

KAGISO  
TISO  
HOLDINGS

KING IV  
APPLICATION  
REGISTER

kth 

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2018

## BACKGROUND

Kagiso Sizanani Capital Limited (RF) (“KSC”) has a domestic note and redeemable preference share programme (“programme”) listed on the interest rate market of the Johannesburg Stock Exchange (“JSE”) for a total programme value of R2 billion. Kagiso Tiso Holdings (“KTH”), a privately owned business, is the only shareholder in KSC and is also the guarantor under the programme. Most of the functions at KSC are assigned to or conducted by KTH and these, amongst others, include but not limited to the Audit and Risk Committee responsibilities, financial management and reporting, risk management and control assessment and regulatory compliance.

A review of KTH’s application of the King IV Report on Corporate Governance for South Africa, 2016 (“King IV”) principles has been conducted and this application register is prepared in support of KSC and KTH’s assessment of compliance with King IV in terms of the JSE Debt Listings Requirements.

### References:

- Where indicated, references are made to other reports not forming part of this register
- With regards to principles partially applied, an explanation is provided in the comments column under the relevant asterisk \*

	Principle	Self-Assessed Application	Comments on Application of the Principle
1	<p><b>Leadership:</b></p> <p>The governing body should lead ethically and effectively.</p>	Applied	<ul style="list-style-type: none"> <li>• The governing body (“the Board”) has approved a set of values and a Code of Ethics (“Code”) which are intended to guide the execution of its duties. In upholding the KTH values and ethics, each director is expected to act with integrity, fairness and transparency at all times. Individual and collective responsibility and accountability apply.</li> <li>• The Chairman and the Board collectively ensure that the conduct of the Board and that of management is aligned with the KTH values and Code. This is also measured as part of the Board effectiveness assessment and in the evaluation of the performance of the executives.</li> </ul>
2	<p><b>Organisational Ethics:</b></p> <p>The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.</p>	Applied	<ul style="list-style-type: none"> <li>• The Board, assisted by the Social &amp; Ethics Committee (“SEC”), oversees the governance of ethics. The Code is reviewed from time to time to ensure alignment with best practice. The Code sets out ethical standards for KTH and guides directors, employees, suppliers and stakeholders on how to conduct themselves at KTH.</li> <li>• KTH has an ethics hotline which is operated by a third party to facilitate the reporting of unethical conduct anonymously. The chairperson of the SEC has oversight of the hotline and reports are submitted to the SEC and Audit and Risk Committee (“ARC”).</li> <li>• Awareness sessions and training on the Code has been provided and the Code is also published on the KTH website. Suppliers are required to comply with the Code.</li> <li>• The Board and employees are required to disclose any conflicts of interest as and when these arise. For every Board or Committee meeting, members are required to declare any conflicts and to submit disclosures of interests and directorships.</li> </ul>



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3	<p><b>Responsible Corporate Citizen:</b></p> <p>The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.</p>	Applied	<ul style="list-style-type: none"> <li>• The Board ensures that the company is and is seen to be a responsible corporate citizen and this forms the basis of formulating KTH's group strategy.</li> <li>• KTH has a corporate social investment ("CSI") programme which is rooted in making a positive, sustainable and measurable impact on the community in which KTH operates through investing in improving the quality of life of disadvantaged communities, primarily through education.</li> <li>• The SEC has oversight of the various CSI initiatives which include the following: <ul style="list-style-type: none"> <li>○ KTH has supported two NGOs since inception, both of whom are involved in the education space namely, Kagiso Trust and Tiso Foundation. Kagiso Trust is one of the oldest Black-led organisations in South Africa with extensive experience in whole school development specifically in rural schools, while Tiso Foundation focuses on artisan training, skills development and bursaries.</li> </ul> </li> <li>• KTH allocates a substantial portion of its CSI budget to education programmes including those of Kagiso Trust and Tiso Foundation. Smaller ad-hoc funding is granted on an ad-hoc basis. Links to the supported programmes are contained on the company website.</li> </ul>
4	<p><b>Strategy and Performance:</b></p> <p>The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.</p>	Applied	<ul style="list-style-type: none"> <li>• The Board approves the organisational strategy which is influenced by the company's vision, purpose and values.</li> <li>• Long and short-term strategic objectives are developed taking into account investment opportunities, organisational strengths and risks to ensure that the objectives are achieved and potential risks and challenges are mitigated adequately. Performance assessments, both financial and non-financial, are conducted to ensure and measure successful execution of the strategy.</li> <li>• Strategy sessions are set from time to time to ensure alignment with market conditions.</li> <li>• The broad strategy of KTH is published on the company's website.</li> </ul>
5	<p><b>Reporting:</b></p> <p>The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance and its short, medium and long-term prospects.</p>	Partially applied*	<ul style="list-style-type: none"> <li>• KSC and KTH produce Annual Financial Statements ("AFS"), which include the Directors' Reports and the Report of the Audit and Risk Committee. The AFS are published in line with the statutory requirements and International Financial Reporting Standards ("IFRS"). The companies do not publish Integrated Reports*.</li> <li>• The Board reviews and approves the material matters which form the basis for preparing the AFS. The Board, through the ARC, ensures the necessary controls are in place to verify the integrity of the AFS and other disclosures.</li> <li>• KTH, as a private company doesn't publish its AFS*, but the AFS of KSC are published on the KTH website.</li> </ul>
6	<p><b>Primary Role of the governing body:</b></p> <p>The governing body should serve as the focal point and custodian of the corporate governance in the organisation.</p>	Applied	<ul style="list-style-type: none"> <li>• The Board serves as the focal point and custodian of the corporate governance framework within KTH. The governance framework is informed by, amongst others, the Memorandum of Incorporation ("Moi") and the Board charter.</li> <li>• Although the Board retains overall responsibility and accountability, it is supported by Board committees with specific skills sets required for their areas of specialisation. Furthermore, some responsibilities are delegated to Management through a formal delegation of authority.</li> </ul>



