



## Corporate governance report 2020

This corporate governance report contains details of the approach adopted by KAP Industrial Holdings Limited ('KAP' or 'the company') in ensuring application of the principles contained in the King IV Report on Corporate Governance™ for South Africa, 2016\* ('King IV™') during the financial year ended 30 June 2020. Further information on the social and environmental aspects is available on the company's website at [www.kap.co.za](http://www.kap.co.za).

## Corporate responsibility

*'Our holistic 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 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 the chief executive officer ('CEO') in accordance with his role description, as determined by the board from time to time, and subject to the matters reserved for the board and its committees. The CEO may delegate day-to-day duties to divisional management in accordance with the control and approvals framework and the systems and governance policies set by the board. The role of the CEO is set out in more detail below under the heading 'Roles of the chairman and the chief executive officer'.

The board committees that support the board of directors include the audit and risk, human capital and remuneration, nomination, social and ethics, and the investment committees. The board committees, in turn, are supported by corporate committees and divisional structures to ensure continuous oversight. The divisions are governed by divisional boards of directors and divisional board subcommittees, including audit and risk and human capital and remuneration subcommittees. These divisional structures are in place for all significant subsidiaries.

The governance framework of the group defines reporting lines between divisional level and the board to ensure that the divisions' approach to corporate governance remains in line with the company's policies. While the subsidiary boards retain their statutory powers of decision-making, decisions on group strategy and other material matters are reserved for the KAP board, as set out in more detail below under the heading 'The board charter'.

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 or a charter, which terms of reference or charter are reviewed from time to time as necessary;
- an approvals framework for the board and the divisions through which authority is delegated to management;

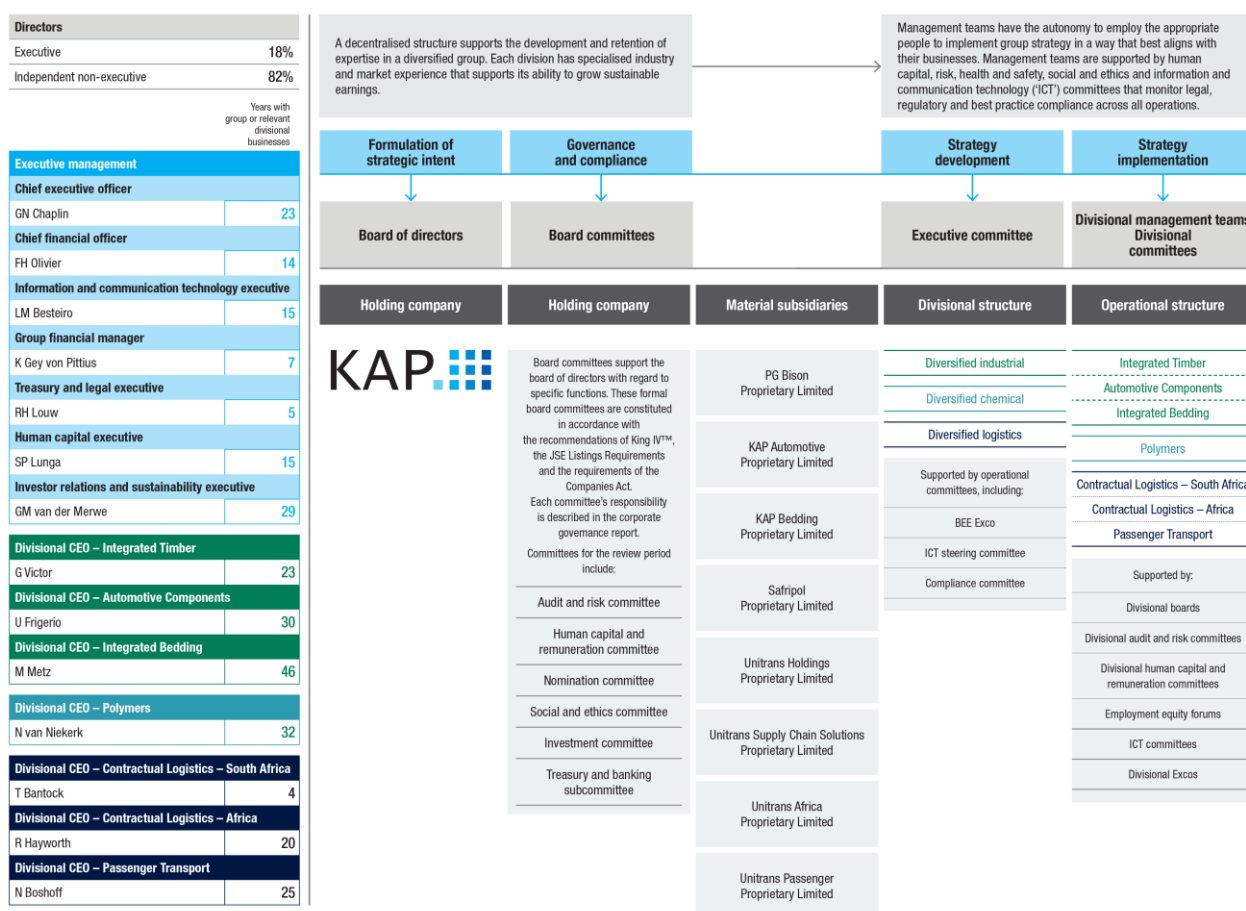
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- detailed reporting to the board and its committees; and
- the maintenance and monitoring of a system of internal controls.

The audit and risk committee and the board reviewed the company’s approvals and delegation of authority framework during the year under review and are satisfied that the framework contributes to role clarity and the effective exercise of authority and responsibilities by management.

## Governance structure

The following diagram depicts the group’s governance structure as at 30 June 2020:



## Application of King IV™

KAP maintains a high standard of corporate governance as evidenced by its governance ratings by FTSE4Good and an international proxy-voting advisor. The general principles of the King Committee on Corporate Governance regime have been incorporated into the group’s structures for many years. During the year under review, the group applied the corporate governance principles as recommended in King IV™ on a holistic, substance-over-form basis:

1. to depart from the mechanistic tick-box approach; and
2. because this approach accommodates the achievement of the recommended King IV™ outcomes by applying, in some instances, practices other than those specifically detailed in King IV™.

Where necessary, policies, procedures, terms of references, charters, frameworks and structures are amended from time to time to refine alignment with the latest prescripts of King IV™, changing statutory requirements and business imperatives.

During the year under review, good progress was made towards managing and reporting the group's various risk and governance activities as a comprehensive, combined assurance model. An independent external governance expert appraised KAP secretariat's compliance with the King IV™ practices, as well as a King IV™ governance tool formulated and recommended by KAP internal audit to facilitate proactive governance self-assessments at divisional level.

