

# CORPORATE GOVERNANCE REPORT 2017

## INTRODUCTION

The Clicks Group's governance framework is based on the principles of accountability, transparency, ethical management and fairness. A philosophy of sound governance is entrenched across the business. The directors recognise that good governance, achieved through an ethical culture, competitive performance, effective control and legitimacy, can create sustainable value and enhance long-term equity performance.

The King IV Code of Corporate Principles (King IV) is effective for all JSE-listed companies reporting after 1 October 2017. Significant corporate governance and regulatory developments, both locally and internationally, which have taken place since the introduction of King III in 2009 have been incorporated into the new code. The board, which is the governing body for the Clicks Group, welcomes improvements in governance codes which facilitate value creation without adding burdensome compliance requirements.

The requirement for reporting under King IV differs from reporting under King III in various respects – including that where King III required an entity to apply the code or explain why it had not done so, King IV requires that the entity report on how it has applied the code and explain the instances where it has not done so. There are also some changes to the substance of what is expected of entities that apply King IV, perhaps most obviously in relation to the extent of disclosure as a means of promoting transparency and accountability. There is an increased focus on sustainability and on promoting systems thinking in the governance of entities and in the conduct of businesses.

This report is aimed at assisting stakeholders in assessing the group's approach to corporate governance and compliance with King IV.

## LEADERSHIP

The board is responsible for and plays a leadership role in the establishment and maintenance of the ethical culture of the group and its corporate governance. The board determines the group's strategic direction. Decisions, deliberations and actions are based on the group's ethical values and principles. The board oversees the implementation and maintenance of a culture of integrity through ensuring that the group's mission, vision and objectives are ethically sound. Active measures are taken by the board to ensure that

ethical standards of the company are adhered to, with the social and ethics committee and audit and risk committee each having acute focus on matters of ethics and governance.

The board ensures that the group's ethical standards are clearly articulated and supported as an integral part of conducting business. The group has a code of conduct, which is enforced. Ethical standards of the group are integrated into the group's strategies and operations, thereby resulting in ethical, socially acceptable and sustainable outcomes as the group achieves its objectives.

All board members are suitably qualified for their roles as directors and have extensive business experience and specialist skills across a range of sectors, including retail, commercial, governance, human resources, remuneration, accounting and finance, legal, healthcare and marketing. This enables them to provide balanced and independent advice and judgement in the decision-making process. Board members are responsible for attending to their own continuing professional development requirements and are kept apprised of any regulatory changes that are relevant to the group. They have access to professional advisers at the company's cost if required.

Board members are provided with information on the group's strategies, plans and performance, and devote sufficient time and effort in preparation for meetings. The scope of authority, responsibility, composition and functioning of the board is contained in a formal charter which is regularly reviewed.

The board and the audit and risk committee meet four times a year, the remuneration and nominations committee meet three times a year and the social and ethics committee meet twice 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. The board and each committee have defined work plans.

Attendance by directors at board and committee meetings for the 2017 financial year is set out in the table on page 2. The external auditors, the head of internal audit and the group head of finance attended audit and risk committee meetings as invitees, and the chief operating officer attended all board meetings as an invitee.

## CORPORATE GOVERNANCE REPORT 2017 (CONTINUED)

	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>	1 (1) <sup>#</sup>	3 <sup>^</sup>	2 <sup>+</sup>
Fatima Abrahams	3		3 <sup>^^</sup>	2
John Bester	4	4 <sup>+</sup>	3	
Bertina Engelbrecht	4	(4)	(3)	2 <sup>++</sup>
Michael Fleming	4	(4)		
Nonkululeko Gobodo*	2/2	2/2		
Fatima Jakoet	4	4		
David Kneale	4	(4)	(3)	2
Nkaki Matlala**	1/1	1/1		
Martin Rosen	4		3	
<b>Meeting attendance 2017 (%)</b>	<b>97</b>	<b>100</b>	<b>100</b>	<b>100</b>
Meeting attendance 2016 (%)	97	100	92	100

<sup>+</sup> Chair

<sup>#</sup> Served on the committee in an interim capacity until a replacement was appointed and is now an invitee to the committee

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

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

\* Appointed 1 March 2017

\*\* Retired 26 January 2017

<sup>++</sup> No longer a member of the social and ethics committee

(●) Indicates number of meetings attended as an invitee

The board reviews and approves the group authority levels annually.

