

# CORPORATE GOVERNANCE REPORT

Clicks Group aims to achieve high standards of corporate governance and adopts stringent compliance with legislation, regulation and voluntary codes to ensure the sustainability of the business.

Governance processes are regularly reviewed to align with legislative and regulatory changes and to reflect best practice.

The group has applied the principles of the King Code of Governance Principles 2009 (King III) throughout the financial year and elected to explain the principles that are not applied. The directors confirm that the group has in all material respects applied the recommendations of King III and elected to explain Principle 9.3 which was not fully applied during 2015. Details of the group's application of each King III principle is available on the website.

## Board of directors

### Board composition

Clicks Group has a unitary board structure with nine directors, comprising three salaried executive directors and six non-executive directors.

Keith Warburton, the chief operating officer of Clicks, resigned as an executive director with effect from 28 January 2015.

The board elected the chairman after the annual general meeting (AGM) in January 2015 and will continue to follow this practice after the AGM each year.

The roles of the non-executive chairman and the chief executive officer are formalised, separate and clearly defined. This division of responsibilities at the helm of the company ensures a balance of authority and power, with no one individual having unrestricted decision-making powers.

The non-executive directors have extensive business experience and specialist skills across a range of sectors, including accounting, finance, law, retailing, healthcare and human resources. This enables them to provide balanced and independent advice and judgement in the decision-making process.

Non-executive directors have direct access to management and may meet with management independently of the executive directors.

The company has no controlling shareholder or group of shareholders and there is no direct shareholder representation on the board.

The board meets at least four times a year. Additional meetings can be convened to consider specific business issues which may arise between scheduled meetings. No additional meetings were required during the year.

Biographical details of the directors appear on pages 28 and 29 of the Integrated Annual Report.

## Independence of directors

King III requires the board to review the independence of long-serving non-executive directors. This applies to the chairman of the board, David Nurek, who has served as a non-executive director for 18 years.

The remuneration and nominations committee conducted an evaluation of the independence of the chairman and non-executive directors during the year. All relevant factors which could impact on their independence and performance were considered, in particular the factors outlined in King III. Based on the feedback from this evaluation, the remuneration and nominations committee considers there are no factors which prevent the directors from exercising independent judgement or acting in an independent manner.

All six non-executive directors, including the chairman, are therefore appropriately classified as being independent in terms of both the King III definition and the guidelines outlined in the JSE Listings Requirements.

## Board charter

The scope of authority, responsibility, composition and functioning of the board is contained in a formal charter which is regularly reviewed. The directors retain overall responsibility and accountability for:

- ensuring the sustainability of the business;
- approving strategic plans;
- monitoring operational performance and management;
- ensuring effective risk management and internal controls;
- legislative, regulatory and governance compliance;
- approval of significant accounting policies and annual financial statements;
- selection, orientation and evaluation of directors;
- appropriate remuneration policies and practices;
- monitoring transformation and empowerment; and
- balanced and transparent reporting to shareholders.

## Board appointment

The remuneration and nominations committee considers directors for appointment to the board and motivates these candidates to the board in a thorough and transparent process.

Newly appointed directors undergo a formal induction programme which outlines their fiduciary duties and provides an in-depth understanding of the group and its operations. This includes meetings with business unit heads and visits to stores and distribution centres. Ongoing director development includes regular updates and information sessions on legislative and regulatory changes.

Directors do not have a fixed term of appointment. In accordance with the company's memorandum of incorporation (MOI), one-third of the non-executive directors must retire at the AGM each year. In addition, the executive directors retire on the third-year

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anniversary of their appointment or re-election to the board. All retiring directors are eligible for re-election. Directors appointed during the year are required to have their appointments ratified at the following AGM.

The chief executive is subject to a 12-month notice period and the other executive directors to a six-month period.

Executive directors retire as employees at the age of 63. There is no prescribed retirement age for directors.

Directors are entitled to seek independent professional advice at the company's expense after consultation with the chairman of the board. No directors exercised this right during the year. Directors also have unrestricted access to all company information.