## The board of directors

### The board charter

The detailed responsibilities of the board are set out in a formal board charter. The charter is aligned with King IV™, the company's memorandum of incorporation ('MOI'), the Companies Act, No. 71 of 2008 of South Africa, as amended ('the Companies Act') and the Listings Requirements of the JSE Limited ('JSE LRs'). The charter is available on the KAP website at [www.kap.co.za](http://www.kap.co.za). It defines the powers of the board, and provides a clear division of responsibilities and the accountability of board members.

Despite having delegated some of its powers to committees, the board has retained material powers. Among others, these include the following key powers:

- approving the strategic direction of the group;
- approving the budgets necessary for the implementation of the group's strategic direction;
- approving KAP's financial results, the company's statutory annual financial statements and interim reports, and ensuring the integrity of the integrated report;
- making distributions to shareholders;
- allocating capital and resources to ensure an optimal return on shareholders' funds;
- authorising capital expenditure, property transactions, borrowings and investments, save where pre-approved materiality levels apply;
- serving as the focal point and custodian of corporate governance for the group and monitoring that an appropriate corporate governance framework is adopted and applied across the group;
- assuming responsibility for the governance of ethics, setting the tone for ethical leadership and ensuring that an appropriate code of ethics is applied across the group;
- ensuring that the company and the group are seen to be responsible corporate citizens;
- 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 and powers of delegation, while reserving specific powers to itself;
- 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 an appropriate, objective and effective risk-based internal audit approach is applied;

- ensuring appropriate governance of the group’s information and communication technology (‘ICT’) systems and monitoring major ICT spend;
- ensuring that the group remunerates fairly, responsibly and transparently;
- communicating with internal and external stakeholders in a transparent and timely manner; and
- providing effective leadership 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 executive management.

The board carried out a self-assessment in the prior year under review and, in accordance with the recommendations of King IV™, this year reflected on the outcomes of that assessment. It concluded that the identified succession shortcomings had been addressed appropriately through the appointment of three new directors, who improved the diversity and balance of the board.

The board is satisfied that it fulfilled its responsibilities in accordance with its charter for the year under review.

## **Composition**

Details of the directors, including a brief curriculum vitae (‘CV’) for each director, are given on pages 80 to 83 of the integrated report. In addition, a CV has been included in the notice of the annual general meeting for each candidate that stands for re-election on 18 November 2020. The notice of the annual general meeting (‘2020 AGM’) is disclosed on the KAP website.

The vacancies left by the resignations of TLR de Klerk and LJ du Preez on 3 April 2019, were not filled at the company’s annual general meeting in November 2019 (‘2019 AGM’). Following the appointment of three directors since the 2019 AGM, the board currently comprises 11 directors, of whom two are executive directors and nine are independent non-executive directors. The two executive directors comprise a CEO and a chief financial officer (‘CFO’) to ensure, among others, that the board has more than one point of direct interaction with management.

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

A clear division of responsibilities exists at board level to ensure an appropriate balance of power and authority. No individual director has unfettered powers of decision-making.

### **Roles of the chairman and chief executive officer**

The independent non-executive chairman of the board is J de V du Toit and the CEO is GN Chaplin. The roles of the chairman and the CEO are separate and have been formally defined.

The chairman is primarily responsible for leadership of the board and ensuring that the board plays an effective role, facilitating communication with shareholders and fostering constructive relations between the executive and the non-executive directors. The chairman is elected by the board. Agreement has been reached with the chairman that he would not serve on more than three listed entities while serving as chairman of the KAP board.

The CEO is appointed by the board and, among others, he is responsible for leading the implementation and execution of approved strategy, policy and operational business plans, achieving financial and operational targets, reporting to the board on the performance of the group and acting as the chief link between management and the board, providing ethical leadership, ensuring an effective system of governance and controls across the group, ensuring proper succession planning for executive management and ensuring conformance with compliance, governance and statutory obligations. In addition, he acts as the leader of the executive team in managing the group's businesses.

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

### **Deputy chairman and lead independent non-executive director**

KJ Grové is the independent non-executive deputy chairman of KAP. Given his good understanding of the company's operations and its people, as a former CEO, the board regarded the retention of his services in the role of deputy chairman to be invaluable. To this end, specific responsibilities have been allocated to him, including serving as a sounding board for the CEO and exposing KAP's executive management to his valuable network of contacts in the industrial sector.

In spite of the existence of this position, the board also decided to appoint a lead independent non-executive director ('LINED'). At its meeting in May 2020, and with effect from 18 November 2020, the board appointed PK Quarmby as LINED and has assigned him all the obligations and duties as set out in King IV™.

### **Appointment requirements and diversity**

During the year under review, the board implemented a broader diversity policy pursuant to changes to the JSE LRs, which compel companies to formulate and implement a broad diversity policy that promotes not only race and gender (as was the former requirement), but which also focuses on other diversity attributes relating to culture, age, knowledge, skills and experience. The nomination committee is mandated to review the state of the board's diversity representation in accordance with the newly formulated diversity policy. Accordingly, 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, as well as levels of skill, acumen, qualifications, age, culture, experience and actual or potential contributions to the group to ensure that the

composition of the board and its committees is appropriately balanced and diverse. The board's policy on diversity is available on the KAP website.

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 direct and material 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. Neither the CEO nor the CFO holds external commercial directorships that represent any conflict of interests.

Appointments to the board are formal and transparent. After review, proposals for election/re-election to the board are 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 to the board.

At the 2020 AGM, to be held on 18 November 2020, approval will be sought from shareholders to confirm/ratify the appointment of the following independent non-executive directors, who were appointed by the board after the 2019 AGM. By ratifying their appointments, these directors are, in fact, elected by shareholders in terms of the provisions of the Companies Act and the rotation arrangements set out in the company's MOI. All three directors are eligible and available for reappointment:

- KT Hopkins (appointed with effect from 6 December 2019);
- V McMenamin (appointed with effect from 12 December 2019); and
- Z Fuphe (appointed with effect from 1 March 2020).

The company's MOI 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. In addition, executive directors shall retire from the board by rotation after every fifth year following approval of their appointment or re-election by shareholders in a 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. Accordingly, KJ Grové, who has reached the age of 71, must henceforth retire by rotation annually. As KJ Grové is eligible and available for re-appointment, and since he is considered an invaluable asset to the company, the nomination committee recommended and the board endorsed that KJ Grové be re-appointed by shareholders.

In addition, in accordance with the further provisions of the company's MOI, the nomination committee identified the following two directors for retirement by rotation at the 2020 AGM, both of whom are eligible and have made themselves available for re-election:

- J d V du Toit, being in office longest since his last re-election; and
- SH Müller, being in office second longest since his last re-election.

The six directors proposed by the nomination committee for re-election/confirmation at the 2020 AGM have received the support of the board. A brief CV for each of the directors is contained in Annexure B to the notice of the 2020 AGM.

### **Classification of independent non-executive directors**

All nine non-executive directors serving on the board have been classified by the nomination committee as independent non-executive directors in accordance with the classification guidelines detailed in the JSE LRs 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.

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 (or three terms) are:

- IN Mkhari; and
- SH Nomvete.

