KAP

Remuneration policy 2018

KAP’s remuneration philosophy is to remunerate employees fairly and responsibly in a balanced approach, in order to attract, retain and motivate competent individuals who can contribute meaningfully to the sustainable growth of the company.

The King IV Report on Corporate Governance™ for South Africa, 2016 (‘King IV™’) is effective in respect of financial years that commenced on or after 1 April 2017. KAP endorses King IV™’s inclusive, interconnected approach to corporate governance and its recognition of the importance of ensuring sustainability over the longer term. Fair, responsible and balanced remuneration is viewed as a key factor in ensuring the sustainability of the company.

Human resources and remuneration committee

The board’s human resources and remuneration committee (‘the committee’) operates within defined terms of reference and authority granted to it by the board. The board oversees the implementation and execution of the remuneration policy.

The committee comprises two independent non-executive directors, one of whom is appointed as chairman, as well as another non-executive director. The chief executive officer and certain executive managers attend parts of the meetings by invitation. This committee meets at least once a year and, should this be required, additional ad hoc meetings are convened. During the review period the committee met on 14 August 2017 and all the members were present. The committee chairman is a member of the KAP social and ethics committee, which, inter alia, plays a contributory role in remuneration matters, with particular focus on the ethical and social aspects of remuneration and other benefits to employees.

With effect from 14 August 2018, Mr DM (Danie) van der Merwe resigned from this committee and Mr KJ (Jo) Grové was appointed in his stead by the nomination committee.

Due to the group’s decentralised management structures, the committee has established divisional human resources and remuneration subcommittees (‘the divisional subcommittees’). The divisional subcommittees are responsible for all human capital management and employee remuneration matters at business-unit level, within the parameters set by the committee. The divisional subcommittees are supported by established human resource practitioners at group, divisional and business-unit level, with responsibility for the implementation and management of human resource and remuneration strategies, policies and practices.

The committee is satisfied that it has fulfilled its responsibilities during the review period. Key areas of focus of the committee during the period under review included:

- a review of the strategic drivers of human resources and remuneration and the alignment thereof to the vision and strategy of the company;
- a review of the group’s remuneration policy, which is presented annually for a non-binding advisory vote by shareholders;
- a review of the measurement criteria in relation to the company’s cash-settled incentive schemes;
- a review and approval of the remuneration packages of all senior executives, including annual and long-term incentive schemes, in order to ensure that they remain appropriate and act as drivers to the achievement of the business strategy;
- the fulfilment of delegated responsibilities for KAP’s share-based incentive schemes;
- a review of the human capital management practices in place across the group to ensure fairness, responsibility and transparency, alignment with King IV™ and compliance with the specific requirements of South African labour legislation; and
- a review of the recommendations of the divisional subcommittees and their assessment of compliance with the terms of reference prescribed by the committee, in order to establish whether the committee can rely on the work of the divisional subcommittees and to ensure that the divisional subcommittees remain aligned with the group’s remuneration policy.

Key considerations for the divisional subcommittees include the review of divisional:

- pay structures and equitable base salary increases for all employees;
- performance management systems and processes;
- annual performance incentive schemes;
- long-term incentive schemes; and
- employee relations management, talent management and succession planning, taking due cognisance of employment equity.

Alignment with strategy

The success of KAP’s business is critically dependent on its people in order to maintain high standards of quality products and service to customers over time, in very competitive sectors. KAP’s remuneration structures are therefore aligned with the group’s long-term strategic business priorities, namely:

- to sustain and improve its leading positions in high barrier to entry markets;
- to add value through specialisation in a diverse range of industries, markets and geographies;
- to grow sustainable long-term revenue;
- to increase its sustainable operating profit and cash flows; and
- to improve sustainable return on equity.

A strategic objective of KAP is to be an industry leader in its chosen markets. This implies a requirement to attract and retain the best people in industry and to consistently improve their skills. As KAP has grown into industry-leading positions, it has become increasingly exposed to and benchmarked against global best practice. Although KAP is a South African-based company, it earns approximately

9% of its revenue outside South Africa; it imports a material portion of its inputs from outside South Africa; a significant portion of its inputs are globally indexed in foreign currencies; and it has international shareholders at certain business units who actively participate in the relevant businesses and several technology agreements with international companies. As a result, KAP expects its executives to have knowledge and experience across international borders and to be internationally mobile. KAP therefore competes for management and specialist skills and succession talent in a challenging global marketplace and, as a result, its approach to remuneration needs to remain competitive and encourage retention.

