return on Investment are connected and the incorporation of ESG elements into KAPs strategy provides the group with a competitive advantage.

In collaboration with the JSE and FTSE Russell, and following an independent assessment of the group's publicly disclosed information in respect of its environmental, social and governance consciousness, KAP made significant year-on-year strides in improving its overall rating to 3 out of a maximum of 5 (FY2018: 2.5/5) and with the percentile score improving to 50 out of a 100 (FY2018: 36/100).

This places KAP above the average for diversified industrial companies that are assessed by FTSE4Good. In the environmental category, KAP's score increased from 1.8 to 2.6 out of 5, with a sector rank of 5 out of 10 (FY2018: 4/10). The score for social awareness increased from 2 to 2.5 out of 5 with a sector rank of 5 out of 10 (FY2018: 3/10). KAP furthermore increased its already high score of 4 out of 5 to 4.3 for overall governance, with a sector rank of 8 out of 10 (FY2018: 8/10). For the second consecutive year, KAP achieved a maximum 5 rating in the sub-category 'corporate governance'.

KAP has also participated and provided input to other ESG rating agencies, including Robeco SAM, Sustainanalytics and MSCI. Their scores will become available during the forthcoming financial year. KAP finds the diverse approaches of the different rating agencies useful in developing benchmarking measurement criteria. KAP's FTSE4Good 2019 certificate is available on the company's website.

During the review period, the S&EC 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&EC 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 an apology. The meeting was chaired by Mr SH Müller in the absence of the regular chairperson.

The S&E committee has carried out a self-assessment during the review period and concluded that the 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 and top executives to provide continuity of executive leadership; and
- the induction of new appointments to the board and the on-going development needs of the directors.

For each of the above, the committee makes recommendations to the board, which, in most instances, has a further obligation to make a corresponding recommendation to shareholders.

During the review period, and as a result of the retirements of two directors at the AGM in November 2018 and the subsequent resignations of two directors in April 2019, the committee reviewed the board and board committee compositions. Overall, it was confirmed that the board committees were of an appropriate size, composition and balance, taking into account the diversity gender, race, qualifications, skills and experience requirements, as well as the relevant committee obligations. In line with the race and gender policies adopted by the board, the nomination committee has prioritised the appointment of four new directors, with an immediate need to appoint three directors, of which two should be women and at least one of which should be black, as well as a male of any race. The committee was of the view that, subject to such appointments, the board's size and diversity would 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 (i.e. three consecutive terms).

At 30 June 2019, the following members served on the nomination committee:

- Mr J de V du Toit (chairman)*
- Mrs IN Mkhari*#
- Mr PK Quarmby*#

* *Independent non-executive director*
\# *Cross-committee membership*

During the review period, Messrs DM van der Merwe and SH Müller resigned from the committee.

The composition of the committee meets (and exceeds) the composition recommendations of King IV™, i.e. not only is the committee solely comprised of non-executive directors, but all of its members are independent non-executive directors.

The committee meets at least annually, however, during the review period, the committee met on 14 August 2018, 17 September 2018 and on 30 January 2019. These meetings were attended by all members, save that Mr Van der Merwe did not attend the 14 August meeting due to a commitment abroad. He did however study the papers and gave his inputs to the chairman prior to the meeting.

The committee's terms of reference were reviewed and aligned with King IV™ in the prior financial year.

The nomination committee has carried out a self-assessment during the review period and concluded that it has fulfilled its responsibilities in accordance with its terms of reference and related statutory requirements.

At its most recent meeting, the committee considered the re-election of the directors at the forthcoming AGM in November 2019. The committee recommended the re-election of the following 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 GN Chaplin (chief executive officer)
- Mrs IN Mkhari (independent non-executive director)
- Mr SH Nomvete (independent non-executive director).