The board considers itself accountable to a broad spectrum of stakeholders including shareholders, government, regulators, employees, customers, suppliers and financial institutions within the triple context of society, the economy and the environment. Shareholders and members of the investment community are encouraged to engage with the group, particularly at the AGM and twice yearly results presentations.

Through director rotation shareholders are provided with an accessible means of holding individual directors to account. Directors hold each other to account through annual evaluations of their performance.

### ORGANISATIONAL ETHICS

The group subscribes to high ethical standards of business practice. The board cultivates an ethical and transparent culture. A set of values, various documented policies and a code of conduct approved by the board

require all employees to adhere to ethical business practices in their relationships with one another, suppliers, intermediaries, shareholders and investors, to display integrity, mutual respect and openness, and affords them the opportunity to challenge others who are not adhering to these values.

Group policies also set standards relating to the ethical risks of the group, for example the acceptance of gifts from third parties and declarations of potential conflicts of interests. The Clicks Group code of conduct and all policies are available on the group's intranet which is accessible to all employees. All employees undergo compulsory induction which includes an understanding of the code of conduct and ethical policies and procedures. Every employee is required to acknowledge the code of conduct during their induction by formally signing the code. The group's values, mission, objectives and ethical standards are included in the terms and conditions of business included in all supplier contracts and suppliers are subjected to a vetting process. Suppliers who do not adhere to the supplier code of ethics may have their contracts terminated.

The supplier code of ethics is also published on the group's website.

In order to remain accountable and responsive to evolving norms governing the conduct of business in which it operates the board has a continuing obligation to ensure that the group is cognisant of country-specific governance requirements and has effective governance and controls in place to meet this requirement. The governance of ethics within the group forms an important aspect of the board's focus and responsibility.

The board is responsible for ensuring that the group's ethical norms and policies are appropriate and are enforced, a responsibility that it discharges through the social and ethics committee. The social and ethics committee is responsible for monitoring ethics practices and providing regular updates to the board on ethical matters. It monitors and performs an oversight function to ensure that the board and the wider organisation are equipped to deliver on the goal of having an ethical culture, and to seek to ensure that the group is sustainable in the triple contexts of the economy, society and the environment.

The remuneration and nominations committee is tasked by the board to monitor the application of the organisation's ethical standards in recruitment processes, performance evaluation and reward of employees, while the social and ethics committee is responsible for ensuring that remuneration is fair. Independent employee satisfaction surveys are circulated to all employees every second year, which address, among other things, general issues of employees' feelings of satisfaction with their conditions of employment and matters relating to their perceptions of the organisation's ethics. Plans to address concerns and make improvements are implemented and monitored annually. The social and ethics committee reviews the results of the employee satisfaction survey and the plans to enhance participation rates and performance.

A fraud prevention policy aids in ensuring that a firm stance is taken against fraud and in the prosecution of offenders. This policy outlines the group's response to fraud, theft and corruption committed by staff or external parties against the company. Staff are encouraged to report suspected fraudulent or unethical behaviour via a toll-free whistle-blower line managed by an external service provider and can do so anonymously. All reported incidents are investigated. Awareness of this facility is created through presentations, a quarterly newsletter and competitions.

Breaches in ethics and company policies ordinarily follow a formal disciplinary process, and the related action plans and outcomes are reviewed and discussed at the audit and risk committee and the social and ethics committee meetings during the year.

Internal audit assesses the group's ethical performance annually and provides regular reports to the audit and risk, and social and ethics committees. The governance and management of ethics is then documented in detail in this governance report, which is available on the group's website, and a report on creating value through good governance is included in the Integrated Annual Report in which material matters are publically disclosed. An overview of the key areas of focus and measures to monitor organisational ethics by the board in the reported period and planned future focus areas are disclosed in the social and ethics committee report read with the committee's terms of reference. This allows stakeholders to hold the group to account, promoting good governance and thereby ensuring sustainable value creation.