These directors were appointed to the board on 12 November 2004. KAP is a diversified group consisting of leading industrial, chemical and logistics businesses, which are complementary to the group's overall strategy. Since 2012, the KAP group has undergone a strategic transformation, together with extensive restructuring and expansion of both the business operations of the group, as well as the management team. This has mitigated the risk of familiarity between the long-serving directors and management.

The knowledge that these two directors possess individually 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 determining the group's strategy, and has contributed to the effectiveness of the board and the committees on which they serve.

However, as recommended by King IV™, the nomination committee has separately assessed the long-term nature of their directorships. Their individual skills, experience and diversity were weighed against the appointment of new directors to bring a fresh perspective to board deliberations. In spite of their long service, the nomination committee concluded that each remains independent in character and exercises objective judgement on the board and the committees on which 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. They are 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 have rather assisted in bringing a broader dimension to board deliberations.



During the year under review, IN Mkhari served as chairperson of the social and ethics committee and as a member of the nomination committee and the human capital and remuneration committee, while SH Nomvete served as a member of the audit and risk committee.

Earlier in the year under review, the nomination committee separately assessed the independence status of the deputy chair, who reached the end of his three-year cooling-off period. KJ Grové was reclassified and the board agreed that he should serve in an independent capacity on the KAP board and its committees.

### **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.

Meetings are conducted according to a formal agenda, ensuring that the board properly addresses and follows up on all substantive matters and, over a 12-month period, covers all the agenda items on the board's annual work plan. Directors are given the opportunity to add non-standard matters to the agenda at the start of each board meeting.

Directors formally declare their interests in contracts, shareholdings and appointments to other boards in writing at each board meeting. Involvement in related-party transactions and other interests and relationships are declared formally twice annually, or when they occur.

The board abides strictly by the standards and procedures of directors' conduct and personal financial interests as set out, among others, in sections 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. Potential conflicts of interest are also taken into consideration when decision-making is effected by way of written resolutions.

The fiduciary duties of the directors to act in the best interests of the company on whose board they serve are well understood by the directors, and specifically by the executive directors, who are confronted with numerous intergroup cross-directorships. This comprehensive and judicious conflicts-of-interest regime not only promotes good governance, transparency, integrity and accountability, but also assists the board members individually, and KAP as a corporate citizen, to limit the risk of potential reputational damage. To mitigate the governance risk and to protect the directors against liability, reliance is placed on the principles of the 'business judgement rule' as set out in the Companies Act.

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

Director	20 August 2019	13 November 2019	18 February 2020	19 May 2020
GN Chaplin*	✓	✓	✓	✓
FH Olivier*	✓	✓	✓	✓
J de V du Toit&	✓	✓	✓	✓
Z Fuphe&	N/A	N/A	N/A	✓
KJ Grové&	x	✓	✓	✓
KT Hopkins&	N/A	N/A	✓	✓
V McMenamin&	N/A	N/A	✓	✓
IN Mkhari&	✓	✓	✓	✓
SH Müller&	✓	✓	✓	✓
SH Nomvete&	x	✓	✓	✓
PK Quarmby&	✓	✓	✓	✓

\* Executive directors

& Independent non-executive directors

N/A means these individuals had not yet been appointed to the board at the time of the scheduled meeting.

In addition to the above scheduled meetings, the board convened an ad hoc videoconference meeting during the Covid-19 Lockdown, with four follow-up sessions, to monitor and guide management's emergency plans to overcome potential solvency and liquidity challenges and ensure the ongoing sustainability of the group. Given the short notice for these meetings, the directors' attendance of these meetings was outstanding.

## Director induction and development

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 inexperienced director. Following appointment, and in addition to a letter of appointment, each director is provided with an induction manual, incorporating key group-related documentation, including the company's functional structure, its MOI, 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 directors are invited to KAP's annual strategy conference in April, which serves as a cornerstone of their induction. At this forum, they meet the divisional CEOs and other executive management in person and receive insight into the business portfolios and future strategies of the diverse business units. From time to time, directors are invited to visit KAP's facilities. This assists in fast-tracking the orientation process.

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.

KAP secretariat provides statutory, legal and other governance training to inexperienced directors, which includes insights into key aspects of the Companies Act, with a focus on director duties, insider trading and securities dealings, King IV™ and other relevant legislation that is applicable to KAP's business and the director's role. New directors who encounter obligations of the JSE LRs 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 SA 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 board and committee papers. From time to time, similar documents are circulated by e-mail 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 the high levels of competency necessary to add value at board and committee deliberations.

Due to the constraints imposed by the Covid-19 Lockdown, KAP's planned strategy conference did not take place. The newly appointed directors were inducted by means of a distance-learning self-study methodology. Each director was supplied with an electronic source document, which facilitated induction on a piecemeal basis at each director's own pace, as they had time available. Under the prevailing circumstances, face-to-face interactions with the divisional CEOs and other executives were postponed for the time being.

### **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, 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 2020 are contained in note 39 in the financial statements and on pages 99 to 101 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 from the 2020 AGM to the date of the 2021 annual general meeting, including fees for service on the board committees, are reflected on page 8 of the notice of the 2020 AGM, which is available on the KAP website.

Given the effect of the Covid-19 pandemic on the economy and the group, salaried staff not only suffered a 20% reduction in cost-to-company compensation for a three-month period, but they were also not granted inflationary increases and forfeited all potential incentives in relation to FY20. Despite the fact that payment of the non-executive directors' fees is not contingent on the performance of the group, in line with the stakeholder sacrifices, the non-executive directors

selflessly opted not to receive any inflationary increase in the year ahead on the fees paid in the preceding period. This recommendation will be submitted to shareholders for approval at the 2020 AGM.

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 through 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. They do not hold any share rights or options under the group's share incentive scheme.

### **Chief financial officer**

The full-time CFO of the company is FH Olivier. An annual review of the function of the CFO was undertaken by the audit and risk committee. The committee concluded that FH 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, that appropriate financial reporting procedures exist, and that these are functioning well. Details of the of this are contained in the report of the audit and risk committee on page 14 of the financial statements.

## **Committees**

### **Executive committees**

An executive committee ('KAP Exco') exists with the primary responsibility of assisting and advising the CEO in implementing the strategies and policies determined by the board and 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 seven divisional CEOs, the ICT executive, the human capital executive, the investor relations and sustainability executive, the treasury and legal executive, and the group financial manager, under the chairmanship of the CEO. The committee meets formally on a quarterly basis with additional ad hoc meetings as required from time to time. Due to the Covid-19 Lockdown, the KAP Exco met six times on an ad hoc basis in addition to its scheduled meetings. The chairman and the deputy chairman of the board attend committee meetings on an ad hoc basis by invitation.

A divisional Exco exists in each of the divisions, where divisional strategy and operational matters are monitored by the division's top management team.

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 B-BBEE strategies.

## **Board committees**

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

In the interest of prudent oversight, each committee chairperson provides feedback of the key activities addressed at the first subsequent board meeting (either verbally or by way of minutes).