Service contracts

Executives' contracts are subject to terms and conditions of employment as governed by the Labour Relations Act of South Africa. The contracts of the top executives or any other executive directors do not contain termination packages or excessive notice periods.

Directors are subject to regulations on appointment and/or rotation in terms of the company's memorandum of incorporation and the Companies Act, No. 71 of 2008 of South Africa.

Non-executive directors' remuneration

Independent surveys are obtained from expert consultants to assist the committee with its annual review of non-executive directors' fees.

The committee submitted its proposals to the board for the fees payable for the period from the date of the forthcoming AGM to the 2019 AGM, and the board has endorsed the committee's proposals. The proposals have taken into account the growth of the group and the increased responsibilities assumed by the directors. The non-executive directors' remuneration is not linked to the company's share price or share performance. Non-executive directors do not qualify for shares in terms of the KAP Performance Share Rights Scheme and do not hold share rights under this scheme, other than the rights held by the non-executive deputy chairman over 827 893 shares, granted during the period of his service in an executive capacity prior to 31 December 2016 and awaiting maturity.

Refer to the attached implementation report for details of the non-executive directors' fees to be proposed at the forthcoming AGM.

Shareholder approval

Following the introduction of King IV™, in addition to the requirement to obtain shareholder approval for the payment of fees to the non-executive directors as detailed below, the remuneration policy and implementation report will be tabled each year for a separate non-binding advisory vote by shareholders at the AGM. In the event that either the remuneration policy or the implementation report, or both, are voted against by shareholders exercising 25% or more of the total voting rights exercised at the AGM, the committee will issue an invitation to dissenting shareholders to engage with them in a mutually accepted manner and timing in order to address legitimate and reasonable concerns.

At the AGM on 13 November 2017, the shareholders endorsed the remuneration policy of the company by way of a non-binding advisory vote of 87.84% in favour of the policy. In determining appropriate levels of remuneration, the company routinely benchmarks against industry best practice with the use of independent experts.

Remuneration policy

The committee has implemented a remuneration policy, which has been approved by the board and shareholders, to assist in the achievement of the group's strategy and objectives.

The remuneration policy is reviewed on an annual basis and is aligned to the recommendations of King IV™, based on the following principles:

- Remuneration practices throughout the group are aligned with the applicable business vision and strategy.
- Remuneration is set at levels that are competitive and appropriate within the specific markets, geographical areas and industries in which the group operates.
- Incentive-based remuneration, applicable to management involved in determining and implementing the strategy of the group and/or divisions, is determined with reference to demanding performance targets with due regard for the sustainable well-being of the group over the short-, medium- and long-term.
- Executive remuneration is fair, responsible and transparent in the context of overall remuneration in the group.

The committee seeks to ensure an appropriate balance between the fixed and performance-related elements of managerial remuneration and also between short-term financial performance and long-term sustainable stakeholder value creation.

The committee considers each element of remuneration relative to the market and, in determining its quantum, takes into account the performance of the group and/or division, the management team and the individual concerned.

Elements of remuneration

Benchmarking of the remuneration of executive managers and executive directors was undertaken during the financial year, utilising the services of independent experts. The committee is satisfied that remuneration in all forms accruing to employees at all levels is market-related and equitably awarded under the remuneration systems and practices in place.

The remuneration policy covers two elements of remuneration:

Total cost to company guaranteed salary ('salary')
The salary element of remuneration incorporates all guaranteed cash benefits. Its purpose is to provide a competitive level of remuneration for employees. The salary is subject to annual review and is intended to be competitive, with reference to market practice in companies comparable in size, market sector, business complexity and geographic location, as well as equally graded positions. A global grading system has been applied across the group and employee grading has been standardised. Company performance, individual performance, general inflation and changes in responsibilities are also taken into consideration when determining annual base salaries.

