GOVERNANCE AND ETHICS

Good governance contributes to value creation and Clicks Group's governance philosophy is founded on the principles of accountability, transparency, ethical management and fairness.


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CREATING VALUE THROUGH GOOD GOVERNANCE

Corporate governance creates value for the Clicks Group by ensuring the sustainability of the business and by enhancing long-term equity performance, in addition to the benefits that good governance brings to society at large and to the group's stakeholders in particular.

The group's governance and compliance framework is founded on the principles of accountability, transparency, ethical management and fairness. Governance processes and group policies are regularly reviewed to ensure alignment with regulatory changes, reflect best practice, seek out opportunities to incrementally improve the group's governance and ascertain whether the policies and processes are still fit for purpose as the group's businesses change over time.

The board believes that effective governance is also contributing to value creation in the following respects:

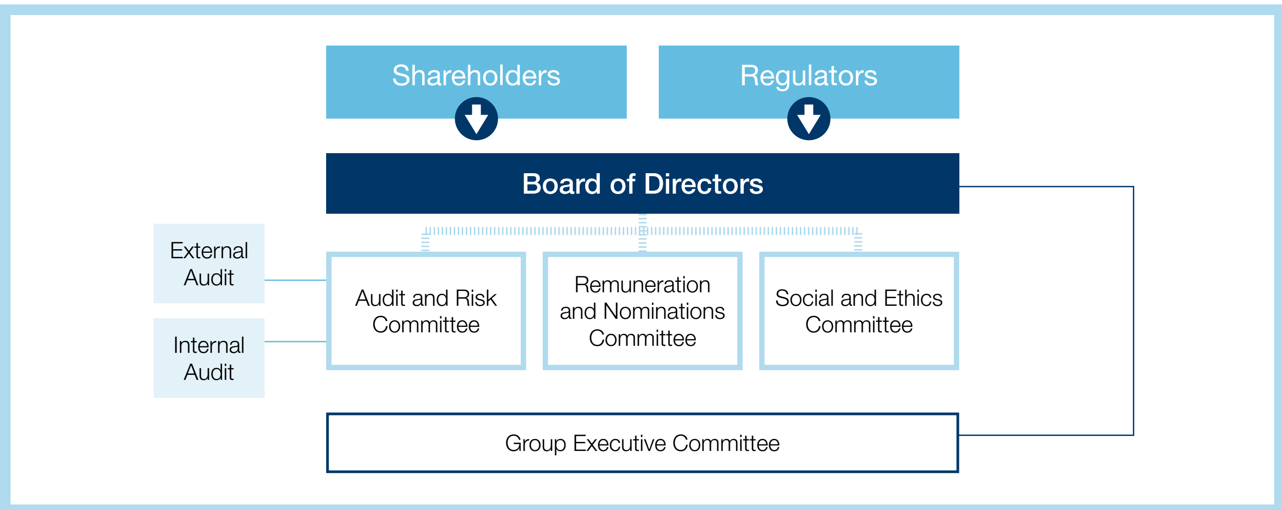
- providing a clearer view of the business through a greater degree of integration between financial and non-financial reporting;
- improving the quality of reporting by management to the board;
- promoting greater transparency and disclosure to stakeholders, including shareholders;
- building consumer confidence in the brands;
- enhancing accountability to shareholders;
- providing equitable performance management and fair reward structures for employees;
- guiding decision-making and supporting effective leadership throughout the business; and
- managing and mitigating risk more effectively.

Strong compliance structures and processes to support the effective functioning of these structures are essential to help avoid sanctions for non-compliance with regulation and to contribute to the sustainability of the business. The board accordingly maintains a focus on supporting and, where necessary, enhancing these structures and processes.

The group's continued investment in talent management and succession planning contributes meaningfully to the sustainability of the business. The group's succession planning in particular was brought into focus during the financial year when long-serving CEO, David Kneale, retired and was succeeded by Vikesh Ramsunder, with effect from 1 January 2019. The benefits of being able to appoint an internal candidate with extensive experience across the business as CEO, and who was identified as a potential successor some years ago, are manifold. These benefits include familiarity on the part of the new CEO with the group's strategic objectives; established relationships with colleagues; a deep understanding of the business environment in which the group operates, and of its people, assets and competitors; and being well prepared over time to grow into the role.