In accordance with the recommended practice of King IV™, a number of directors serve on multiple committees. The board is satisfied that there is appropriate cross-membership among its committees to promote effective communication between committees, to minimise fragmented functioning, and to ensure a balanced distribution of power across committees, so that no single individual has unfettered control or the ability to dominate decision-making, and that no undue reliance is placed on any single individual.

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 capital and remuneration committee; and
- a nomination committee.

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

- an investment committee, comprising five members, of whom the majority are independent non-executive members, to make recommendations to the board in respect of all potential corporate actions and to identifying associated risks;
- a treasury subcommittee, comprising three members, of whom the majority are executive members, to attend to day-to-day obligations: general banking-related matters and transactions, including facilities and loans, guarantees, suretyships and other security documents, and to operate KAP's domestic medium-term note programme;
- a guarantee and financial assistance subcommittee, comprising three members, of whom the majority are executive members, to attend to day-to-day obligations relating to the granting of financial assistance, including financial assistance to related or interrelated companies in compliance with sections 44 and 45 of the Companies Act.

In addition to the above-mentioned committees, ad hoc committees are appointed by the board from time to time for a specific purpose.

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™. The committee is both a

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

The report of the audit and risk committee for the year under review is available on pages 12 to 14 of the financial statements.

The audit and risk committee is an integral component of the risk management and governance process. The committee has the responsibility of reviewing the internal business risk and controls of the company and ensuring the integrity of the group's financial and integrated reporting, with a specific focus on internal financial controls.

The obligations and overall objectives of the committee are as follows:

- to review the principles, policies and practices adopted in the preparation of the annual financial statements of companies in the group and to ensure that the annual financial statements of the group and any other formal announcements relating to the financial performance comply with all statutory and regulatory requirements as may be applicable;
- to ensure that the interim condensed financial statements, the period-end annual financial statements and the annual integrated report comply with all statutory and regulatory requirements;
- to ensure that all financial information contained in any consolidated submissions to the board is suitable for inclusion in the company's annual financial statements in respect of any reporting period;
- to assess annually the accreditation, independence and appropriateness of the external auditor, and to recommend, at the company's annual general meeting, the appointment of both the firm and the individual leading the audit, as well as to approve their audit and non-audit fees;
- to review the work of the group's external auditors to ensure the adequacy and effectiveness of the group's financial, operating compliance and risk management controls;
- to review and approve the risk-based plan, budget and performance of the internal auditor and to review their work to ensure that the audits were of a satisfactory standard and quality and effective;
- to review the management of risk and the monitoring of compliance effectiveness within the group and to ensure that an effective combined assurance framework is in operation;
- to oversee the appropriateness of the governance structures relating to ICT, in its support of the business, to execute the business strategy and day-to-day operations;
- to ensure that appropriate financial reporting procedures exist and are effective for the company and its subsidiaries;
- to ensure that the directors have access to all the financial information of the group to allow the company to prepare the annual financial statements; and
- to perform duties that are attributed to it by its mandate from the board, the Companies Act, the JSE LRs, King IV™ and other regulatory requirements, including a review of the experience, qualifications and suitability of the CFO, and the adequacy of the expertise, resources and experience of the company's finance function.

The standard agenda for the audit and risk committee allows for private meetings to be convened, between the committee, KAP internal audit and/or the external auditor, without management being present. The chairperson of the committee held such meetings with the external and internal auditors during the year under review. No matters of concern were raised.

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 chairperson of the committee is appointed by the board, in accordance with the recommended practices of King IV™.

During the year under review, the members of the audit and risk committee were:

- PK Quarmby\*\* (chairperson)
- SH Müller\*\*
- SH Nomvete\*
- KT Hopkins\* (appointed 6 December 2019)
- Z Fuphe\*\* (appointed 1 March 2020)

\* *Independent non-executive director*

# *Cross-committee membership*

PK Quarmby, SH Müller, KT Hopkins and Z Fuphe have been nominated for re-election as committee members, and have the support of the board. Their election is subject to shareholder approval at the 2020 AGM.

During the year under review, two committee meetings were held, both of which were attended by all members that were in office at the time. The CEO, the CFO, the chief audit executive ('CAE'), other assurance providers and the external auditor attend meetings by invitation.

The committee is supported by seven divisional audit and risk subcommittees ('divisional subcommittees'), which are in place for all subsidiary companies, to assist the audit and risk committee in the fulfilling its functions, duties and obligations.

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 assurance providers (finance, risk management, compliance and ICT). The divisional subcommittee meets quarterly and deals with all issues arising at divisional level. The divisional subcommittee escalates any unresolved issues of concern to the KAP audit and risk committee. The minutes of the divisional subcommittee meetings are noted by the KAP audit and risk committee.

The reports of the external auditor are reviewed and discussed in detail at the KAP and divisional audit and risk committee meetings. In addition to the above-mentioned audit reports, the committees also consider financial, enterprise risk, safety and health, ICT, legal, insurance and other compliance-related reports from management, the external and internal auditors, as well as from other external assurance providers.

The key audit matters ('KAMs') considered by the external auditors and the audit and risk committee are disclosed in the external auditor's report on pages 1 to 3 of the financial statements.

The audit and risk committee reviewed various letters and reports from the JSE Limited regarding the proactive monitoring of financial statements of listed entities to determine their compliance with

IFRS and to promote the decluttering of financial statements. KAP's financial statements and its annual financial statements for the year ended 30 June 2020, are materially aligned with best-practice disclosure standards.

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

During the year under review, and mainly as a consequence of the effects of the Covid-19 pandemic, the company issued trading statements informing the market to expect reduced headline earnings per share and earnings per share in comparison to the prior year-end results. It further cautioned shareholders that the payment of a year-end dividend was highly unlikely.

In accordance with the recommendations of King IV™, the audit and risk committee reflected on the outcomes of the prior-year performance self-assessment and concluded that it had appropriately addressed the succession shortcomings which were identified by that process.

The audit and risk committee is satisfied that it fulfilled its responsibilities in accordance with its terms of reference for the year under review.

### **Human capital and remuneration committee**

The human capital 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 past year.

Details of the group's remuneration policy and remuneration policy implementation report are contained in the remuneration review on pages 92 to 101 of the integrated report and have also been incorporated into the notice of the 2020 AGM, which is available on the KAP website.

The RemCom is responsible for determining and approving the group's remuneration policy, which is presented at each annual general meeting, together with the remuneration policy 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 remuneration framework, with a specific focus on executive remuneration and 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 reviewed during the year. Incentive benefits are no longer driven solely by financial indicators. Social, environmental and governance ('ESG') aspects also form part of the measurement criteria for determining vesting. However, despite this positive shift towards the triple bottom-line sustainability approach, more than 25% of shareholder votes at the 2019 AGM were recorded against the policy and the implementation report.

As a result of this, the company invited dissenting shareholders to engage with the KAP RemCom in relation to the remuneration policy and their recommendations. The RemCom has considered proposals received from shareholders and they will be implemented in the 2021 financial year.