## RESPONSIBLE CORPORATE CITIZEN

The Clicks Group continues to demonstrate its commitment to making a sustainable contribution to the communities in which it trades. The group's core business focuses on health, beauty and wellness. Through providing pharmacy services, promoting good pharmacy practice, providing primary healthcare clinic services and partnering with government to promote greater public access to these services, the group contributes to the long-term health of members of society. Through investing in pharmacy education the group ensures a long-term supply of pharmacy services to South African society and assists in realising the right to healthcare.

The group also engages in enterprise development, accelerating the sustainability and financial independence of black enterprises. Supplier development and preferential procurement initiatives are measured against agreed targets included on the transformation scorecard. Financial and product donations to non-profit organisations and initiatives, as well as the work of charitable trusts, specifically the Clicks Helping Hand Trust and the New Clicks Foundation (which are vehicles aligned to the group), also contribute positively to the society in which the group operates.

The board, through the social and ethics committee, sets the direction and embeds the culture of the group relating to its corporate citizenship role. It provides strategic direction to the group, identifying and

## CORPORATE GOVERNANCE REPORT 2017 (CONTINUED)

monitoring non-financial aspects of the business of the group and ensuring that it acts responsibly towards stakeholders having legitimate interests in its affairs.

The HR director manages the execution of the group's activities in relation to its corporate citizenship, including initiatives undertaken for community development, which are reviewed by the social and ethics committee. The social and ethics committee also assesses sustainability performance with specific reference to the group's inclusion in the FTSE/JSE Responsible Investment Top 30 Index and in terms of the Carbon Disclosure Project. The committee assessed the group's actions in relation to the 10 Principles of the United Nations Global Compact (UNGC). While the group is not a signatory to the UNGC, it has adopted the 10 Principles of the UNGC and monitors compliance against these principles in the areas of human rights, labour, anti-corruption and the environment.

The social and ethics committee assists the board to monitor the group's corporate citizenship responsibilities. The social and ethics committee monitors progress against transformation targets and the group's employment equity plan, fair remuneration, health and safety, as well as the external verification of the group's empowerment activities. The remuneration and nominations committee annually reviews the talent and succession plans of the group and development of employees, recognition of the important role that its employees play in society and the contribution to society that flows from investing in its employees. Fair remuneration, employee health and safety, and the development of employees are all acknowledgements of the dignity and worth of the group's employees.

The group's ordinary business activities also impact significantly on society. As the business grows, so too does the number of people it employs and the contribution it makes to the national economy. The board monitors management's progress against growth plans, ensuring increased employment and contribution to the national economy. The group's fraud prevention policy ensures that a firm stance is taken against fraud and in the prosecution of offenders, which in turn advances the societal interest that lawlessness and criminality should be resisted.

The board has directed the audit and risk committee to monitor and report on compliance with applicable laws and regulations. The social and ethics committee also carries some responsibilities in this regard. Legislative and regulatory compliance is monitored by the head of legal and the compliance officer, who report to the

board and committees regularly. 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 group tax manager is responsible for the tax policy and reports regularly to the audit and risk committee in respect of all tax-related matters.

As the largest employer of pharmacy staff in the private sector in South Africa the group is actively building capacity to address the critical shortage of pharmacists, which is a challenge the world over. Initiatives to address these are in progress in the form of bursary and internship programmes to attract pharmacy graduates, the development of a retail graduate programme, and in the medium term the New Clicks Foundation will be providing funding for education in these areas. Future plans include investment in socio-economic development projects aligned to the group's focus on health and well-being through the Clicks Helping Hand Trust and continued relationships with small enterprise owner-drivers to deliver products from UPD to Clicks, independent pharmacies, hospitals and clinics.

Through the use of renewable energy where practical, recycling through the group's distribution centres, water conservation initiatives, offering ethical alternative products to consumers (e.g. The Body Shop) and reducing carbon emissions through active supply chain management, the group seeks to minimise its impact on the environment.