	Principle	Self-Assessed Application	Application of the Principle
7	<p><b>Composition of the governing body:</b></p> <p>The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.</p>	Partially applied*	<ul style="list-style-type: none"> <li>In line with the Mol of a private company, the Board is constituted by representatives of the various shareholders, who form the majority component of the Board*. Independent non-executive directors and executive directors are appointed through a formal process overseen by the Remuneration Committee incorporating the Nominations Committee. The Mol does not require a lead independent director or an independent chairman*.</li> <li>The composition reflects a diversity of skills, knowledge, and experience to manage the business of the organisation as well as to discharge its governance role and responsibilities.</li> <li>Performance evaluations are conducted to assess gaps which could be addressed through targeted appointments and/or training.</li> </ul>
8	<p><b>Committees of the governing body:</b></p> <p>The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.</p>	Partially Applied*	<p>The Board has appointed Committees as listed below and have adequately delegated authority and responsibilities which are formalised into Committee charters/terms of reference, and are reviewed from time to time to align them with best practice. The Committees are all constituted by non-executive directors:</p> <ul style="list-style-type: none"> <li><i>Investment and Valuation Committee</i> (5 members) – its functions include reviewing and recommending investment opportunities, acquisitions, divestitures and assets portfolio valuation for approval by the Board;</li> <li><i>Audit and Risk Committee</i> (4 members) – has one independent non-executive director*, who acts as the chairperson of the committee. Its main functions include assisting the Board in reviewing the principles, policies and practices adopted for risk management, preparation of the accounts or annual financial statements and review the work of internal and external auditors to ensure the adequacy and effectiveness of the Company's financial management controls;</li> <li><i>Remuneration Committee (incorporating nominations)</i> ("Remco") (5 members) – has one independent non-executive director*, who acts as the chairperson of the committee. Its main functions include reviewing of matters relating to employment and remuneration of the directors and employees, human resources management and succession planning as well as the appointment of executive and non-executive directors; and</li> <li><i>Social and Ethics Committee</i> (4 members) – its functions include reviewing and oversight of compliance of the organisation with its socio-economic and ethical responsibilities.</li> </ul>
9	<p><b>Evaluation of Performance:</b></p> <p>The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness</p>	Applied	<ul style="list-style-type: none"> <li>The Board conducts annual performance assessments of the Board and its committees.</li> <li>Independent assessments are performed at three year intervals and self-assessments are performed in between the three year intervals.</li> <li>Where gaps are identified, action plans are prepared for review and approval by the Board and are included in the Board and committees' work plans for implementation.</li> <li>In view of the moratorium on publishing an integrated report, the results are not disclosed externally.</li> </ul>