### Group executive committee

Executive management and the board work closely in determining the strategic objectives of the group. Authority has been delegated by the board to the chief executive officer and the group executive committee for the implementation of the strategy and the ongoing management of the business.

The group executive committee comprises the three executive directors and the chief operating officer of the Clicks chain. The board is apprised of progress through reporting at board meetings and regular communications with management.

The responsibilities of the group executive include:

- developing and implementing the group strategic plan;
- preparing budgets and monitoring expenditure;
- monitoring operational performance against agreed targets;
- adhering to financial and capital management policies;
- determining human resources policies and practices;
- monitoring and managing risk; and
- communicating with stakeholders.

### Company secretary

The company secretary ensures that board procedures and all regulations and governance codes are observed. He also provides guidance to the directors on governance, compliance and their fiduciary responsibilities. As an experienced attorney, the company secretary is also head: group legal counsel and provides legal advice and services to the group. Directors have unrestricted access to the advice and services of the company secretary.

The company secretary co-ordinates the induction programme for newly appointed directors, as well as the annual board evaluation process. The appointment and removal of the company secretary is a matter for the board and not for executive management. The company secretary provides advice and updates to the board at all meetings by reporting on

new and amended legislation and regulations which are relevant to the group's businesses.

In terms of the JSE Listings Requirements the board is required to consider and satisfy itself on an annual basis on the competence, qualifications and experience of the company secretary.

The board conducted a formal evaluation of the company secretary during the year and is satisfied that the company secretary has the requisite competence, qualifications and experience to carry out the required responsibilities. The company secretary practised as an attorney for close on 30 years and has extensive experience in corporate and commercial law, litigation and corporate governance.

The board is satisfied that the company secretary is the gatekeeper of good governance, that an arm's length relationship exists between the company secretary and the board, and that the directors are able to look to the company secretary for guidance on their responsibilities and duties. The directors are also satisfied that the company secretary provides a central source of guidance and advice to the board and, within the company, on matters of good governance and of changes in legislation.

### Board evaluation

An annual questionnaire-based evaluation is undertaken by the directors which includes an assessment of the performance of the board, the chairman, the chief executive officer, individual directors and all board committees. The key issues covered include the board's role and agenda setting; the size, composition and independence of the board; director orientation and development; and board meetings. The chairman of the board discusses the results of these reviews with the board, the chairpersons of the board committees and with each director. The chairman receives feedback on his performance from the remuneration and nominations committee.

The responses from the evaluation process indicate that the board is well balanced, the size of the board is adequate for the group and the board has the relevant knowledge relating to the group's business. The directors believe board meetings are well organised, efficiently run and all relevant aspects of the company's businesses are dealt with thoroughly by the board and its various committees which have all discharged their responsibilities adequately.

### Board and committee structure

The directors have delegated specific functions to committees to assist the board in meeting its oversight responsibilities.

The committees all have documented terms of reference which are reviewed annually and the directors confirm that the committees have functioned in accordance with these written terms of reference during the financial year. All board committees are chaired by independent non-executive directors.

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### Board and committee meeting attendance

	Board	Audit and risk	Remuneration and nominations	Social and ethics
<b>Number of meetings</b>	<b>4</b>	<b>4</b>	<b>3</b>	<b>2</b>
David Nurek	4 <sup>+</sup>		<sup>^</sup> 3	2 <sup>+</sup>
Fatima Abrahams	4		3 <sup>^^</sup>	2
John Bester	4	4 <sup>+</sup>	3	
Bertina Engelbrecht	4			2
Michael Fleming	4			
Fatima Jakoet	3	4		
David Kneale	4			2
Nkaki Matlala	3	3		1
Martin Rosen	4		3	
Keith Warburton*	2/2			
<b>Meeting attendance 2015 (%)</b>	<b>95</b>	<b>92</b>	<b>100</b>	<b>90</b>
Meeting attendance 2014 (%)	97	100	100	100

+ Chair.

<sup>^</sup> Chairs nominations agenda items.

<sup>^^</sup> Chairs remuneration agenda items.

\* Resigned with effect 28 January 2015.