The directors proposed for re-election have maintained a 100% board attendance record during the review period. The independence status of the two long-serving independent directors were formally re-assessed in accordance with the recommendations of King IV™. It was confirmed that there was no interest, position, association or relationship which, when judged from the perspective of a reasonable and informed third party, was likely to influence unduly or cause bias in the director's decision-making. Furthermore, from their CVs, it was clear that the non-KAP directorships held by these two directors, which extend beyond the scope of KAP's operations, allow for a broader, independent, perspective and value-add to be brought to the board's deliberations. From observing their actual conduct at meetings, the committee further concluded that each director still exercises objective judgement. It was consequently recommended that both directors should continue to be serving on the board and its committees in the capacity of an independent non-executive director.

The committee further recommended that:

- there was no need for shareholders to confirm the appointment of any director since the board did not make any interim appointments since the previous annual general meeting, and
- none of the directors has reached the age of 71, hence there is no requirement for any director to retire in 2019 on the basis of age.

During the review period, the committee recommended the establishment of an investment committee as a committee of the board. The purpose of the investment committee is to assist the board in making decisions around potential corporate actions and to identify associated risks. Due to the nature of the subject matter, the committee comprises both executive and non-executive directors and it is likely that this committee will make use of consultants and experts to aid with the decision-making process.

Board and committee evaluations

During the period under review, formal performance self-evaluation assessments were conducted in respect of the board, the audit and risk committee, the human resources and remuneration committee, the nomination committee and the S&EC. The assessment instrument was based on and covered the 16 King IV™ principles and focused on a broad spectrum of the responsibilities and duties of the directors and the key activities of the respective forums.

In each instance, the relevant forum was satisfied that it has fulfilled its responsibilities for the reporting period in accordance with its charter/terms of reference. The greater majority of aspects were rated as being of a 'best practice' standard with not a single aspect assessed as being of a 'poor' standard. It was satisfactory to note from the results that aspects such as ethical behaviour, high corporate governance standards, good risk governance and fair and responsible remuneration practices were assigned the highest aggregate ratings. While still rated as 'satisfactory', the aspects of diversity and succession were highlighted for further action. Both aspects are receiving appropriate attention, as evidenced by the interventions undertaken by the relevant board committees.
The board was satisfied that the evaluation process is a worthwhile exercise and that it serves to focus the attention of the directors on their own contributions and on opportunities for improving their performance.

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 ('KSS') as the secretary of the company. As part of its annual review process, 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)

The board concluded that the services were rendered on an arms-length basis and on market-related terms, and that KSS 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. 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.

The certificate required to be signed in terms of section 88(2)(e) of the Companies Act appears in the financial statements on page 108 of the integrated report.

Reporting

Management reporting

Divisional management reporting disciplines include defined parameters for the reporting of litigation matters, compliance with legislation and risk analyses. Management reporting disciplines include the preparation of annual budgets, which are approved by the board.
Operational and financial performance against the approved budgets is reported by the divisions to corporate office on a monthly basis. Profit and balance sheet 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 boards/management boards/executive committees. Any major risks identified,

together with remedial plans, are brought to the attention of the audit and risk committee and the board on a quarterly basis.

Various compliance reports are presented at the divisional audit and risk committees and at divisional management board meetings. Any significant issues of non-compliance are escalated and brought to the attention of the KAP audit and risk committee and/or the KAP board. In addition, any significant social, ethical or environmental concerns are brought to the attention of the Social and Ethics committee.

Financial control and reporting

The board is responsible for ensuring that the group companies maintain adequate records, and for 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 implemented at all levels across the group. The board is responsible for ensuring that reports issued by the company enable stakeholders to make informed assessments of the group's performance and prospects. the audit and risk committee monitors that the primary financial information (results and financial statements) that are disclosed to the market are accurate and reliable, while the social and ethics committee monitors that the non-financial information disclosed into the public domain is trustworthy, true and correct.

Risk management

Divisional management is responsible for implementing the risk management process and for managing risk, by identifying, assessing and evaluating risk on a regular basis. Management implements and carries out the necessary controls in order to ensure that known risks remain with the group's risk appetite. The board is accountable for the governance of risk management within the group and for ensuring compliance with all applicable legislative and regulatory requirements. 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 revealed.