The amount of the salary package is determined, with effect from 1 July each year, based on parameters approved by the board, differentiating pay levels based on individual and market factors, as follows:

- Position profiles are compiled for each approved position in each division and department and these are graded using the company's uniform grading system.
- A competency profile and levels of proficiency are determined for each approved position. Annual performance reviews of the employee may lead to the employee receiving merit increments from year to year, which, over time, enable him or her to earn remuneration at a level above the market median for a position, but within market norms.
- The market positioning of the pay of key managers and professional staff is benchmarked and reassessed regularly, using the market median of independent salary surveys as reference points.
- Inflationary remuneration increases are approved from year to year, based on movements in consumer price inflation and gross domestic product indices in South Africa or the relevant country of operation. These may also be influenced by periodic market benchmarking, pay levels being compared for this purpose within the sector using an independent salary survey at least once every second financial year and by the test of general affordability.

The remuneration of employees, other than union and other bargaining structure represented employees, is contracted on a total cost to company package basis, which includes basic salary, allowances and contributions by the company to retirement savings, risk insurance and medical schemes.

In terms of this arrangement, a minimum level of healthcare cover is a condition of employment at certain levels and additional cover is available to employees according to their personal circumstances. The healthcare benefits are outsourced to service providers. The company does not provide post-retirement healthcare benefits for current employees.

The group has various independently administered defined benefit plans.

The company encourages union membership and collective bargaining among its employees in order to provide for responsible and structured engagement. In relation to employees represented by trade unions or similar bargaining structures and similarly graded positions, their wages and substantive conditions of employment are negotiated from time to time with the applicable bargaining structures, preferably via collective bargaining processes. Changes to remuneration and benefits are negotiated in one, two or three-year arrangements. Multi-year arrangements are favoured in terms of stability and consistency in industrial relations. Access by these employees to suitable medical, retirement and associated insured benefits is also facilitated by the company.

Advisory and administrative services are offered on an outsourced basis in relation to employment benefits.

Payments on termination of employment or office, sign-on, retention or restraint payments, commissions and allowances are limited to contractual, legal and/or negotiated obligations and any deviations from this policy in relation to senior executives would require appropriate motivation and the specific approval of the committee.

Variable performance-related incentives ('incentives')
A principle underlying this policy is that senior executives and managers of the company and each of its business units are required to assume more business risk in relation to corporate returns than their subordinates and to place more of their remuneration at risk in relation to the achievement of certain targets. Consequently, they are offered a combination of guaranteed and variable pay to incentivise performance on a short-term and long-term basis.

Variable pay is designed to incentivise and reward both team and individual effort and serves as a tool to attract, motivate and retain staff of the calibre required to achieve the objectives of the business. These policies are also used to ensure that top management are duly motivated to achieve organisational goals and strategic objectives to ensure the long-term sustainability of the company. Bonuses are determined and paid in the financial year following that to which the performance relates and are disclosed together with the applicable performance targets.

Annual incentive bonus ('AIB') for the year ended 30 June 2018

An AIB, payable in cash, is designed to incentivise applicable levels and groupings of management to achieve the divisional and the group's short-term goals.

Financial targets are set by taking into account various factors, including the prevailing economic environment, relevant market conditions in the sectors within which the group operates, the performance of market peers, as well as the group's objective of improving its financial performance over time. Objectives are set after taking into account that management is obliged to maintain the group's assets on a sustainable basis.

For members of the group's executive team, the performance measures for the AIB for the year ended 30 June 2018 include:

1. Achievement of operational and financial growth objectives	
Objective	Metric
Performance against profit target	Headline earnings before tax from continuing operations of R2 149 million
Performance against cash flow target	Cash from continuing operations less net finance cost of R2 498 million
Both of the above objectives need to be achieved in order to qualify for the annual bonus.	
Performance against return on investment criteria	Return on equity of 14%
This objective is managed over time in setting profit and cash flow targets, taking into consideration acquisitions, capital expansion and equity issuances.	