The group recognises that initiatives driving responsible corporate citizenship should be sustainable. Many of its initiatives are disclosed on the group's website where the director responsible is identified. The group's website also contains the social and ethics committee report which outlines arrangements for governing, managing and monitoring responsible corporate citizenship, and key areas of focus during the reporting period.

### STRATEGY AND PERFORMANCE

The board and executive management work closely in determining the strategic direction and objectives of the group.

On an annual basis management formally presents the short, medium and long-term strategy to the board which challenges it constructively in respect of its assumptions, time frames and objectives and, if satisfied, formally approves the strategy, budget and targets for the ensuing year. The board also assesses key performance measures. In this regard, generally speaking, the short term is the ensuing year to

three years, the medium term is three to five years and the long term is any period beyond that.

In determining strategy, the resources and various forms of capital are considered, disclosed and linked to value creation in the Integrated Annual Report. The board recognises the interconnectivity and interdependence of the various forms of capital and assesses strategy in light thereof.

Material issues, risks and opportunities, which could impact positively or negatively on the group's ability to create and sustain value, are considered by the board. These material issues are reviewed annually by the board and management, where relevant internal, industry and macroeconomic factors are evaluated. The needs, expectations and concerns of the stakeholder groups that are most likely to influence the group's ability to create sustainable value, notably customers, suppliers, regulators, staff and providers of capital, are central to determining the material issues.

As part of its assessment of the group's strategy the board has regard to both the positive and negative consequences of its activities. It recognises the interdependence of the various forms of capital and ensures that potentially negative consequences are mitigated through conducting risk assessments; monitoring customer complaints, litigation and social media; and receiving relevant specialist reports, and ensures that the organisation responds appropriately.

Authority and responsibility has been delegated by the board to the chief executive officer and the group executive committee for the implementation of the strategy and operational plans, and the ongoing management of the business. This responsibility is cascaded down through the group and the group's strategies are incorporated into operating plans and budgets by business and function.

The board exercises ongoing oversight of the implementation of strategy and operational plans against the agreed performance measures and targets. This takes place at quarterly board meetings and through receipt of information in the monthly group management accounts.

The board monitors the ongoing viability of the organisation and the effects on the six capitals. The board is apprised of the group's going concern status at the board meetings coinciding with the interim and final results, and formally assesses the group's ability to continue as a going concern at least twice a year along with solvency and liquidity requirements. The board

is satisfied that the group has adequate resources to continue operating for the next twelve months and into the foreseeable future.

## REPORTING

The board, assisted by the audit and risk committee, assumes responsibility for the Integrated Annual Report, annual financial statements and all other statutory reporting on key matters affecting the group and its stakeholders. The board has delegated the preparation of the organisation's reporting to the executive committee.

The directors believe the group has materially reported in accordance with the International Integrated Reporting Council (IIRC) Framework in the Integrated Annual Report. The group is cognisant in its reporting of the King IV emphasis on the viability of the organisation with regard to its reliance and effects on the six capitals that are applied in the creation of value, being the financial, manufactured, intellectual, human, social and relationship, and natural capitals; its solvency and liquidity; and its status as a going concern.

The board reviews the Integrated Annual Report and annual financial statements annually in conjunction with the audit and risk committee chairman before these are published to confirm that the Integrated Annual Report addresses all material issues and fairly represents the integrated performance of the group. The board engages with management in determining the content of reports and in the course thereof assesses and approves management's bases of determination of materiality. The Integrated Annual Report focuses on information which the directors believe is material to investors' understanding of the group's ability to create value in the short, medium and longer term. The materiality test applied by the board is based on internal and external matters, both positive and negative, that substantively affects the group's ability to deliver its strategy and could have a material impact on revenue and profitability.