As a general practice, the KAP RemCom makes use of independent remuneration advisers to provide benchmarking information, market trends and the competitive positioning of the company's remuneration.

Divisional subcommittees, with a reporting line through to the KAP 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, CFO and human capital executive, together with the respective divisional CEOs and divisional human capital executives, 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 human capital 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.

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

- SH Müller (chairperson)\*#
- KJ Grové\*\*
- IN Mkhari\*\*

*\* Independent non-executive director*

*# Cross-committee membership*

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

The RemCom meets annually (or more frequently if circumstances dictate otherwise) and for purposes of urgent decisions, passes written resolutions from time to time. All members were in attendance at the committee's meeting held on 13 August 2019.

Key areas of focus by the committee during the year included employment equity, training and development of employees, and succession planning, 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.

In accordance with the recommendations of King IV™, the RemCom reflected on the outcomes of the prior-year performance self-assessment and concluded that it had appropriately addressed the shortcomings which were identified by that process.

The RemCom was satisfied that it had fulfilled its responsibilities in accordance with its terms of reference for the year under review.

## **Social and ethics committee**

The social and ethics committee operates under terms of reference that incorporate the statutory functions ascribed to the committee under regulation 43(5) of the Companies Regulations, 2011, the recommendations of King IV™ and the prescripts of the JSE LRs. 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 year under review.

With respect to the prescribed duties of a social and ethics committee, the committee acts on behalf of all subsidiaries in the KAP group.

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

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

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

Among others, the committee received and considered reports relating to:

- the company's standing in terms of the goals and purposes of the 10 Principles as set out in the United Nations Global Compact ('UNGC'), in the areas of human rights, labour, the environment and anti-corruption;
- the instruments of the Organisation for Economic Co-operation and Development ('OECD') aimed at combating the fight against corruption and averting the solicitation of bribes and extortion;
- the instruments of the OECD aimed at promoting economic and social well-being of people;
- the protocol and recommendations of the International Labour Organisation ('ILO') on decent work and working conditions, freedom of association, the right to collective bargaining, elimination of forced or compulsory labour and discrimination in the workplace;
- the company's employment relationships with its employees and the labour unions;
- statistics of the group's ethics hotline report (KAPREF), as well as a report on compliance and control measures to prevent fraud;
- the group's corporate responsibility reports in respect of industrial relations and human capital and related resources;
- the company's contribution towards the educational development of its employees and other employee benefits;

- compliance with:
  - the Employment Equity ('EE') Act;
  - the Broad-Based Black Economic Empowerment ('B-BBEE') Act and the Codes of Good Practice;
  - the Occupational Health and Safety Act ('OHASA'); and
  - other relevant and applicable legislation in the areas of labour, the environment, health and public safety, insider trading, etc.

In addition, under the guidance of the social and ethics committee, the following policies and codes were adopted for application across KAP's operations, while some were updated and revised during the review period:

- a communications policy which, in particular, makes provision for 'crisis communication';
- a communications policy for financial analysts;
- a CSI policy, including the company's donations policy;
- a social media policy;
- an environmental policy and strategy;
- a hotline policy for prevention of fraud, crime and unethical behaviour;
- the group's HIV approach;
- the company's code of ethics;
- the promotion of access to information guide;
- a board diversity policy;
- the board charter;
- the group's approach regarding contributions to socio-economic development, training and development; and
- a number of sustainability-related plans and guidelines focused on enhancing triple bottom-line and corporate governance aspects to support the company's business strategy.

Many of these documents are published on KAP's website for wider stakeholder use.

The social and ethics committee ensures that KAP maintains open and transparent relationships with key government institutions and other regulatory authorities by facilitating direct engagement and active participation in industry associations, communities and local authorities and other structures to further the group's business objectives. KAP maintains mutually beneficial and stable relations with communities and local authorities in areas where its businesses are located. It ensures that the group's CSI policy is primarily focused on child welfare, health and education.

The KAP board has adopted a new, broader diversity policy, which was reviewed in advance by the social and ethics committee, in line with the requirements of the JSE LRs.

### *Environmental, social and governance ('ESG')*

Under the oversight of the committee, the company achieved an overall FTSE4Good rating of 3.3 (out of 5), 10% above the prior-year score. The company achieved a 3.9 out of 5 rating in the corporate governance subcategory. Over the past 18 months, the company has focused on ensuring the relevant ESG-related measurement criteria across all the divisions were consistent in their application and definition and that the measurements were accurate. Great strides have been made in this regard, particularly in relation to measuring greenhouse gas emissions, water usage

and reporting on injuries and fatalities. The setting of operational improvement targets and the measuring of progress against targets are future goals.

Management believes that ESG and return on investment are connected and the holistic incorporation of ESG elements into KAP's strategy provides the group with a competitive advantage. The group's ESG strategy was reviewed by the social and ethics committee during the year under review.

The committee reviewed the social and ethics-related information that was publicly disclosed in KAP's 2019 integrated report and concluded that the integrity of the non-financial information was reliable and beyond reproach. The committee chairperson was appointed to an ad hoc board committee to oversee the production and publication of a suite of reports for KAP's 2020 integrated report.

The social and ethics committee is therefore satisfied that it has discharged all its responsibilities as contained in its terms of reference, the Companies Act, the JSE LRs, King IV™ and all other applicable statutory obligations.

During the year under review, the social and ethics committee comprised:

- IN Mkhari (chairperson)\*\*
- GN Chaplin&#
- SH Müller\*\*
- V McMenamin\* (appointed 12 December 2019)
- Z Fuphe\*\* (appointed 1 March 2020)

\* *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 human capital executive and the investor relations and sustainability executive.

The committee convenes once every year (unless circumstances dictate otherwise). During the year under review, it met on 13 August 2019 and 19 May 2020. All members invited to these meetings were in attendance.

In accordance with the recommendations of King IV™, the social and ethics committee reflected on the outcomes of the prior-year performance self-assessment and concluded that it had appropriately addressed the shortcomings which were identified by that process.

### **Nomination committee**

The nomination committee ('the NomCom') operates under a mandate from the board and in accordance with the duties as set out in the formal terms of reference, which are aligned with the provisions of the company's MOI, the Companies Act of South Africa and the Companies Regulations, the Listings Requirements of the JSE Limited and the recommendations of King IV™.

The terms of reference were reviewed during the past financial year.

The key function of the NomCom is to ensure that the board and its committees are appropriately structured and resourced to enable them to fulfil their duties efficiently according to their terms of reference or charter (as the case may be). To this end, the NomCom identifies for recommendation to the board and for appointment by shareholders, suitable, high-calibre candidates with the capacity and ability to lead the company towards sustainable value creation and long-term growth. It ensures that appointments to the board and its committees are made through a formal, comprehensive and transparent process.

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 ongoing 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.