2. Implementation of key strategic initiatives related to the strategic development and competitive positioning of KAP	
Objective	Metric
Securing an appropriate and flexible capital and debt structure in order to minimise the risk of stressed debt or equity issuance in volatile economic environments	At the discretion of the committee and the board: ▪ successful integration of the various acquisitions ▪ successful completion of various major expansion projects ▪ successful conclusion of the Unitrans Supply Chain Solutions B-BBEE transaction ▪ successful management of the impact of the collapse of a major shareholder ▪ successful increase on the company's bond programme and successful refinancing of maturing debt
Implementation of risk management policy and framework	
Successful conclusion and implementation of strategic mergers, acquisitions and disposals	
Implementation of growth initiatives, which do not benefit the year under review	
Other initiatives, such as B-BBEE, internal audit ratings, health and safety, succession planning, etc	

Should the first component (operational and financial growth objectives) not be met, no bonus will be payable in respect of the second component unless in extraordinary circumstances and with the approval of the committee. Progress against the relevant objectives is monitored on an ongoing basis to ensure that, where required, corrective action is implemented to enable the achievement of all objectives.

AIB allocations to the executive management are weighted as follows:

Role	Percentage of AIB relating to group performance	Percentage of AIB relating to divisional performance	On-target bonus as a percentage of guaranteed salary
Chief executive officer	100%	–	50%
Chief financial officer	100%	–	50%
Divisional chief executive officers	100%	–	50%
Human resources executive	100%	–	50%
Business development executive	100%	–	50%
Stakeholder relations executive	100%	–	50%
Key divisional management	–	100%	15% – 50%

Key executives are further entitled to participate in the value created by performance in excess of budgeted headline earnings before taxation applicable to their respective division or the group. This participation varies between 12% and 20% of such applicable headline earnings before tax excess over budget. Total annual bonuses are, however, limited to 100% of executives' respective annual salary. The group's executive committee (i.e. chief executive officer, chief financial officer, divisional CEOs, human resources executive, business development executive and stakeholder relations executive) participates in a single group AIB pool in order to support the alignment of the interests of executive management with those of the group's shareholders and to ensure the optimal allocation of capital across the group.

The performance objectives for individual divisions are assessed, taking into account their specific industry, identified peers and/or competitors and the maturity of the division. The committee performs an annual review to ensure that the performance measures and the targets set are appropriate within the economic context and the performance expectations for the division or group.

The committee retains the discretion to make adjustments to AIB payments, taking into account both group performance and the overall and specific contribution of the management teams towards meeting the group's objectives. Divisional bonus schemes applicable to middle and junior management are aimed at achieving project, production and sales-related targets.

Long-term incentives applicable to allocations before 30 June 2018

KAP competes for management skills and talent and its approach to remuneration takes account of the need to retain key management over the long term.

Long-term incentives are awarded with the primary aim of promoting the sustainability of the company through business cycles; aligning performance of key management with the interests of stakeholders; and retaining key management over the long term. The long-term incentives comprise a share rights scheme ('SRS') for executive staff and a cash-settled ('LTI') scheme for key senior management.

The allocation of SRS and LTI incentives is at the discretion of the committee and applies to individuals who are key to determining and implementing the long-term vision and strategy at group and/or divisional levels. Benchmark performance criteria are aligned with the group's long-term strategic priorities to ensure that there are no 'windfall' gains. The allocation and quantum of long-term incentives are based on the responsibility levels and salary packages of relevant individuals.

Share rights vest only when the group has achieved its cumulative financial targets over the relevant three-year period, as detailed in the AIB above.

Except as approved by the committee in exceptional circumstances, share rights and LTI allocations will lapse should any participant in the SRS or LTI scheme leave the employ of the group other than in the event of death, incapacity, disability or retirement, as detailed in the share scheme rules approved by shareholders.

The value of SRS allocations to the group's executive management during the year ended 30 June 2018 was as follows:

Role	Percentage of guaranteed salary allocated to share scheme
Group chief executive officer	167%
Group chief financial officer	133%
Divisional chief executive officers	133%
Group human resources executive	100%
Group business development executive	100%
Stakeholder relations executive	100%
Key divisional management	33% – 100%

In order to qualify for the LTI, participants are required to achieve their own division's cumulative targets, as detailed in the AIB above, over a cumulative three-year period. The value of LTI allocations to the group's senior management during the year ended 30 June 2018 were as follows:

Role	Percentage of guaranteed salary allocated to long-term cash incentive
Key divisional management	25% – 67%

All scheme rules, the application thereof and the quantum of allocations are regularly reviewed by the committee to ensure equity and compliance with legislative and regulatory requirements. There have been no changes to the rules of the SRS since its inception.