The annual financial statements are assured by the external auditor; however the Integrated Annual Report is not assured externally. The audit and risk committee considers obtaining independent assurance of the sustainability information annually. Certain indicators have been selected for verification by accredited specialists, namely broad-based black economic empowerment and carbon emissions. Internal audit has assured selected sustainability indicators. In addition, the board ensures through review at board and committee meetings that all other reports (including sustainability reports, social and ethics committee

## CORPORATE GOVERNANCE REPORT 2017 (CONTINUED)

reports, governance reports, annual financial statements and the like) and other online and printed information issued by the group fairly represent the performance of the group; comply with all legal requirements; and meet the legitimate and reasonable information needs of material stakeholders.

The board has delegated the responsibility for publishing all required reports on the group's website and any release to the media (as appropriate) to executive management. On an annual basis the governance report, the Integrated Annual Report, the annual financial statements and other external reports are published on the group's website.

### PRIMARY ROLE AND RESPONSIBILITIES OF THE BOARD

The board serves as the focal point and custodian of corporate governance in the organisation. The directors recognise that good governance can create shareholder value by enhancing long-term equity performance. While the board is unwavering in its adherence with legislation, regulations and codes, the group's commitment to good governance goes beyond a commitment to comply with minimum standards – it strives to create an ethos where governance is a central consideration in the manner in which the business of the group is conducted.

The scope of authority, responsibility, composition and functioning of the board is contained in a formal charter which is regularly reviewed.

The board develops and applies a work plan to help to ensure that it attends to all of its responsibilities, when these responsibilities have not been delegated to a committee. The board has reserved the following decisions for its own approval (taking into account any recommendation that may have been made by mandated committees):

- the approval of the strategy, business plans and annual budgets and of any subsequent material changes in strategic direction or material deviations from business plans;
- the adoption of any significant change or departure in the accounting policies and practices of Clicks Group and its subsidiaries;
- the approval of annual financial statements and the Integrated Annual Report and the approval of interim reports;
- appointments of directors;
- appointment and approval of terms of reference and changes in the composition of committees of the board as are established from time to time;

- appointment, removal or replacement of the company secretary;
- recommendation of the appointment, removal or replacement of the external auditor of Clicks Group;
- recommendation of any increase of directors' fees; and
- the frequency of meetings of the board.

Delegation of a specific task to individual members of the board is recorded in minutes of board meetings. Either implicitly or explicitly, the nature and extent of the responsibilities delegated, decision-making authority and the duration of the delegation are incorporated in the delegation. Where the delegated task is of such a nature as to require that feedback be given by the person to whom the task was delegated then such feedback will be given at a board or committee meeting and will be recorded in the minutes of that meeting.

The board charter entitles board members to have access, at reasonable times, to members of senior management and to all relevant information to assist them in the discharge of their duties and responsibilities and to enable them to take informed decisions. All directors have unrestricted access to company documentation. Directors are entitled to seek independent professional advice at the company's expense.

The board's leadership role in setting and monitoring the strategic direction of the group is outlined above. The board holds itself accountable and allows others to hold it to account by assuming responsibility for reporting and disclosure, and through other means such as director rotation.

The board is responsible for maintaining records of its actions. Records of all board meetings and minutes are held with the company secretary. The number of meetings held during the reporting period, and attendance at those meetings are disclosed in this report and in the Integrated Annual Report, both of which are accessible on the Clicks Group website.

### COMPOSITION OF THE BOARD

#### Composition

The group has a unitary board structure with nine directors, comprising three salaried executive directors and six independent non-executive directors. The memorandum of incorporation (MOI) requires a minimum of four directors; however statutory committees and the need to comply with JSE Listings Requirements necessitates more than four directors. Consideration is given to the number of committees, the mandate of those committees, the skills and

experience required, and the number of directors required to serve on those committees has resulted in nine directors being appointed. Currently there are three committees and a sufficient number of directors to serve on each committee. The quorum necessary for the transaction of business is fixed by the MOI, which requires a majority of directors (currently five).

The chief executive officer, chief financial officer and group HR director are all members of the board, and other executives attend board meetings when appropriate, to ensure that the board has direct interaction with executive management.