In line with the broad diversity policy adopted by the board, the NomCom recommended to the board, which approved the appointment of three new directors during the year under review, namely:

- KT Hopkins – appointed to the board and the audit and risk committee with effect from 6 December 2019;
- V McMenamin – appointed to the board and the social and ethics committee with effect from 12 December 2019; and
- Z Fuphe – appointed to the board, as well as to the audit and risk committee and the social and ethics committee, with effect from 1 March 2020.

Following these appointments, the NomCom is of the view that the board and its committees are currently of an appropriate size, composition and balance, taking into account the diversity, gender, race, qualifications, skills and experience requirements, as well as the obligations of the board and the relevant committees. Application of the board diversity policy resulted in an enhanced race and gender ratio in board composition.

The NomCom recommended the directors for re-appointment to the audit and risk committee, being PK Quarmby, SH Müller, KT Hopkins and Z Fuphe. SH Nomvete has indicated that he may not stand for re-election to the audit and risk committee.

Following the expiry of his three-year cooling-off period at the end of February 2020, as a non-executive director, and on a formal independence assessment, the NomCom changed the classification of KJ Grové to that of an independent non-executive director.

The NomCom classified the directors in accordance with the classification criteria set out in the JSE LRs 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. The independence status of the two long-serving independent directors was 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 serve on the board and its committees in the capacity of an independent non-executive director. Accordingly, all the non-executive directors on the board were classified as independent.

Having considered the recommendation of King IV™ in respect of the role and position of the chairman of a company's board and the need to appoint a lead independent non-executive director ('LINED'), the committee concluded, and the board agreed, to appoint PK Quarmby as LINED with effect from 18 November 2020. Despite this earmarked appointment, the NomCom also recommended that the existing position of deputy chairman on the board be retained.

At 30 June 2020, the following members served on the nomination committee:

- J de V du Toit (chairperson)\*
- IN Mkhari\*\*
- PK Quarmby\*\*

\* *Independent non-executive director*

# *Cross-committee membership*

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

The NomCom meets at least once annually. However, during the year under review, the committee met on three occasions, namely on 20 August 2019, 8 November 2019 and on 26 February 2020. These meetings were attended by all members. The February 2020 teleconference meeting resulted in written resolutions on 26 February 2020. At all these meetings, changes to the composition of the board and its committees received focused attention.

The NomCom's terms of reference were reviewed and found appropriate.

In accordance with the recommendations of King IV™, the NomCom reflected on the outcomes of the prior-year performance self-assessment and concluded that it had addressed appropriately the succession shortcomings which were identified by that process.

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

At its most recent meeting, the NomCom considered the re-election of the directors at the forthcoming 2020 AGM. In terms of the rotation stipulations in the company's MOI, read with the

provisions of the Companies Act, the committee recommended that the appointment of the three directors who were appointed by the board since the company's 2019 AGM, be ratified/confirmed and that they be re-elected to serve on the board. In addition, three other directors were identified to retire by rotation. All the directors are eligible and available for re-election (refer to 'Appointment requirements and diversity' above for more detail). Details of the proposed re-elections/ratifications are set out more fully in the notice of the AGM.

## **Board and committee evaluations**

No formal performance assessments were conducted in respect of the board and its standing committees during the year under review. However, in accordance with the recommendations of King IV™, the board and each of the committees reflected on the outcomes of the prior-year performance self-assessment exercise. In each case, it was concluded that the relevant forum had appropriately addressed the identified shortcomings and that the relevant forum had fulfilled its responsibilities for the reporting period in accordance with its charter/terms of reference. The board was satisfied that the evaluation process is a worthwhile exercise that focuses 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 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 a juristic person, namely 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, 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 and acquisitions, secretarial services, treasury, funding, finance, law and governance:

- K Gey von Pittius CA(SA)
- R Louw BCom (Law), LLB, LLM
- J Pieterse BA, BCom (Law)
- P Robinson CA(SA), H Dip (International Tax) (resigned on 30 November 2019)

During the year under review, an independent external governance expert reviewed the adequacy of the KAP corporate secretarial function to assist KSS in fulfilling effectively the obligations of a company secretary as prescribed in the Companies Act, with a focus on business insight, board governance, directors' responsibilities, regulatory governance and divisional governance. The secretarial function achieved satisfactory maturity ratings for these behaviours and capabilities. It

was confirmed that adequate compliance, governance and administrative processes exist and are applied consistently to assist the boards and committees appropriately at both group and subsidiary level.

Following a recommendation that a formal assessment tool be implemented to appraise the performance of the company secretary against predetermined and measurable criteria, the board accordingly followed a new approach to assess the company secretary during the past financial year. From the outcome of the assessment, it was concluded that the secretarial services were rendered on an arm's-length basis and on market-related terms. KSS adequately performed its role of gatekeeper of good governance in the group with assistance from the KAP corporate secretarial function. No incidents of non-compliance with regulatory or legislative corporate governance requirements by the company secretary had come to the attention of the board. No circumstances were foreseen by the board, which would bring into question the maintenance of an arm's-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 board 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 on page 7 of the financial statements.

## Reporting

### Management reporting

Divisional management reporting disciplines include defined parameters for the reporting of litigation matters, compliance with legislation, any penalties incurred and risk analyses. 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 ongoing 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/divisional audit and risk committees/executive committees. An additional governance mechanism also exists. The ICT steering committees at divisional and KAP level monitor risks with a specific emphasis on ICT risks, including cyber risks. This is managed through general management reporting. In addition, a compliance steering committee convenes on a quarterly basis to assess compliance with legislation applicable to the divisional business operations and certain statutory corporate obligations.

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 for reasonable, accurate, timely and reliable reporting on the financial position of the group and 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 are true and correct and contain reliable information that would enable stakeholders to make informed assessments of the group's performance and prospects.

## **Risk management**

The board is accountable for the governance of risk management within the group and for ensuring compliance with all applicable legislative and regulatory requirements. 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. 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 within the group's risk appetite.

The company's audit and risk committee oversees group risk management. Internal audit, as part of its audit cycle, examines, evaluates and reports on the adequacy and effectiveness of the group's risk management processes and makes recommendations to the KAP audit and risk committee and to the KAP board in respect of the above. Financial risks such as liquidity (funding) risk, currency risk and interest rate risk are largely controlled centrally.

The impact of the unexpected outbreak of the Covid-19 pandemic early in 2020 on the company's business environment and performance was complex and significant. It exposed the company to sustainability risks at various levels across its divisions. The following critical risks were identified during the Lockdown and after the relaxation of restrictions:

- sufficient liquidity and facilities;
- current and future demand for products and services (economic activity);
- sustainability of customers and potential bad debts;
- sustainability of suppliers and supply interruptions;
- business interruptions as a result of infections; and
- the effect on employees and the work environment.

Mitigating controls were implemented to address these risks.

A review of critical operational and sustainability risks is set out in the risk management report on pages 54 and 55 of the integrated report.

The group risk management framework that exists across the group is being refined.