### Audit and risk committee

#### Role

The committee has an independent role with accountability to both the board and to shareholders. The committee's responsibilities include the statutory duties prescribed by the Companies Act, activities recommended by King III, as well as additional responsibilities assigned by the board.

#### Functions

The committee's functions cover integrated reporting; combined assurance; internal audit; risk management; and external audit, and are outlined in detail in the audit and risk committee report on pages 3 to 5 of the annual financial statements.

#### Composition

The committee comprises three independent non-executive directors. These members will again be proposed for election to the committee by shareholders at the AGM in January 2016.

### Remuneration and nominations committee

#### Role

Ensure that the group has a competitive remuneration policy to attract, retain and reward quality staff; and to ensure the board's composition and functioning meets the needs of the group.

#### Functions

- Ensure that the group has a remuneration policy which is aligned with the group strategy and performance goals

- Assess and review remuneration policies, employee long-term incentive schemes, retention schemes and short-term performance bonuses
- Approve the remuneration of executive directors and certain senior management
- Propose fees for non-executive directors, which are tabled for shareholder approval at the AGM
- Determine executive and staff participation in the long-term incentive and retention schemes
- Advise on the composition of the board; and review the board structure, size and balance between non-executive and executive directors
- Identify and recommend qualified candidates for directorships
- Ensure that the board has an appropriate balance of skills, experience and diversity
- Co-ordinate the board evaluation process
- Develop effective succession planning for senior management
- Ensure that the performance of the board, individual members and sub-committees are reviewed formally and regularly.

Further detail on remuneration governance is contained in the remuneration committee report on pages 33 to 39 of the Integrated Report.

## Corporate governance report (continued)

### Composition

The committee comprises four independent non-executive directors. The chief executive officer and the group human resources director attend meetings by invitation. The group's external remuneration consultant may attend certain of these meetings by invitation.

The remuneration and nominations committee continues to operate as a combined committee, with the chairman of the board chairing the nominations agenda items, and the appointed committee chairperson chairing remuneration agenda items. This rotation in roles meets the requirements of both King III and the JSE Listings Requirements.

### Social and ethics committee

#### Role

Monitor activities relating to ethics, stakeholder engagement and the social impact of the group on communities within which it operates.

Monitor progress across all areas of strategic empowerment, as well as compliance with transformation codes.

#### Functions

- Monitor the group's activities relating to social and economic development, good corporate citizenship, the environment, and health and public safety
- Ensure appropriate short and long-term targets are set by management
- Monitor progress against targets
- Monitor changes in the application and interpretation of empowerment charters and codes
- Monitor those functions referred to and required in terms of the Companies Act and its regulations.

Refer to the social and ethics committee report on pages 40 to 43 of the Integrated Report.

#### Composition

The committee comprises three independent non-executive directors, the chief executive officer and the group human resources director.

### Risk management

Clicks Group aims to achieve an appropriate balance between risk and reward, recognising that certain risks need to be taken to achieve sustainable growth and returns while at the same time protecting the group and its stakeholders against avoidable risks.

A disciplined approach is followed in evaluating risks and developing appropriate strategies to mitigate and manage risk.

The risk attitude of the group, which is the level of risk acceptable to the directors and management, is reviewed annually. The group adopts a conservative risk attitude which the directors believe is appropriate given the nature of the group's business in the healthcare, retail and supply markets.

The risk management methodology was reviewed by an external assurance provider in 2015 and recommended enhancements adopted.

### Responsibility for risk management

The board is responsible for the oversight of the risk management process and has delegated responsibility to the audit and risk committee. This committee is responsible for ensuring the group has implemented an effective policy and plan for risk, and that disclosure regarding risk is comprehensive, timely and relevant.

The role, functions and composition of the committee are included in the audit and risk committee report on pages 3 to 5 of the annual financial statements.

The group executive is responsible for designing and implementing the risk management process and monitoring ongoing progress. The group executive regularly reviews the group's risks to ensure mitigation strategies are being implemented by the business units. Group internal audit monitors the progress of the group and business units in managing risks and reports its findings to the audit and risk committee biannually.