The audit and risk committee oversees group risk management. Internal Audit examines, evaluates and reports on the adequacy and effectiveness of the group's risk management processes and makes recommendations to the audit and risk committee and the board in respect of the aforementioned. 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, a KAP Investment committee was established by the KAP board with the purpose of considering and recommending to the board any mergers/acquisitions/disposals of entities/businesses/shares/interests by the KAP group ('corporate actions') in line with the approved KAP strategy. This committee supports the board by assessing and highlighting potential risks in respect of any proposed corporate action.

Internal control systems

The responsibility for ensuring the effectiveness of the internal control systems across the group rests with the board, however, the board has delegated implementation of the group's systems of risk management and internal financial control to executive management. The group's systems of internal controls, which are embedded in all key operations, provide reasonable, albeit not absolute, assurance that the company's business objectives will be achieved, subject to defined risk tolerance levels.

The chief audit executive (CAE) has provided the audit and risk committee with written assurance that the controls, governance, information technology, risk framework and regulatory compliance environments evaluated across the group were adequate in design and effective in their operation.

A robust process is in place in terms of the internal audit methodology to ensure that any key control improvement areas identified during audits, receive management's attention to ensure implementation of remedial plans for the mitigation of risks.

Where practicable, taking into account the diversity and geographical spread of the group's operations, a unified approach to the group's control systems has been adopted

Budget

The group undergoes a comprehensive annual planning and budgeting process. Divisional annual budgets are presented to and approved by the board. 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. Review of monthly financial performance is a standing item on the Exco agenda and quarterly progress reports on financial performance are presented to the board.

Internal Audit

Internal Audit provides an independent, objective assurance and consulting service to the group. The service 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 and risk management committees.

The Internal Audit function presents reports to the KAP audit and risk committee, the divisional audit and risk committees and to the divisional management boards. The Internal Audit function assists executive management and the respective audit and risk committees to effectively discharge their responsibilities by carrying out independent reviews on financial and internal controls and operational systems. Where specific expertise is required, specialised internal audit services, mostly relating to the field of information technology, is co-sourced from accredited external service providers.

Compliance with applicable legislation is an item on all audit and risk committee and board agendas and regulatory compliance programmes are evaluated and formally reported on by Internal Audit as part of its audit programme.

In addition to the above-mentioned written assurance report on the adequacy of controls, the CAE has provided the audit and risk committee with further written assurance that the internal audit programme conducted during the period under review was concluded in line with the internal audit charter, internal audit methodology and the International Standards for the Professional Practice of Internal Auditing, as well as the company's code of ethics. The Internal Audit activity adheres 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.

The Institute of Internal Auditors' practice advisories and guides, and position papers are also adhered to, as applicable, and guide the provision by Internal Audit of its services. The CAE has unrestricted access to the chairman of the audit and risk committee, and he is afforded the opportunity to meet with this committee in confidence (without any executives or management representatives present) should he wish to discuss any findings or other matters of concern. Internal Audit is viewed across the group as a value-add service and the co-operation between management and internal audit facilitates on-going control system improvements. At the most recent formal five-yearly independent quality assessment, the operations and practices of the Internal Audit function and the maturity of its practices were rated satisfactory and generally compliant to the prescribed standards.

During the review period, PWC provided independent guidance on the Internal Audit function in terms of strategy, scope and process in relation to industry best practice and regulatory requirements. The findings of the PWC evaluation and benchmarking exercise were complimentary, and there were no adverse findings that required the attention of the audit and risk committee or the board. The PWC review highlighted opportunities for improving combined assurance practices and for correctly positioning the Internal Audit function to be an insight-generator for the group.

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 (Deloitte & Touche) for the period under review, which details the key audit matters and significant risks, is available in the financial statements on pages 100 to 104 of the integrated report.

The external auditor reports on its audit findings to the divisional audit and risk committees and to the audit and risk committee of KAP. Should the external auditor wish to discuss any findings, it has unrestricted access to the chairman of the audit and risk committee and is afforded the opportunity to meet with committee members in private, 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. 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 R 2.1 million (2018: R2.0 million). Deloitte furthermore confirmed that the rendering of the non-audit services did not affect its independence, and the audit and risk committee concurred with both aforementioned statements of independence.

