

CORPORATE GOVERNANCE STATEMENT
APPLICATION OF KING CODE ON CORPORATE GOVERNANCE
eXtract Group Limited

The Institute of Directors in Southern Africa NPC released the King IV Report on Corporate Governance for South Africa, 2016 (King IV) on 1 November 2016. While disclosure on applying King IV is only effective for financial years from 1 April 2017, the group has adopted the new code immediately, as encouraged. This compliance report will focus on our initial internal assessment and a more detailed report would be included in our August 2017 Integrated Report.

This report addresses all the principles of King IV, grouped under the desired key governance outcomes of ethical culture, good performance, effective control and legitimacy.

eXtract has expanded these outcomes to better fit the company's scope of disclosure.

As a pre-amble it needs to be noted that the group has experienced some radical changes over the past year. These changes had a direct impact on the governance structure. Overview of the past year's events that impacted the governance structure:

- In June 2016 Eqstra Holdings Limited (“Eqstra”) issued a circular requesting shareholder authority to sell excess assets to the value of R802.9 million. These assets related to contracts that were either terminated or excess to operational requirements. This was the first step in management's strategy to convert the Contract Mining and Plant Rental division of Eqstra to an asset-light division;
- In August 2016 Eqstra announced the intention to sell its Fleet Management and Logistics and Industrial Equipment divisions to enX. This transaction was effected 8 November 2016.
- Eqstra changed its name to eXtract Group Limited as part of the Eqstra transaction.
- The following board members were appointed 1 November 2016:
 - CS Halsey (independent non-executive director)
 - DAG Chadinha (CFO)
 - J Colling (chief executive director)
 - OM Matloa (independent non-executive director)
 - MS Teke (non-executive director) and
 - SA Nkosi (independent non-executive director)
- The following directors resigned on 24 November 2016:
 - PN Magesa
 - TDA Ross
 - MC Croucamp
 - SD Mathembi-Mahanyele
 - VJ Mokoena
- The following director resigned on 1 November 2016:
 - LL Von Zeuner (appointed director of enX)
 - AJ Phillips (existing enX director)
 - DA Austin (CFO)
- The following director remained directors:
 - ZB Swanepoel (chairman)
 - JL Serfontein (previous CEO, now appointed CEO of enX and non-executive director of eXtract)
- During the start of the year the board embarked on a review of the group's strategy. This resulted in the board re-assessing the optimal allocation of its limited capital. The following decisions were taken:
 - Its current operating model, prospects and capital allocation decisions.
 - Transitioning Tharisa to an owner/operator model.
 - Termination of non-profitable contracts, including PPM.
 - Disposal of excess assets.
 - Significant reduction in the group's overhead costs, including a reduction in headcount.
 - Review management responsibilities and functions.
 - Significant impairment of assets to reflect realisable value.
 - Restructuring bank debt to allow time for repositioning.
 - Recapitalise the group by converting enX debt and preference shares into equity with the support of enX.

- Become a strategic investment house.
- This change in strategy resulted in further director changes:
 - MS Teke has resigned as a director of eXtract. This follows a potential for conflicts of interest as a result of eXtract's change in business strategy;
 - Mr J Colling has stepped down as CEO and will remain available to the group on a consultancy basis until 31 May 2017 to assist the board of directors with the transition to the revised strategy;
 - Mr ZB Swanepoel, the current chairman of the board of directors, was appointed as executive chairman, to oversee the strategic review and the implementation of the resultant changes;
 - Mr CS Halsey, has been appointed as chief investment officer and will also serve as interim CEO to oversee operations until a new CEO is appointed;
 - Mr SA Nkosi has been appointed as lead independent director; and
 - Ms K McClain has been appointed as independent non-executive director.
- The governance structure hence saw material changes over the past year leaving the following directors:
 - ZB Swanepoel (executive chairman)
 - CS Halsey (interim CEO)
 - DAG Chadinha (CFO)
 - OM Matloa (independent non-executive director)
 - K McClain (independent non-executive director)
 - SA Nkosi (independent non-executive director)
 - JL Serfontein (non-executive director)

ETHICAL CULTURE

Principle 1: The governing body should lead ethically and effectively.

The directors recognise that sound corporate governance practices enhance both shareholder value and the long-term sustainability of the business. The board is committed to applying and enforcing applicable corporate governance principles. As such, it continues to develop and review its governance policies, practices and procedures in line with an integrated governance, risk and compliance framework.

Organisational cultural transformation

The group has over the years subscribed to become a truly transformed organisation. After implementing various restructuring processes over the past year driven by continuous economic challenges and a revised strategy the group saw the number of employees decreasing from 3 642 (June 2015) to 3 092 (June 2016). The number of employees following the implementation of the restructure plan anticipated to be below 30 employees by December 2017.