### Risk management process

Risk management is embedded in the group's annual business planning cycle. In determining the strategic and operational plans for the year ahead each business unit is required to review its risk register. This includes a review of the risks of the previous financial year, considering new or emerging risks, facilitated workshops with all levels of management and, where appropriate, presentations by external consultants on regulatory issues and market conditions. The group maintains an environmental risk register, which is reviewed by internal audit.

A risk framework sets out the various risks that should be considered as part of the risk identification process. These potential risks are updated annually to ensure all relevant industry issues are considered.

### Risk ratings

Each risk on the register is assigned an impact and probability rating. The impact assigned to a risk is assessed and takes account of the financial, compliance, reputation and people effects on the group. The probability of a risk materialising is also measured.

The impact and probability ratings are then utilised to determine the inherent (gross) risk rating and its significance to the group.

Detailed risk mitigation plans are developed for each risk, which then determines the level of residual risk. Residual risk ratings are then assigned to each risk.

### Financial risk management

Through its business activities the group is exposed to a range of financial risks, including market risk (currency, interest rate and price risk), credit risk and liquidity risk. The group's exposure

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to these risks and policies for measuring and managing the risk are included in note 27 to the annual financial statements.

Derivative financial instruments are used to hedge foreign exchange risk on the importation of merchandise and to meet the group's obligations under the long-term incentive schemes. Foreign exchange risk is mitigated by entering into forward exchange contracts which are matched with anticipated future cash flows in foreign currencies. Details of the group's forward exchange exposure is contained in note 28 of the annual financial statements on the website.

### Accountability and compliance

#### Internal audit

The internal audit function provides information to facilitate the establishment and maintenance of an effective system of internal control to manage the risks associated with the business. The role of internal audit is outlined in the terms of reference of the audit and risk committee and in the internal audit charter. Details of the internal audit function are contained in the audit and risk committee report.

#### Internal control

Systems of internal control are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and to provide reasonable, but not absolute, assurance against misstatement or loss. The audit and risk committee considers the results of the formal documented annual review of the company's system of internal financial controls and risk management, including the design, implementation and effectiveness of the internal financial controls conducted by the internal audit function. Further detail is included in the audit and risk committee report.

### Financial statements and external review

The directors accept ultimate responsibility for the preparation of the annual financial statements that fairly represent the results of the group in accordance with the Companies Act and International Financial Reporting Standards.

The external auditors are responsible for independently auditing and reporting on these financial statements in conformance with International Standards on Auditing and applicable laws. The role of the external auditors is covered in the audit and risk committee report.

### Going concern

The board is satisfied that the group has adequate resources to continue operating for the next 12 months and into the foreseeable future. The financial statements have been prepared on a going concern basis. The board is apprised of the group's going concern status at the board meetings coinciding with the interim and final results.

### Information technology governance

Information technology (IT) governance is integrated into the group's operations, and governance practices and frameworks are reviewed as part of the annual internal audit plan. An IT steering committee reports to the chairman of the audit and risk

committee. The steering committee meets quarterly to review governance issues as recommended by King III, including IT standards, governance frameworks, results of internal and external audit reviews, and specific IT risks.

The governance framework includes alignment of IT to support business strategy and operations, deliver value and manage performance, information security, managing IT risk and compliance, and business continuity management.

### Legislative and regulatory compliance

Legislative and regulatory compliance is monitored by the head of group legal counsel and the compliance officer.

An analysis of current and pending legislation and regulation relevant to the group is presented at each meeting of the board, the audit and risk committee, and the social and ethics committee.

The compliance officer is responsible for providing advice to the operational business units; creating awareness and developing an understanding of relevant legislation and regulation; reviewing the initiatives undertaken by management to ensure compliance; monitoring and assessing legislative updates; arranging compliance training programmes; investigating any reports of possible compliance violations and initiating appropriate corrective action; meeting group level reporting obligations; and managing the complaints process.

A regulatory universe is compiled annually for the group with the assistance of a specialist external service provider who also provides daily legislative and regulatory updates to the group.