The reappointment of Deloitte as the company's auditor, with Dr Dirk Steyn, a registered auditor and designated audit partner to lead the audit at KAP for the financial year ending 30 June 2020, has been recommended by the audit and risk committee and will be a matter for consideration by shareholders at the company's annual general meeting to be held on 13 November 2019. If appointed, this will be Dr Steyn's fourth year of performing the external audit of the company and Deloitte's 16th term as KAP's auditor. In terms of legislation, Deloitte & Touche is scheduled to retire by rotation as KAP's auditor by 2023. The KAP audit and risk committee will undertake a formal process to appoint a new firm of external auditors by or before the aforementioned effective date.

Combined assurance

The group has made good progress in formulating a formal combined assurance framework and have identified further improvement opportunities to roll out in the FY2020. Key charters, such as the Internal Audit Charter, are undergoing review to facilitate the execution of the Combined Assurance Strategy of the group. In addition, an initial Governance Risk and Compliance framework (GRC) was developed to focus the compliance function to specific core elements. The framework includes the expanded specialised focus areas on safety and health and environment management in line with the diversified nature of KAP. Divisional reporting formats are in a process of change to give effect to reporting compliance on the elements within the framework. The framework will be expanded into more detail into the future.

The current combined assurance system comprises:

- ***compliance certificates*** – presented to the divisional boards and divisional audit and risk committees, reflecting the quarterly compliance status in respect of applicable legislation and/or regulations relating to each division's operations. In the event of any material contraventions, penalties or fines, these are referred to the KAP board;
- ***ICT reporting*** – reviews presented to the divisional boards and divisional audit and risk committees, reflecting the quarterly compliance status and ICT risk-mitigation measures, as well as development work undertaken in respect of systems, software and frameworks relating to each division's operations; an ICT report is also presented to the KAP board. Among others, the latter monitors significant ICT investments and expenditure;
- ***Safety Health and Environmental (SHE) reports*** – presented to the divisional boards and divisional audit and risk committees, detailing any incidents, issues, injuries or fatalities during each quarter. A collated SHE report is presented to the KAP board;
- ***internal audit reports*** – presented to the divisional boards and the divisional audit and risk committees, detailing any audit findings made during each quarter. A collated, summarised report is also presented to the KAP audit and risk committee;
- ***year-end external audit reports*** – presented to the divisional boards and divisional audit and risk committees, detailing any audit findings made during the external audit. A collated external audit report is presented to the KAP audit and risk committee and to the KAP board;
- ***ad hoc audits/investigations*** – undertaken by external consultants where specific expertise is required (e.g. this includes network security auditing and environmental auditing); and
- ***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.

Information communication technology (ICT)

King IV™ places particular emphasis on the area of ICT, with ICT forming an important and integral part of the group's management and reporting processes. An ICT internal control framework has been implemented, together with a formal ICT charter, which sets out the responsibilities and authority that the board has delegated to executive management of the company and its subsidiaries for the efficient use and management of ICT resources to facilitate the achievement of corporate objectives. The afore-mentioned further dictates the corporate governance of ICT throughout the group, including management of the group's ICT-related risks.

The ICT executive at corporate level reviews and reports to the audit and 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 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.

Annual network security audits are conducted to pinpoint areas that could be affected by cybercrime and hacking, and where necessary, appropriate improvement and safeguarding initiatives are implemented. During the period under review, there was no major cybercrime incidents to address

Ethics and accountability

Whistle-blowing and code of ethics

The group's code of ethics is available on the company's website at www.kap.co.za.
The board exercises on-going oversight of the management of ethics. The responsibility for the implementation and execution of the code of ethics is delegated to management. The code of ethics, which was reviewed during the year, commits the group and its employees to the highest ethical standards of conduct and to compliance with all applicable legal and regulatory requirements. The code, which is available on the company's website, inter alia governs conduct relating to:

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

The code of ethics is supplied to new employees as part of the group's employee induction process.