These recent changes did not impact our embedded culture to promote transformation, focussing on areas of leadership.

Our values for the business remained unchanged. Before announcing the proposed Eqstra transaction the group embarked on a staff survey and it was encouraging to see the changes from the survey conducted 3 years prior. A better awareness and understanding of organisational cultural and direction were noted among our leadership, senior management and some awareness at lower levels. The picture will, however, look materially different by the end of 2017. It is important to renew our focus in 2017 to ensure all employees and other stakeholders are included in this journey of transforming the group.

Principle 2: The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.

The board has adopted a number of key policies that provide guidelines on how ethics should be approached and addressed by the group and its stakeholders:

Key policies

Delegation of authority manual

eXtract has a detailed authority manual, which is reviewed annually. Its objectives are to delegate transactional and contractual authority from the board to staff members and officials at various levels. This provides effective and practical directives and guidelines for minimising or eliminating the company's possible exposure to risk. It also ensures staff members and officials fully understand demarcated authorisation limits and strictly adhere to them. The document is reviewed annually. The

scope of this policy applies to eXtract and its subsidiaries. The company's management committee members are subject to this authority policy manual.

This manual had been adjusted extensively as the group continued to scale down. The board is currently revisiting the limits and a Board investment committee is overseeing capital allocation.

Code of conduct and business integrity policy

During the year, the new board reviewed the group's ethical framework and endorsed the Code of Conduct that brought together all the various policies and procedures that govern ethical culture and behaviour. The Code of Conduct covers bribery, competition, compliance, data privacy as well as the company's Business Integrity. Annual staff declarations were made focusing on these pertinent matters. The committee's approved terms of reference were aligned to the King IV principals where needed.

Conflicts of interest

Each quarter, the company obtains details from directors on external shareholdings and directorships that may create conflicts of interest while serving as directors on our board. The declarations are closely scrutinised by the chairman and company secretary, and tabled at each quarterly board meeting. Where a conflict arises, directors must recuse themselves from discussions. As far as possible, the company requires that directors avoid potential conflicts of interest.

Governance

Share dealings

The company has a policy regulating dealings in its shares by directors and relevant employees. No group director or employee may deal, directly or indirectly, in the company's shares based on unpublished, price-sensitive information and in closed periods. These include the periods between our interim and financial year ends and the dates on which those results are published, and any time when eXtract is trading under a cautionary announcement. Directors and employees classified as insiders are also prohibited from trading during the closed period of the holding company. The group also adopted a price sensitive information policy.

Principle 3: The governing body should ensure the organisation is and is seen to be a responsible corporate citizen.

The concept of responsible corporate citizenship had been an integrated part of our company's strategy, and its principles underpinned all key aspects of our business. This oversight vests with the board's social and ethics committee. The new strategy envisage eXtract to become a diverse investment company.

The board considered its responsibility towards a number of stakeholders when embarking on this radical transformation, including, but not limited to, shareholders, lenders and employees. The board realised that without these radical changes the group would not be able to remain a sustainable business. The changes did regrettably resulted in job losses. Where possible staff were remained at the sites they operated at. This revised strategy would ensure that lenders be repaid and shareholders would benefit from the unbundling as well as a recapitalised business to extract the value of the new strategy.

The board is ultimately responsible to ensure that the group is seen as a responsible corporate citizen.

PERFORMANCE AND VALUE CREATION

Principle 4: The governing body should appreciate that the organisation's core purpose, its risk and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value-creation process.

The group's vision had changed over the year from MCC being an established provider of opencast contract mining services including drilling, blasting, load hauling and rehabilitation to becoming an investment house. This change of its core business will create a different value proposition to its stakeholders. The risks, opportunities and sustainable development associated to this new strategy were in a process of being formalised by the board.

The key steps that underpin this vision:

- Repositioning our assets into a value-maximising portfolio.
- Delivering the full potential to our stakeholders.

The board has approved this strategy and oversees both its implementation and operational plans by management against agreed performance measures and targets.

Principle 5: The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments for the organisation's performance and its short, medium and long-term prospects.

In developing our report, we were guided by previous announcements and communications to the market. We strive to ensure that the readers of this report and the circular provides a balanced report, enabling decision takers to make an informed decision. The shareholders are referred to the impact the proposed transactions would have on the group as explained in the *Pro forma* statements. The Category 1 transaction circular should be read together with the revised listings particulars circular. The report includes details of our new business model and strategy; some risks and opportunities faced and how we respond to the legitimate needs and interests of key stakeholders as well as the outlook in the medium to long term.

The content of this report is based on a materiality assessment. This includes a review by independent experts and accountants, issues raised by JSE.