Implementation report

During the 2018 financial year, the remuneration policy of the group was applied with no deviations.

Total cost to company guaranteed salary

The base salaries of executive management were benchmarked by an external service provider, with reference to market practice by companies comparable in size, market sector, business complexity and geographic location, in order to ensure that they provide a competitive level of remuneration. Base salary increases were awarded based on inflation, except where there were changes in responsibilities and roles that warranted higher increases.

The base salaries of the executive committee comprised the following elements:

Executive directors	Total guaranteed salary 2018	Total guaranteed salary 2017	Increase in guaranteed salary
	R	R	
Gary Noel Chaplin[1]	6 000 000	5 250 000	14%
Karel Johan Grové[2]	–	3 406 500	–
Frans Hendrik Olivier[3]	3 700 000	3 355 000	10%
Total	**9 700 000**	**12 011 500**	

[1] Gary Noel Chaplin's base salary was increased in the first of a two-phased approach aimed at aligning his remuneration with the market median for companies of similar size and complexity.

[2] Karel Johan Grové retired from his executive position with the company effective 1 January 2017, but continues to serve on the board of directors as the non-executive deputy chairman. No termination benefits were paid to Mr Grové on his retirement. The remuneration is for six months.

[3] Frans Hendrik Olivier's base salary was increased in the first of a two-phased approach aimed at aligning his remuneration with the market median for companies of similar size and complexity.

Other executive committee members	Total guaranteed salary 2018	Total guaranteed salary 2017	Increase in guaranteed salary
	R	R	%
Total[4]	**27 172 000**	**21 355 333**	**27%**

[4] The increase in guaranteed salaries paid to other executive committee members is based on inflation, additional responsibilities resulting from acquisitions, market benchmarks and an increase in the number of executive committee members. The year on year increase, excluding the impact of changes in the number of members, is 7%.

Annual incentive bonus

Bonuses paid in the 2018 financial year were determined in line with the remuneration policy and were awarded based on the following criteria in relation to the 2017 financial year:

1. Achievement of operational and financial growth objectives for the 2017 financial year

Objective	Metric
Performance against profit target	Headline earnings before tax of R1 751 million
Performance against cash flow target	Cash from operations less net finance cost of R1 972 million
Performance against return on investment criteria	Return on equity of 14.5%

2. Implementation of key strategic initiatives related to the strategic development and competitive positioning of KAP for the 2017 financial year