## **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 control, including 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 CAE, as part of a three-year risk-based audit cycle, has provided the KAP audit and risk committee with written assurance that the controls, governance, risk framework and regulatory compliance environments evaluated across the group were generally acceptable in terms of adequacy of design and effectiveness of their operation. The risk of cyberattacks remained high during the 2020 financial year. IT assurance reviews of network security highlighted key focus areas and control improvement areas that the group has actioned to improve maturity in this regard.

Internal audit assurance and consulting engagement reports contain recommendations to further enhance the KAP control environment. 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 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 to allow timely corrective action to be taken. Monthly management accounts are reported to the Exco, which meets quarterly. Review of the financial performance of the group is a standing item on the Exco agenda. Financial performance reports are presented to the board at least four times a year.

## **Internal audit**

Internal audit provides an independent, objective assurance and consulting service to the group. The service provided is designed to add value and improve operations. It assists the group to accomplish its objectives by providing a systematic, risk-based, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes, in compliance with best-practice corporate governance standards required by the group and the divisional audit and risk committees.

The internal audit function reports directly to the KAP audit and risk committee, and submits reports to the divisional audit and risk committees. The internal audit function assists executive management and the respective audit and risk committees to discharge their responsibilities effectively by carrying out independent reviews of financial, ICT internal controls and operational systems.

Internal audit operates in terms of an internal audit charter under the direction of the audit and risk committee. The charter was refined during the year under review, with a focus on role clarification, as well as the responsibilities and authority of the internal audit function.

Compliance with applicable legislation is an item on all audit and risk committee and board agendas. Key sections of legislation are evaluated and formally reported on by internal audit as part of its

audit programme. Where specific expertise is required, specialised internal audit services, mostly relating to the field of IT, are co-sourced to outside service providers.

In addition to the 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 year 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.

Significant findings from its audits are reported to both executive management and the audit and risk committee, and corrective action is taken to address identified internal control deficiencies.

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, proactive and future-focused; and
- promote organisational improvement.

The Institute of Internal Auditors' practice advisories, guides and position papers are also adhered to, as applicable, and guide the provision of internal audit services.

The CAE has unrestricted access to the chairperson of the KAP audit and risk committee, and thereby also to the board. He is afforded the opportunity to meet with the committee in confidence (without any executives or management representatives present) should he wish to discuss any findings or other matters of concern.

The audit and risk committee was satisfied with the effectiveness and performance of the internal auditors and the CAE, and concluded that internal audit had fulfilled its mandate. It was also satisfied that the function, and the CAE, have the necessary standing and authority to discharge their functions effectively, and that the function has an appropriate budget and adequate resources to fulfil its duties appropriately.

Internal audit is viewed across the group as a value-add service. The cooperation between management and internal audit facilitates ongoing control system improvements. The internal audit department is subjected to a formal external quality assurance review every five years, which was further complemented by a maturity review by an external audit firm in the previous financial year. Both these reviews rated the operations, practices and maturity of the internal audit function as satisfactory. Recommendations were made as part of continuous improvement initiatives. It is both management's and the audit and risk committee's view that this rating has remained unchanged during the year under review. The next formal external quality assurance review is due before January 2023.

The urgent changes in the business to mitigate risks arising from the Covid-19 Lockdown in the last quarter of the financial year are reasonably presumed to have had an impact on controls. This can only be assessed effectively in the next financial year after the Lockdown restrictions have been lifted, and the situation has stabilised. However, no material breakdowns in internal controls across the group were noted or highlighted by internal audit for the year ended 30 June 2020.

## **External audit**

The report of the external auditor ('Deloitte') for the year under review, which details the key audit matters and significant risks, is available on pages 1 to 5 of the financial statements.

The external auditor reports on its audit findings to the divisional audit and risk committees and to the KAP audit and risk committee. Should the external auditor wish to discuss any findings, it has unrestricted access to the chairperson of the KAP 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 year 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 year under review, fees earned by the external auditor for non-audit services, including taxation advice and assistance with government grants, amounted to R1.2 million (2019: R2.1 million). Deloitte furthermore confirmed that the rendering of the non-audit services did not affect its independence. The audit and risk committee concurred with both statements of independence.

The reappointment of Deloitte as the company's auditor, with D Steyn, a registered and accredited auditor and the designated audit partner to lead the audit at KAP for the financial year ending 30 June 2021, has been recommended by the KAP audit and risk committee. It will be a matter for consideration by shareholders at the company's 2020 AGM. If appointed, this will be D Steyn's fifth and last year of performing the external audit of the company. With Deloitte having served as the independent auditor of KAP for more than 10 successive financial years, the company will appoint new auditors for its 2021 financial year in terms of the mandatory audit firm rotation provisions contained in the Auditing Profession Act.

Additional information on the external auditor is contained in the report of the audit and risk committee on pages 12 to 14 of the financial statements.

## **Combined assurance**

Combined assurance refers to the integration, coordination and alignment of all risk management and assurance processes within the company, to optimise and maximise the level of governance and control oversight of the risk landscape, therefore providing stakeholders with an increased level of confidence and assurance.

The board delegates certain of its duties and functions to various committees, group forums or the CEO, without abdicating its own responsibilities. In line with the King IV™ principles, the audit and risk committee is responsible for monitoring the appropriateness of the group's combined assurance model and ensuring that significant risks are adequately addressed.

The audit and risk committee ensures that the group's combined assurance model adequately addresses key risks and material matters through the aggregated efforts of assurance providers. By continually optimising the group's combined assurance model, duplicative efforts are avoided and collaborative efforts are rationalised upstream among assurance providers, coupled with effective management of assurance costs. These activities are coordinated to maximise the depth and reach of assurance achieved by each of the assurance providers. This enables an effective control environment and ensures the integrity of information used for reporting and decision-making.

The combined assurance provided by internal and external assurance providers and management is sufficient to satisfy the audit and risk committee that significant risk areas within the group have been adequately addressed and suitable controls exist to mitigate and reduce these risks.

Combined assurance embraces all assurance activities in a coordinated approach across the following lines of defence:

- Management oversight (1st line) – *people, systems and controls*
- Management of risk, compliance, governance and legal (2nd line)
- Internal audit (3rd line)
- Independent external assurance (4th line) – *external audit, other external assurance providers*

Good progress has been made with refining the group's combined assurance framework and expanding the coordination between the lines of defence resulting in improved assurance.

The processes require further refinement, with specific focus on the mapping of all assurance providers against key risks identified in the various risk registers.

### **Information and communication technology**

ICT forms an integral part of the group's management and reporting processes. A formal ICT charter has been adopted by the group, which is supported by a defined framework of ICT internal controls. The ICT charter sets out the responsibilities and authority delegated by the board to the executive management of the company and its subsidiaries, for the effective use and management of ICT, to support the achievement of the group's objectives. Via the budget-approval process, the board evaluates significant ICT investments and expenditure.

ICT is a standing item on the agendas for the divisional audit and risk committee meetings. At the corporate level, the ICT executive reviews and reports to the KAP audit and risk committee and to the KAP board on the efficacy, suitability and reliability of the ICT systems employed by the group's businesses, with due emphasis on risk and ICT spend.