Existing, new and amended legislation and regulations which could impact on the group's business were reviewed and analysed by the legal and compliance departments during the year. This included healthcare legislation and regulations, including the Pharmacy Act and its regulations and the Medicines and Related Substances Act (Medicines Act) and its regulations, as well as the latest amendments to labour legislation.

Compliance with the Consumer Protection Act, Companies Act, Competition Act and Protection of Personal Information Act (PoPI) has received ongoing attention during the period.

- The Consumer Protection Act has a significant impact on the group and ongoing training and education is provided to staff.
- Compliance with the Competition Act is afforded a high priority. A competition law compliance framework has been implemented and evaluation of competition law compliance is assessed annually. Training sessions and education programmes are conducted annually throughout the relevant levels of the business.
- The implementation date for PoPI has not yet been finalised. PoPI will impact the group in relation to the processing and the secure maintenance and transmission of customer and employee data. In preparation for the new legislation, the

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group has engaged with an external consultant to develop a privacy programme, the design of which is being finalised. The programme implementation will entail a review of existing group policies and processes, and devising new policies which may be required. The external consultant will provide guidance and expertise to enable the group to appropriately allocate resources to most effectively and efficiently achieve compliance with PoPI.

No requests for information were received by the group in terms of the Promotion of Access to Information Act during the period. The group had no instances of major non-compliance with legislation during the period and no material fines were incurred.

### Personal share dealings

The group's insider trading policy precludes directors and staff from trading in Clicks Group's shares during two formalised closed periods. These closed periods run from the end of the interim and annual reporting periods until the financial results are disclosed on the Securities Exchange News Service (SENS).

Embargoes can also be placed on share dealings at any other time if directors or executives have access to price-sensitive information which is not in the public domain.

Directors and the company secretary are required to obtain written approval from the chairman prior to dealing in the company's shares. The chairman is required to obtain approval from the chairman of the audit and risk committee before undertaking any share dealings.

It is also mandatory for directors to notify the company secretary of any dealings in the company's shares. This information is then disclosed on SENS within 24 hours of receipt of such information. These dealings are also reported retrospectively at board meetings. Details of all dealings by directors during the reporting period are contained in the directors' report.

### Ethics and values

The group subscribes to the highest ethical standards of business practice. A set of values and a behavioural code of conduct requires staff to display integrity, mutual respect and openness, and affords them the right and obligation to challenge others who are not adhering to these values. The social and ethics committee is responsible for monitoring ethics practices and the report of the committee appears on pages 40 to 43 of the Integrated Annual Report.

The group has implemented various documented policies which require all employees to adhere to ethical business practices in their relationships with one another, suppliers, intermediaries, shareholders and investors. These policies also set stringent standards relating to the acceptance of gifts from third parties and declarations of potential conflicts of interests.

A fraud prevention policy ensures that a firm stance is taken against fraud and the prosecution of offenders. This policy outlines the group's response to fraud, theft and corruption committed by staff and external parties against the company. The internal audit department manages the legal processes relating to fraud cases to ensure the highest possible level of recovery for the group arising from any fraudulent behaviour.

### Tip-offs Anonymous

Staff are encouraged to report suspected fraudulent or unethical behaviour via a toll-free telephone service managed by an external service provider. All reported incidents are investigated. Awareness of this facility is created through presentations, a quarterly newsletter and competitions, and by encouraging staff to report incidents before significant losses are incurred.

### Political party donations

While the group supports the democratic system in South Africa, it does not make donations to or endorse individual political parties.

### Anti-competitive conduct

Clicks Group does not engage in practices that could limit competition or that could adversely impact on customers.

The directors are committed to ensuring that all group executives and employees understand the requirements of competition law and regulations. Robust risk management and supervisory oversight processes are in place to ensure adherence to these laws and regulations. A Competition Act compliance process is undertaken every year.

The group occupies a market-leading position in healthcare retailing and supply in South Africa and guards the confidentiality of intellectual property, customer and supplier data, business processes and methodologies.

The group has not been sanctioned for anti-competitive practices or for non-compliance with the Competition Act during the year.