Objective	Metric	Performance
▪ Securing an appropriate and flexible capital and debt structure in order to minimise the risk of stressed debt or equity issuance in volatile economic environments ▪ Implementation of risk management policy and framework ▪ Successful conclusion and implementation of strategic mergers, acquisitions and disposals ▪ Implementation of growth initiatives that do not benefit the year under review ▪ Other initiatives, such as B-BBEE, internal audit ratings, health and safety, and succession planning, etc.	At discretion of the committee and the board	The group continued with strategic corporate activities to enhance its quality of earnings and its sustainability into the future. In line with its key investment criteria, the group entered into the following material transactions with a dedicated focus on strategic industrial assets: **Clawback offer** Additional capital was required to contribute to the financing of the major expansion projects within the group and to maintain a healthy capital structure to facilitate future growth of the group. The company therefore offered for subscription, by way of a renounceable clawback offer, 197 368 421 ordinary shares ('the clawback shares'), on terms and conditions detailed in the circular to shareholders dated 22 November 2016 ('the clawback offer'). To underpin the clawback offer, the company entered into a subscription agreement with Ainsley Holdings Proprietary Limited, Allan Gray Proprietary Limited (in its capacity as investment manager and agent for and on behalf of its clients) and Public Investment Corporation SOC Limited ('the subscribers'), for the subscription of the clawback shares pro rata to their existing shareholdings in the company. On 12 December 2016, a total of 180 640 465 ordinary shares were issued to shareholders, at a subscription price of R7.60 per ordinary share, constituting 91.5% of the clawback shares. The balance of 16 727 956 ordinary shares not subscribed for by shareholders, constituting 8.5% of the clawback shares, were accordingly issued to the subscribers on that date, pro rata to their existing shareholdings in the company. **In the diversified industrial segment** Effective 1 July 2016, the group acquired the entire issued ordinary share capital and claims of Ndlovu Forestry Corporation Proprietary Limited ('Ndlovu'). Ndlovu owns 4 821 hectares of land, of which 1 505 hectares are under established pine plantations. **In the diversified chemical segment** Effective 1 January 2017, the group acquired the entire issued ordinary share capital of Safripol Holdings Proprietary Limited ('Safripol'). Safripol is engaged in the manufacture of PP and HDPE, products that are used in the manufacture of a broad range of plastic injection and blow-moulded products. This business operates with a similar business model to that of the group's other chemical operations, Hosaf and Woodchem, and manufactures products which are complementary to those of Hosaf. **In the diversified logistics segment** Effective 1 July 2016, the group acquired an additional 23.09% of the issued ordinary share capital of Xinergistix Proprietary Limited ('Xinergistix'), thereby acquiring control of the company. Xinergistix provides road transport services and fully integrated supply chain management solutions to customers in southern Africa. Effective 1 September 2016, the group acquired the entire issued ordinary share capital and claims relating to the business operations of Lucerne Transport Proprietary Limited ('Lucerne'). Lucerne provides contractual logistics services and is a bulk liquid tanker transport company with a comprehensive fleet of trucks, incorporating a variety of specially configured tankers, structured to transport general chemicals, industrial oils, food products and acids to customers in southern Africa. The operations of Xinergistix and Lucerne are complementary to existing operations within the diversified logistics segment.

The committee reviewed the performance of individuals against the target criteria set out above and confirmed that these criteria were met. AIBs were awarded in line with the remuneration policy and stipulated allocation levels as follows:

Executive directors	Total bonuses 2018
	R
Gary Noel Chaplin	5 250 000
Frans Hendrik Olivier	3 355 000
Total	**8 605 000**

Other executive committee members	Total bonuses 2018
	R
Total	**21 174 000**

Long-term incentives

LTIs were awarded in line with the remuneration policy and stipulated allocation levels. The committee reviewed the performance of individuals against the target criteria (in line with the AIB criteria) for the December 2014 grant and approved the vesting thereof, where target criteria were met.

Executive directors	Offer date	Vesting date	Number of rights as at 30 June 2017	Number of rights (exercised)/(expired)/awarded during the year	Number of rights as at 30 June 2018	Market value of rights at grant date	Market value of rights upon vesting	Market value of rights at 30 June 2018
						R	R	R
Gary Noel Chaplin	Dec 2014	Dec 2017	1 543 470	(1 543 470)	–	7 161 701	13 536 232	–
	Dec 2015	Dec 2018	1 151 851		1 151 851	8 189 661		8 627 364
	Dec 2016	Dec 2019	1 401 589		1 401 589	10 638 061		10 497 902
	Dec 2017	Dec 2020	–	1 198 565	1 198 565	10 427 516		8 977 252
Total			**4 096 910**	**(344 905)**	**3 752 005**	**36 416 939**	**13 536 232**	**28 102 518**
Frans Hendrik Olivier	Dec 2014	Dec 2017	507 466	(507 466)	–	2 354 642	4 450 477	–
	Dec 2015	Dec 2018	486 191		486 191	3 456 818		3 641 571
	Dec 2016	Dec 2019	713 328		713 328	5 414 160		5 342 827
	Dec 2017	Dec 2020	–	588 636	588 636	5 121 133		4 408 884
Total			**1 706 985**	**81 170**	**1 788 155**	**16 346 753**	**4 450 477**	**13 393 282**
Total executive directors			**5 803 895**	**(263 735)**	**5 540 160**	**52 763 692**	**17 986 709**	**41 495 800**
Karel Johan Grové[1]	Dec 2014	Dec 2017	1 825 967	(1 825 967)	–	8 472 487	16 013 731	–
	Dec 2015	Dec 2018	827 893		827 893	5 886 319		6 200 919
Total			**2 653 860**	**(1 825 967)**	**827 893**	**14 358 806**	**16 013 731**	**6 200 919**
Total non-executive directors			**2 653 860**	**(1 825 967)**	**827 893**	**14 358 806**	**16 013 731**	**6 200 919**
Total directors			**8 457 755**	**(2 089 702)**	**6 368 053**	**67 122 498**	**34 000 440**	**47 696 719**