The group has applied the King IV report throughout the 2019 financial year and the directors confirm that the group has in all material respects voluntarily applied the principles of the code. The application of King IV is covered in the corporate governance report 2019 published on the website.

GOVERNANCE STRUCTURE



ROLE OF THE BOARD

Elected by the shareholders, the directors are responsible for the sustainability of the business within the triple context of the economy, society and the environment. The board's composition, authority, responsibilities and functioning are detailed in the board charter.

The board fulfils a range of legal duties, while being the primary source of effective, ethical leadership for the group. In executing its mandate the board is required to approve strategic plans; monitor operational performance; ensure that risk management and internal controls are effective; monitor regulatory compliance; and promote good governance. It must also approve significant accounting policies and the annual financial statements; monitor transformation and empowerment; manage the process of selection and appointment of directors; and ensure that the group's remuneration policies and practices are effective and fair. Certain of these functions are delegated to board committees.

KEY ISSUES ADDRESSED IN 2019

The board addressed the following key issues during the year:

- approving the business' three-year strategic plans and budgets, including capital investment;
- appointing Vikesh Ramsunder as CEO to succeed David Kneale and helping to ensure a seamless transition in the CEO office;
- ensuring that the group's accounting policies are appropriate. In particular this year, the group has spent time understanding the impact and formulating the group's response to the implementation of IFRS 16 which will change the accounting treatment for leases when the new standard is introduced in the 2020 financial year;
- reviewing talent and succession plans for the business;
- monitoring the second and final vesting of shares to beneficiaries in terms of the employee share ownership programme;
- reappointing John Bester as lead independent director, having made provision for this role, its function and authority in an amended board charter;
- ensuring the group is prepared for mandatory auditor rotation when this becomes compulsory in 2023 and recommending EY for reappointment as the group's auditor at the forthcoming AGM, noting that EY has served as the auditor for seven years;
- approving the investment in information technology for operating divisions in the group; and
- supporting the continuing expansion of the group's retailing activities in digital channels.

BOARD COMPOSITION

The board consists of nine directors, with three salaried executive directors and six independent non-executive directors. The age, tenure, experience and expertise of each director is briefly set out in the board of directors' report on pages 28 to 30 of the integrated annual report on the group's website.

INDEPENDENCE OF DIRECTORS

All the directors, both executive and non-executive, understand their legal duty to act with independence of mind in the best interests of the company.

While the tenure of non-executive directors is not a determinant of independence in terms of King IV, David Nurek has served as a non-executive director for 23 years, Martin Rosen for 13 years and Fatima Abrahams, John Bester and Fatima Daniels have each served for 11 years. The company remains aware of the need to appoint strong, suitably qualified new independent non-executive directors from time to time to ensure that fresh and critical thinking is maintained at board level. However, the board maintains its view that the company benefits from the depth of understanding of the business that a stable board that includes long-serving non-executive directors.

The remuneration and nominations committee conducted an evaluation of the independence of the chairman and non-executive directors during the year. Factors which could impact on their independence and performance were considered, in particular the factors contained in King IV and the JSE Listings Requirements. In the opinion of the remuneration and nominations committee there are no factors which prevent the directors from exercising objective, unfettered judgement or acting in an independent manner. All of the non-executive directors, including the chairman, are therefore appropriately classified as being independent.

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

BOARD DIVERSITY

The directors are diverse in terms of gender, race and professional backgrounds, contributing to strong decision-making and ensuring that a range of perspectives are brought to bear on matters under consideration by the board. The directors have extensive experience and specialist skills across a range of sectors, including retail, commercial, governance, human resources, remuneration, accounting and finance, legal, healthcare and marketing. The board race and gender diversity policy sets voluntary targets of 25% black and 25% female representation at board level. Following Vikesh Ramsunder's appointment as CEO to succeed David Kneale, 44% of the directors are female and 56% are black, which exceeds these targets.

DIRECTOR ELECTION

A third of non-executive directors are required to resign at each AGM, and executive directors are required to resign on the third anniversary of their appointment or most recent re-election to the board. This provides shareholders with the ability to hold directors to account and to appoint directors to the board whom shareholders believe will add value to the business.

ANNUAL PERFORMANCE EVALUATION

Each director is required annually to assess the performance of the board, its committees, the chairman and the CEO. This year's assessment indicated that in the opinion of the directors the board, its committees and the company's most senior executives have discharged their responsibilities effectively. The directors believe that the board is well-balanced in terms of skills, qualifications and experience, and makes a meaningful contribution to the group.