EFFECTIVE CONTROL

Principle 6: The governing body should serve as the focal point and custodian of corporate governance in the organisation.

Board structure

Currently the group has a unitary board structure, comprising three executive directors and four non-executive directors (the majority of whom are independent non-executive directors as defined by King IV). The board is aware that the recent changes resulted in an even split of executive and non-executive directors. This was being addressed by the board. Mr Nkosi had been appointed lead independent non-executive following Mr Swanepoel's appointment as executive chair. The board believes that during this change a smaller board was more effective. The company supports the principles of gender diversity at board level. Female representation on the board is currently 29%. The company has adopted a gender diversity promotion policy setting out how the company aims to achieve its gender diversity targets at board level. A full copy of the company's gender diversity promotion policy is available on the company's website at www.eXtractgroup.com/corpgov.

The roles of the chairman and chief executive, as set out in the board charter, ensure a balance of power and authority and preclude any one director from exercising unfettered powers of decision-making. The chairman is responsible for leading the board and for its effectiveness.

Principal topics considered in 2017

An annual work plan is developed from the board charter which sets the framework for board meetings. The board covers routine business, through operational reports and project updates to matters of strategy, finance and other special items. Reports from committee chairmen and certain administrative items are also considered at each board meeting.

Professional advice

All directors are entitled to seek independent professional advice on the affairs of the group, the group's expense, if they believe that course of action would be in the best interests of the group.

Principle 7: 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.

Skills matrix

The balance of the board is monitored against a skills matrix to ensure it is able to discharge its governance roles and responsibilities effectively. The board size and revised strategy resulted in the board being dominated by individuals who have extensive mining knowledge.

Independence of directors

There are two independent directors on the board. The independence of directors is reviewed annually by the nomination committee. The committee has satisfied itself that these directors meet the criteria for independence under King IV. No director holds office for an aggregate period in excess of nine years since the first appointment.

New appointments

The board follows a formal and transparent process when appointing new directors and any appointment is considered by the board as a whole, on the recommendation of the nomination committee, which comprises solely non-executive directors.

It evaluates the skills, knowledge and experience required to implement group strategy. New board nominations are assessed against defined competencies set out in the skills matrix to address any potential gaps.

Any directors appointed during the year may only hold office until the next annual general meeting (AGM), when they will be required to retire and offer themselves for re-election. All new directors were appointed by shareholders at the last general meeting.

Induction of directors

A formal induction process is in place. Meetings are arranged between new directors and members of the exco to ensure directors develop a full understanding of their areas of responsibility.

On appointment, directors receive an induction pack with recent board and committee documents, information on legal and governance obligations, the company's memorandum of incorporation (MOI) and recent reports. Guidance is provided on the requirements of JSE Limited (JSE) in dealing in shares, King IV and the Companies Act 71 2008, as amended (the Act), and the group's internal governance arrangements.

Director training and development

All directors are expected to keep abreast of trends in the business, and in the group's environment and markets. During the year, training was provided on the following King IV and JSE Listing Requirement changes.

Attendance at meetings

Directors are encouraged to attend meetings and are only remunerated if the meeting was attended.

Rotation and retirement

In terms of the company's MOI, a third of directors retire by rotation each year and are eligible for re-election by shareholders at the AGM. All directors were appointed by shareholders at the previous AGM.

The internal retirement age policy set for non-executive directors is 70 years. Directors over 70 years would be re-elected by shareholders annually. Executive director's retirement age is 63 per company policy.

Company secretary

Liezl Möller is the approved company secretary as part of a management services contract with enX. She is not a director of the company or any of its subsidiaries. On that basis, the board is comfortable that she maintains an arm's-length relationship with the executive team, the board and individual directors in terms of section 3.84(j) of the JSE Listings Requirements.

Mrs Möller has been with the group for the past 9 years following the unbundling from Imperial Holdings Limited in 2008. She has 14 years' experience in the company secretarial environment and is a Chartered Account and also passed the Institute of Chartered Secretaries board exams. She has never been censured by the JSE or penalised or fined for any misconduct. After assessing her abilities, the board believes she has the requisite qualifications and expertise to fulfil this role as required by the JSE Listings Requirements.

Principle 8: The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with the balance of power and the effective discharge of its duties.

The board has established a number of committees to enable it to properly discharge its duties and make effective decisions. Each committee acts against written terms of reference under which specific functions of the board are delegated with defined purposes, membership requirements, duties and reporting procedures.

Principle 9: 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.

The newly constituted board has not evaluated its own effectiveness or the individual performance of directors at time of this report. Top priorities for the board in the coming year were identified as:

- Focusing on implementing the new strategy.
- Executing disposals of excess assets.
- Focusing on maximising stakeholder value.