[1] Share rights of Karel Johan Grové have been adjusted to reflect the pro rata entitlement as per the rules of the share scheme in terms of retirement.

Non-executive directors' remuneration

Non-executive directors' remuneration is reflected as follows based on pre-planned and annually scheduled meetings. Additional meetings are held by the board and its subcommittees from time to time as required and are remunerated accordingly.

Non-executive directors' fees	Increase %	2019 R	2018 R
Board membership fees			
Independent non-executive chairman	6%	864 000[2]	815 000[1]
Non-executive deputy chairman	6%	546 000[2]	515 000[1]
Non-executive deputy chairman – additional services		360 000[3]	–
Member	6%	344 500[4]	325 000[4]
Ad hoc meeting fees (fee per formal meeting)	6%	74 200[5]	70 000[5]
Audit and risk committee fees			
Chairman	25%	400 000[6]	320 000
Member	25%	200 000[6]	160 000
Human resources and remuneration committee fees			
Chairman	6%	164 300	155 000
Member	6%	79 500	75 000
Nomination committee fees			
Chairman	6%	6 900	6 500
Member	6%	6 900	6 500
Social and ethics committee fees			
Chairman	6%	31 800	30 000
Member	6%	15 900	15 000
Investment committee fees			
Chairman (fee per formal meeting)		30 000[7]	–
Member (fee per formal meeting)		25 000[7]	–

[1] All-inclusive annual fee.

[2] This fee is no longer an all-inclusive annual fee. From time to time the board may be required to meet formally in addition to the scheduled annual commitments. In the event of formal ad hoc meetings, the independent non-executive chairman and non-executive deputy chairman will qualify for the ad hoc meeting fee upon attendance.

[3] The non-executive deputy chairman facilitates the meetings of the divisional management boards on a quarterly basis as an independent facilitator. Remuneration in relation to these additional services is based on a rate of R15 000 per meeting.

[4] This comprises an annual retainer of R47 700 (2018: R45 000) and a per meeting fee of R74 200 (2018: R70 000), based on four scheduled formal board meetings per annum.

[5] From time to time the board may be required to meet formally, in addition to the scheduled annual commitments. In the event of formal ad hoc meetings all directors will qualify for the ad hoc meeting fee upon attendance. Two formal board meetings were held in addition to the four scheduled board meetings during the 2018 year. Members in attendance at these additional formal board meetings were remunerated at R70 000 per meeting during August 2018.

[6] The above-inflation increase (25%) for the audit and risk committee members is to bring their fees in line with fees paid by comparable organisations, and takes into account the additional responsibilities assumed by the committee as a result of the expansion of the group.

[7] An investment committee was constituted on 14 August 2018 as a subcommittee of the board in order to evaluate corporate actions in relation to the group from time to time and to make recommendations to the board in this regard.

The above non-executive directors' remuneration is exclusive of VAT.

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

Areas of future focus

The committee will focus on its commitment to the application of King IV™ and, in adhering on a transparent basis to the King IV™ principle of fair, responsible and balanced remuneration, will consider all new developments and best practices in this field, in order to further the best interests of all stakeholders.

The company has targeted four key areas of focus in relation to its divisional human resources activities, namely:

- leadership development;
- succession planning;
- employment equity; and
- training and development.

The successful development of these areas will provide a sound platform for sustainable growth of the company and its employees.