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10	<p><b>Appointment &amp; Delegation to Management:</b></p> <p>The governing body should ensure that the appointment of, and delegation to, Management contribute to role clarity and effective exercise of authority and responsibilities.</p>	Applied	<ul style="list-style-type: none"> <li>The Board, through the Nominations Committee, approves the appointment of executive management within the organisation. The Board also reviews and approves succession plans proposed for executive management.</li> <li>The Chief Executive Officer (“CEO”) has been given overall authority to manage the day-to-day operation of the organisation and is held accountable for its performance. The CEO is assisted by the executive committee (“EXCO”) constituted by executives responsible for various functional areas. The Board has also approved a delegation of authority document which outlines business management activities which are within the mandate and authority of EXCO as well as related financial limits.</li> <li>Succession plans for members of Exco are prepared and approved by the Board.</li> </ul>
11	<p><b>Risk Management: &amp; Governance</b></p> <p>The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.</p>	Applied	<p>The Board, with the assistance of the ARC, has approved a risk management framework which allows the organisation to:</p> <ul style="list-style-type: none"> <li>set risk tolerance and risk appetite for the business;</li> <li>perform strategic and operational risk reviews;</li> <li>identify risks and consequences of non-fulfilment of strategic objectives which may hamper the successful operation of the business; and</li> <li>develop risk mitigation plans to manage the identified risks</li> </ul> <p>The risk management programme of KSC is published in the company’s AFS.</p>
12	<p><b>Technology &amp; Information Governance:</b></p> <p>The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives</p>	Applied	<ul style="list-style-type: none"> <li>The Board, with the assistance of the ARC oversees the governance of information technology. The Board is aware of the importance of technology and information in relation to the achievement of the Group’s strategy.</li> <li>The ARC has increased its focus on technology, information, compliance and maximizing of opportunities while also managing risk factors. There is appropriate management of cyber and data risks and an effective implementation of the IT Risk management plan.</li> <li>The Board has also delegated to management the responsibility to implement and execute effective technology and information management.</li> </ul>
13	<p><b>Compliance governance:</b></p> <p>The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that it supports the organisation being ethical and a good corporate citizen.</p>	Applied	<ul style="list-style-type: none"> <li>A regulatory and compliance framework which lists the laws application to the organisation and processes to manage compliance has been adopted by the Board.</li> <li>A risk based compliance framework has been implemented to ensure awareness and compliance by the organisation with all applicable legislations and standards.</li> <li>A compliance officer has been appointed and is responsible for the management of compliance activities and compliance with the applicable laws and standards. Compliance is however the responsibility of every employee within the organisation.</li> <li>Management reports to the Board and relevant Committee on all compliance related matters as well as the overall level of compliance within the organisation.</li> <li>The focus area for the calendar year has been the assessment of the roll out of the compliance framework.</li> </ul>



	Principle	Self-Assessed Application	Application of the Principle
14	<p><b>Remuneration governance:</b></p> <p>The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in short, medium and long-term.</p>	Partially Applied*	<ul style="list-style-type: none"> <li>• The Board has adopted a remuneration philosophy which guides the remuneration policy and practices, as well as to incentivise and drive high performance.</li> <li>• The remuneration principles which drive the KTH reward strategy are as follows: <ul style="list-style-type: none"> <li>○ Competitive pay levels;</li> <li>○ Pay-for-performance;</li> <li>○ Cost management;</li> </ul> </li> <li>• A balanced design and pay mix that includes all of the following components; guaranteed pay; annual Incentive pay; share-based incentives; and non-financial rewards and recognition.</li> <li>• Through the assistance of Remco, the Board approves: <ul style="list-style-type: none"> <li>○ long and short-term incentive structures linked to the performance of the business, and</li> <li>○ directors' and employees' remuneration reviews or increases.</li> </ul> </li> <li>• Information relating to the remuneration of directors (as part of emoluments) is published in the AFS of KTH and KSC.</li> <li>• As a private company and due to the sensitivity and competitiveness of the related information, a Remuneration Report is not published*.</li> </ul>
15	<p><b>Assurance:</b></p> <p>The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports.</p>	Applied	<ul style="list-style-type: none"> <li>• The Board, through the assistance of ARC, is responsible for the appointment of internal and external auditors.</li> <li>• The work or audit plans and fees charged by assurance providers is reviewed by the ARC to ensure the achievement of a good internal control environment, integrity of information for management decision-making and compliant external audit reporting.</li> <li>• The ARC receives regular reports from the external audit engagement partner in terms of matters relating to external audit.</li> <li>• The ARC annually reviews the expertise, resources and experience of the company's finance function.</li> <li>• The ARC assesses the independence of the external auditor. The appointment of the external audit firm has been confirmed by shareholders at the annual general meeting.</li> </ul>
16	<p><b>Stakeholders:</b></p> <p>In the execution of its governance roles and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.</p>	Applied	<ul style="list-style-type: none"> <li>• The Board has a stakeholder engagement process where the interests and expectations of the key stakeholders are taken into account to ensure the success of the business.</li> <li>• The SEC assists the Board with monitoring stakeholder engagement and with setting the direction for how stakeholder relationships should be approached and managed.</li> <li>• Stakeholder engagement is a recurring item on the agenda of the SEC. Proactive and constructive stakeholder engagement is delegated to management.</li> </ul>



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17	<p><b>Responsibility to institutional investors:</b></p> <p>The governing body of an institutional investor organisation should ensure that responsible investment is practiced by the organisation to promote the good governance and the creation of value by the companies in which it invests</p>	Not applicable	Not applicable. KTH does not have any institutional shareholders.