Principle 10: The governing body should ensure that the appointment of, and delegation to, management contributes to role clarity and the effective exercise of authority and responsibilities.

The board appointed an interim chief executive following the resignation of Mr Colling. The board will continue to monitor the position as the strategy is being executed. Mr Halsey is appointed by the board and is responsible for executing strategy and the day-to-day business of the company. He serves as a link between management and the board.

Principle 11: The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.

eXtract's board has specific responsibility for risk management in the group. The board has delegated this function to the audit and risk committee, which regularly reviews significant risks and mitigating strategies and reports to the board on material changes in the group's risk profile. The risk management process is facilitated by BDO Advisory Services Proprietary Limited, but overall accountability and responsibility for risk management rests with the board of directors, executive committee and other officers. The risks associated with the previous business model was key in taking the decision to change direction.

The execution risks associated with these radical strategic changes were a primary focus of the board. The board will continue to monitor risks resulting from these changes pro-actively, if possible. The risk process, top risks and risk appetite and tolerance would have to be re-assessed following the proposed transactions.

Principle 12: The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.

eXtract has adopted the methodology of the IT Governance Institute and the control objectives for information and related technology (COBIT) framework to meet King IV requirements. The board has formally delegated responsibility for governing information and technology to the audit and risk committee.

Principle 13: The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.

Compliance with, and enforcement of, the Companies Act, JSE Listings Requirements, legislation and the company's governance policies are monitored and tracked through internal monitoring and

reporting systems, reviews, and internal and external audits. The group is not aware of any breaches of laws and regulations.

Principle 14: The governing body should ensure that the organisation remunerates fairly, responsibly and transparently to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.

Shareholders are referred to the Integrated report of 2016 as well as item 1 of this report for the remuneration report detailing the remuneration policy and implementation thereof. Shareholders are also referred to the revised salary structure of Messrs Halsey and Swanepoel as set out in item 1.

Principle 15: 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.

Combined assurance

The risk appetite of executive management, the audit and risk committee and board will determine areas of strategic and business focus, which in turn determines the level of assurance considered appropriate for identified business risks and exposures. To plan and coordinate assurance, eXtract has appointed BDO Advisory Services Proprietary Limited to oversee the designed and implementation of a combined assurance framework, to cover its significant risks and that these enable an effective control environment.

Internal audit

Internal audit is an independent appraisal function that examines and evaluates the activities and appropriateness of our systems of internal control, risk management and governance. Internal audit services are provided by BDO Advisory Services Proprietary Limited. The audit and risk committee is satisfied that the internal audit plan covers areas of risk. The internal audit team attends and presents its findings to the audit and risk committee.

Review of the financial director and financial function

David Austin was appointed on 1 May 2016 as chief financial officer and resigned on 1 November 2016, following the Eqstra transaction. The audit committee reviewed his performance, experience, appropriateness and expertise of Mr Austin, and confirmed his suitability for appointment as financial director in terms of the JSE Listings Requirements in August 2016.

David Chadinha was appointed chief financial officer on 1 November 2016. He was the divisional financial director of the Contract Mining division of Eqstra prior to the Eqstra transaction and the board confirmed that he was suitably qualified and experienced for the appointment. The audit committee will review his performance against targets in August 2017 following the finalisation of the year end results.

The audit committee quarterly reviewed the performance, appropriateness, experience and resourcing of the group finance functions and was satisfied with the overall adequacy and appropriateness of the function for the period under review. This position will be continuously monitored as the group scale down. The committee was further satisfied that key financial risks were addressed during the period.

TRUST, GOOD REPUTATION AND LEGITIMACY

Principle 16: In the execution of its governance role 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.

The board considers the legitimate interests of stakeholders in its decisions.

EMERGING MATERIAL ISSUE: ENSURING BUSINESS CONTINUITY (INFORMATION RISK, SECURITY AND GOVERNANCE).

Governance of IT

Information technology or IT is an outsourced service provider IS Solutions and managed by enX. The IT governance model has been aligned to support our revised operations in terms of contracts and service-level agreements for IT services.

Risk

Risk governance is aligned with the broader group integrated risk management framework to identify, evaluate and respond to risks associated with using IT. Risks are identified and reviewed.

Security

Improved information security governance to align to business outcomes, drive employee awareness of related risks and increase security resource capabilities.

Disaster recovery

Disaster-recovery arrangements for IT systems are in place and aligned with the requirements of the group disaster recovery policy and framework. Disaster-recovery plans are driven by a business-impact analysis that identifies critical systems, services and applications supporting business processes. These plans are tested regularly and areas for improvement are reported and actioned.