During the review period, the group also formulated a supplier code of conduct. Major suppliers of goods and services to KAP are expected to comply substantially with the code and to operate with values comparable to those of KAP and in a manner that is consistent with good corporate governance. Conversely, KAP also complies with ethical standards set by its customers. This code addresses a comprehensive range of aspects, including competition law, confidentiality of information, health, safety and the environment, human rights, labour practices and other ethical behaviours across a wide spectrum.

The group operates a confidential whistle-blowing facility (KAPREF Hotline), for the reporting of suspected frauds or irregularities on an anonymous basis. All reports received are investigated on a confidential basis. Over time, the whistle-blowing facility has proven its worth in identifying fraud and incidents of unethical behaviour. To maintain a high level of awareness, employees are regularly reminded of these facilities and are urged to report all circumstances or situations where they have reason to suspect fraudulent or unethical activity.

For the period under review, no material incidences of non-compliance with the code of ethics or of fines or prosecutions for non-compliance with regulations or legislation were recorded. As is publicly known, the Competition Commission is investigating an alleged contravention of section 4(1)(b)(i) of the Competition Act No 89 of 1998 (price-fixing/anti-competitive behaviour), relating to a period between 2012 and 2015. KAP has been co-operating fully with the investigation within the relevant structures provided.

Interest in contracts and politically exposed people

All employees must disclose, as and when appropriate, any interest in contracts and relevant shareholding to allow for the assessment of any conflict of interest. This policy extends to directors, prescribed officers and the company secretary. Declarations of interest are tabled at the commencement of board meetings, and when any conflicts arise during debate, these are declared and recorded in the minutes. Against the background of numerous cross-directorships, the fiduciary duties of the directors to act in the best interests of the particular company on whose board they serve, are well-understood by the directors. Compliance with the prescribed standard of directors' conduct, including fulfilment of the requirements of sections 75 and 76 of the Companies Act, is strictly enforced, i.e. conflicted individuals recuse themselves from decision-making at all times.

The application of a politically exposed people ('PEP') interest declaration across the business has enhanced the monitoring of risks associated with money-laundering, corruption, embezzlement, bribes and related criminal activities that are potentially associated with politically exposed persons.

KAP values its relationships with both institutional and private investors and a proactive approach has been adopted to ensure that communiqués 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. The board has also adopted a policy to regulate the social media communication of its employees as it relates to the affairs of the company.

The executive team of the company regularly attends investor conferences and in addition, together with non-executive members of the board, interact with analysts and the media during its half-year and year-end results presentations. From time to time, various stakeholders, including the media and shareholder activists, attend the company's annual general meeting.

For more information, please refer to the stakeholder reports in the integrated report and on the Company's website.

Insider trading

KAP has an insider trading policy which prohibits directors, prescribed officers and officers of the company and its major subsidiaries (and their associates and brokers) from dealing in the company's shares, either directly or indirectly, while 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 these individuals.

No director, prescribed officer or officer (or their associates or their brokers) may trade in the company's shares during embargo periods determined by the board, or during closed periods. During open periods and when the afore-mentioned individuals are not in possession of price-sensitive information, they may trade in KAP's securities, but 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 presented at each board meeting and all share dealings by the directors of the company, directors of any major subsidiaries and those of the company secretary, are notified to the listings department of the JSE Limited for publication on the Securities Exchange News Service.

Accountability and sustainable value

The chief executive officer (CEO) is responsible for and accountable to the KAP board for all operations in die KAP group. 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. 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, i.e. while it may from time to time delegate certain powers, it never abdicates from its responsibilities.

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.

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. Save for financial statements and general notices to shareholders, communication include disclosures on the JSE Stock Exchange News Service, formal presentations of year-end and interim results, meetings with major institutional shareholders and investors both in South Africa and abroad, as well as sessions with analysts.

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 64 to 77 of the integrated report.

Going concern statement

The group financial statements set out on pages 112 to 191 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.