BOARD AND EXECUTIVE RELATIONSHIP

The roles of the chairman and the CEO 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 individual having unrestricted decision-making powers. The chairman leads the board and the CEO is responsible for the executive management of the group. While the board and executive management collectively determine the strategic objectives of the group, the board is responsible for approving the group's strategy, and the executive is responsible for executing this strategy and for the ongoing management of the business. Regular reporting by the executive on progress made in executing its mandate allows the board to monitor implementation of strategy and to assess the effectiveness thereof. Non-executive directors have direct access to management and may meet with management independently of the executive directors.

BOARD AND COMMITTEE MEETING ATTENDANCE

	Board	Audit and risk	Remuneration and nominations	Social and ethics
Number of meetings	4	4	3	2
David Nurek	4+	(4)	3^	2
Fatima Abrahams	4		3^^+	2+
John Bester	4	4+	3	
Fatima Daniels	4	4		
Bertina Engelbrecht	4	(4)	(3)	(2)
Michael Fleming	4	(4)		
Nonkululeko Gobodo	4	4		
David Kneale (retired 1 January 2019)	1	(1)	(1)	
Vikesh Ramsunder (appointed 1 January 2019)	3	(3)	(2)	2
Martin Rosen	4		2	
Meeting attendance 2019 (%)	100	100	92	100
Meeting attendance 2018 (%)	100	100	92	100

(•) Indicates number of meetings attended as an invitee
+ Chair
^ Chairs nominations agenda items
^^ Chairs remuneration agenda items

BOARD OVERSIGHT

The board discharges its oversight function both directly and through its three committees. The board and its committees are each chaired by independent non-executive directors. The composition of the committees conformed to regulatory requirements and King IV for the reporting period. Detailed disclosure on the roles, functions and composition of the committees is contained in the corporate governance report available on the website.

RISK GOVERNANCE

While the board recognises that certain risks are necessary to ensure sustainable growth and competitive returns, the directors acknowledge that the group and its stakeholders should be protected from avoidable risks. Risk management and governance processes are therefore aimed at creating an appropriate balance between risk and reward. The audit and risk committee is responsible for overseeing risk management for the board, with particular focus on combined assurance arrangements, ensuring that the group has implemented an effective policy and mitigation plan for risk, and that disclosure of these risks and mitigation plans is comprehensive, timely and relevant.

The committee is tasked with ensuring that the combined assurance model provides a co-ordinated approach to assurance activities and that the combined assurance received addresses all significant risks facing the group. The group and business unit risk registers are regularly reviewed and updated, containing current and emerging risks as well as risks associated with future strategic initiatives and identifying mitigating measures to address specific risks. Risk registers are updated as the nature of the risk changes over time or as mitigation measures take effect. Refer to the major group risks detailed in the managing material issues report on pages 27 to 29.

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. Any significant weaknesses in the design, implementation or execution of the group's internal financial controls which could result in material financial loss, fraud, corruption or error, are reported to the audit and risk committee and this information will be disclosed in the audit and risk committee report. No material issues were brought to the attention of the committee during the reporting period.

ETHICS AND VALUES

The group subscribes to high ethical standards of business practice. A set of values and a behavioural code of conduct require staff to display integrity, mutual respect and openness. Members of staff have an obligation to challenge others who are not adhering to these values. The social and ethics committee is responsible for monitoring ethical practices. The group has 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.

ANTI-COMPETITIVE CONDUCT

Oversight, governance and risk management processes are in place to promote compliance with statutory prescripts relating to competition and the effectiveness of these processes is borne out by the fact that the group has not been sanctioned for anti-competitive conduct. The group has market-leading positions in healthcare retailing and supply. This emphasises the need for the group to remain vigilant in guarding against engaging in anti-competitive practices.

GOVERNANCE FOCUS AREAS IN 2020

In an environment of heightened global awareness of data protection and privacy issues, and the related risks that are amplified in the current digital age, the group will continue to ensure that effective governance policies and processes are in place to address these issues. The group also expects to be compliant with the Protection of Personal Information Act when this legislation becomes effective. Strong systems and controls are also important weapons in the group's armoury as it seeks to deliver exceptional performance in trying economic circumstances and the group will continue to seek ways to incrementally improve in these areas.