The remuneration philosophy of the company was reconsidered during the year in order to encourage a more balanced and socially responsible approach to the running of the business and to ensure that growth is sustainable over the long term. In this regard, the inclusion of B-BBEE, long-term strategy execution, internal audit and compliance, ESG and retention was approved by the committee on 14 August 2018 as measurement criteria in the company's incentive schemes, in addition to the traditional financial targets.

Variable performance-related incentives ('incentives')

This remuneration philosophy historically provided for a high weighting toward risk-based remuneration based on achievement of rigid financial targets, on an 'all or nothing' basis that had the potential to negatively influence the culture of the company and the behaviour of its executives over time. A more balanced approach to the measurement criteria within its incentive schemes was therefore considered and adopted by the committee on 14 August 2018, effective 1 July 2018, in order to promote a more balanced approach to the long-term growth and sustainability of the company. These changes are reflected as follows in relation to:

Annual incentive bonus

Measurement criteria before 30 June 2018		Measurement criteria after 30 June 2018	
Measurement criteria	Weighting	Measurement criteria	Weighting
Financial targets	100%	Financial targets	75%
Strategy execution-related incentives remain subject to achievement of financial targets.		B-BBEE targets	15%
		Internal audit and compliance targets	10%

Long-term incentives

Measurement criteria before 30 June 2018		Measurement criteria after 30 June 2018	
Measurement criteria	Weighting	Measurement criteria	Weighting
Cumulative three-year AIB financial targets	100%	Cumulative three-year AIB financial targets	35%
		Return on equity three-year targets	15%
		Strategy execution targets	15%
		ESG targets	10%
		Retention	25%

Annual incentive bonus for years after 30 June 2018

As already mentioned, the measurement criteria of the AIB scheme have been amended to take effect from 1 July 2018. The revised measurement criteria and the weighting thereof are detailed as follows:

Objective	Metric	Weighting
Performance against profit target	Core headline earnings per share (at group level) Core headline earnings before tax (at division level)	75%
Performance against cash flow target	Cash from operations, less net cash finance cost, less taxation, (less)/add any capex and investment (over)/underspend	
Performance against B-BBEE scorecard targets	B-BBEE scorecard defined in terms of the B-BBEE Codes of Good Practice	15%
Performance against internal audit and compliance targets	Management effectiveness in maintaining the integrity of the system of internal controls against predetermined criteria	10%

The following changes have also been approved by the committee with effect from 1 July 2018:

- Divisional CEO incentives will be split 50/50 in relation to group and divisional performance against relevant measurement criteria in order to balance divisional performance with group performance, without compromising the optimal allocation of capital across the group.
- A phasing provision has been introduced in order to eliminate the potential negative implications of an 'all or nothing' approach to financial targets.
- The cap on executive incentives of 100% of annual cost to company salary has been removed. However, any incentive that exceeds 100% of an executive's cost to company in a year will be carried forward for payment in the following financial year if the relevant executive is still in the employ of the group and with a clean disciplinary record.

Long-term incentives applicable to allocations after 1 July 2018

As mentioned above, the SRS measurement criteria, which are determined by the committee in terms of the SRS rules, have been amended to take effect from 1 July 2018. The revised measurement criteria and the weighting thereof are detailed as follows:

Objective	Metric	Weighting
1. Achievement of financial targets		
▪ Performance against profit target	Cumulative three-year core headline earnings per share	35%
▪ Performance against cash flow target	Cumulative three-year cash from operations, less net cash finance cost, less taxation, (less)/add any capex and investment (over)/underspend	
▪ Performance against return on investment target	Return on equity over three years	15%
2. Implementation of key strategic initiatives related to the strategic development and competitive positioning of KAP		
▪ Securing an appropriate and flexible capital and debt structure in order to minimise the risk of stressed debt or equity issuance in volatile economic environments ▪ Implementation of risk management policy and framework ▪ Successful conclusion and implementation of strategic mergers, acquisitions and disposals ▪ Implementation of growth initiatives, which do not necessarily benefit the year under review ▪ Other initiatives, such as B-BBEE, internal audit ratings, health and safety, succession planning, etc.	Board-approved initiatives	15%
3. Achievement of ESG targets	FTSE4Good Index measurement criteria	10%
4. Retention	Continued employment through the measurement period with a clean disciplinary record on vesting date	25%