An ICT risk management framework has been implemented in the group, as required by the charter, with the purpose of providing the board with reasonable assurance regarding the security, availability, integrity, confidentiality and privacy of the group's information assets.

ICT risk registers and associated risk mitigation plans are required to be developed and maintained by the group's businesses, with due consideration of the markets, industries and territories in which each business operates. These form the basis for the prioritisation of internal controls and guide annual ICT audit plans.

Network vulnerability assessments were recently undertaken by external specialists at all the group's businesses. These assessments were designed to measure the ability of each division to

detect and respond to the management-identified threats and security risks. The external specialists were not able to compromise the external infrastructure during the time allocated for the assessment. Internal vulnerabilities were noted, mostly relating to access controls. Management has remedial plans to resolve these. No incidents of any material nature were noted or disclosed during the year under review.

## Ethics and accountability

### Whistle-blowing

The board exercises ongoing 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:

- compliance with laws;
- conflicts of interests;
- gifts;
- anti-bribery;
- record keeping;
- ethical dealings;
- confidential and proprietary information;
- competition law;
- insider trading;
- health and safety;
- labour practices and human rights;
- protecting the environment; and
- sustainability.

The code of ethics is supplied to new employees as part of the group's employee induction process. Major suppliers of goods and services are required to ensure that they comply substantially with the provisions of the code, as embodied in the group's supplier code of conduct.

The group has established a confidential whistle-blowing facility, via a dedicated hotline, for the anonymous reporting of suspected fraud or irregularities. The hotline service was branded and marketed as KAPREF (KAP Referee). All reports received are investigated on a confidential basis. The whistle-blowing facilities have proved their value 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 year under review, no material incidents of non-compliance with the code of ethics, fines or prosecutions for non-compliance with regulations or legislation were recorded.

A subsidiary of the company and the Competition Commission of South Africa are involved in legal proceedings relating to allegations that the subsidiary may potentially have contravened section 4(1)(b)(i) of the Competition Act (price-fixing/anti-competitive behaviour) in the period between 2009 and 2016. The company has actively cooperated with the Commission in this regard

and has applied for immunity from prosecution in terms of the Commission's corporate leniency policy. A comprehensive explanation of the matter is available on the company's website.

### **Politically exposed persons**

In general, politically exposed persons ('PEPs') are individuals who have been entrusted with prominent public positions. Due to their position and influence, their position may potentially be abused for the purpose of money laundering, corruption, bribery, fraud and related activities. South African legislation has extended the definition of a PEP. Individuals who hold, or have held, a prominent public function (such as political party members, senior government and parastatal officials, senior justice and law-enforcement officials, as well as directors in the private sector of entities that provide goods or services to an organ of state) are deemed to be potential PEPs. All PEPs are deemed to be a risk, because they may be able to leverage their prominence.

In view of the events in South Africa around state capture and other unethical incidents, all KAP business operations conducted an exercise to identify whether there are areas of risk in their businesses where PEPs could be involved. This exercise is fully aligned with the goals and purposes of the 10 Principles of the UNGC and the nine instruments of the OECD regarding the fight against corruption and bribery, as well as improving ethical conduct and managing conflicts of interest. All aspects are also promoted by King IV™, the Companies Act, the Financial Markets Act, the Financial Intelligence Centre Act, and the rules of the JSE LRs, as well as KAP's supplier code of conduct and code of ethics.

The exercise confirmed that each KAP division/corporate department has appropriate controls and procedures in place to screen and identify its customers in order to identify and effectively monitor PEPs. The results of the exercise indicated that KAP is not exposed to a major PEP risk.

### **Insider trading**

KAP has an insider trading policy which prohibits directors, prescribed officers and officers of the company and its major subsidiaries from dealing in the company's shares, either directly or indirectly, 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 employees.

In addition to this general prohibition, no director, prescribed officer or officer may trade in the company's shares during restricted periods determined by the board, or during the twice-annual closed periods prior to the announcement of the group's results. All dealings by affected persons in the company's shares during so-called 'open periods' must receive the prior approval of the CEO. Dealings in the company's shares by the CEO must receive the prior approval of the chairman, and dealings in the company's shares by the chairman must receive the prior approval of the CEO.

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

## **Interest in contracts and business judgement rule**

All employees must disclose, as and when appropriate, any interest in contracts, any related-party transactions, as well as relevant shareholding to allow for the assessment of any conflict of interests. This policy extends to directors, prescribed officers and the company secretary. Declarations of personal financial interests are tabled at the commencement of board meetings. When any conflicts arise during debate, these are declared and recorded in the minutes.

Against the background of numerous intergroup 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.

The directors are well protected against the threat of liability through directors' and officers' public liability insurance. In support of this, the group's written resolutions contain specific facilitating defence measures. In addition, and given the comprehensive and judicious conflicts-of-interest regime followed by the group, strong reliance is placed on the principles of the 'business judgement rule' as set out in the Companies Act, in instances where directors have taken reasonably diligent steps to be well informed; have based their decisions on rational and justifiable grounds; have acted in the best interests of the company; and with the necessary degree of care, skill and diligence that may reasonably be expected of persons carrying out the same functions.

## **Accountability and sustainable value**

### **Accountability**

The CEO is responsible for and accountable to the board of directors for all group operations. As the group operates on a decentralised basis, divisional CEOs of the group's operating divisions have been appointed to the Exco to assist the CEO in fulfilling his responsibilities. Although the board has delegated certain powers and authorities to executive management and to board committees, the ultimate responsibility for retaining full and effective control of the group rests with the board, 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 communiqués relating to the group's operations, structure and strategies are handled appropriately. Regular structured 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 corporate services executive team of the company regularly attends investor conferences and, together with non-executive members of the board, interacts in a structured manner with analysts and the media during its half-year and year-end results presentations. From time to time, various stakeholders, including the media, attend the company's annual general meeting.

During the past year, KAP implemented an operational update communiqué in terms of which it provides, twice annually via an announcement on SENS, transparent guidance to stakeholders in relation to its operations and the performance of the group, from the perspective of sales volumes, market-share growth, efficiencies and margin performance, major internal corporate restructurings, disposals and acquisitions, as well as progress with the execution of the company's strategy. This communiqué provides structure to stakeholders' discussions.

The company's process of engaging with dissenting shareholders in relation to the group's remuneration policy and the remuneration policy implementation report is set out on pages 9 and 94 of the integrated report.

For more information on stakeholder matters, please refer to the various stakeholder reports contained in the integrated report and on the company's website.

### **Going concern statement**

The group financial statements 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.

### **Conclusion**

The board is satisfied with the manner in which the group has applied the recommendations of King IV™ to achieve good performance and effective control while maintaining legitimacy and an ethical culture. Governance processes are regularly reviewed to align with legislative and regulatory changes and to reflect changes in the business to ensure processes remain relevant.

October 2020