The board charter empowers the board to determine its composition and requires that it has an appropriate balance of knowledge, skills, experience, diversity and independence to be able to fulfil its duties and responsibilities to stakeholders. The board's mix of knowledge, skills and experience includes retail, commercial, governance, human resources, remuneration, accounting and finance, legal, healthcare and marketing. In line with the race and gender diversity policy adopted by the group, the board comprises four female and five male members, 44% of whom are black directors. The diversity of the directors in terms of gender, race and their professional backgrounds encourages constructive debate and ensures that the board considers the needs of a wide range of stakeholder interests. Disclosure of the group's progress in meeting its race and gender diversity targets at board level is made in the Integrated Annual Report. The board is satisfied that it has an appropriate mix of knowledge, skills, experience, diversity and independence.

Disclosures in the Integrated Annual Report in relation to the composition of the board include the categorisation of each member as executive or non-executive; and the age, qualifications, professional positions and experience of members.

### **Nomination, election and appointments of members to the board**

The remuneration and nominations committee monitors and is responsible for the processes in relation to the nomination, election and appointment of directors. These processes are conducted in a formal, thorough and transparent manner in line with the board charter, the MOI and the Companies Act, 2008.

At each AGM at least one-third of the non-executive directors in office retire by rotation. In addition, each executive director retires on the third-year anniversary after his/her appointment was confirmed by shareholders if he/she was appointed, or after his/her

election or re-election, as the case may be. Any retiring director may be re-elected by shareholders provided he/she is eligible. During 2017 Dr Nkaki Matlala retired from the board and Nonkululeko Gobodo was appointed to the board, introducing new expertise and perspective.

The nomination of a candidate for appointment to the board is decided collectively by the board after consideration of the knowledge, skills and experience required by the board; diversity requirements; and the experience and suitability of the candidate. In determining the eligibility for re-election of an incumbent director who retires by rotation, the board also considers the need for continuity, experience and diversity, as well as the performance of the incumbent. Candidates must provide the board with details of professional commitments and a statement that confirms that the candidate has sufficient time available to fulfil the responsibilities as member of the board, and the board must satisfy itself that the candidate has sufficient capacity to attend to his/her responsibilities, taking into account their other professional commitments. A brief professional profile for each director standing for election at the AGM accompanies the notice of AGM, together with a statement from the board affirming support for the candidate's election. Shareholders are provided with the opportunity to reject or endorse the board's recommendations at the AGM, per the prescripts of the Companies Act, 2008. The company has no controlling shareholder or group of shareholders and there is no direct shareholder representation on the board.

The board charter requires each director to regularly attend meetings of the board and any sub-committees on which the director serves. A portion of the fees payable to non-executive directors is directly related to attendance at board and committee meetings. A director must tender his/her resignation in the event of being unable to attend three consecutive board or committee meetings.

All new directors are issued with a letter of appointment detailing the role of the director and conditions for serving as a member of the board. A newly appointed director will undergo a formal induction programme to familiarise the incoming director with the group's operations, its business environment and significant matters relevant to the business. This includes meetings with business unit heads and members of senior management to understand their duties and responsibilities, as well as visits to stores and distribution centres.

Continuity of membership of the board is essential to the proper governance of Clicks Group, subject to performance and eligibility of directors for re-election.

## CORPORATE GOVERNANCE REPORT 2017 (CONTINUED)

The company derives extensive benefit from the depth of knowledge of the business and consistent approach to the strategy of the business that having long-serving directors brings, and will appoint strong, suitably qualified new independent non-executive directors from time to time to ensure that independent, fresh and critical thinking is maintained at board level. The remuneration and nominations committee reviews succession plans for the board's membership. Leadership development within the group could provide future candidates for the board. The retirement age for the chief executive officer is 65 while the other executive directors retire at the age of 63. There is no prescribed retirement age for directors.

The members of the board are all experienced directors, with knowledge of corporate governance and their responsibilities to the company. Mentorship of directors is in the circumstances not required. Directors also have access to a range of internal and external resources to advise them on regulatory and governance matters and to respond to ad hoc queries. They receive briefings at audit and risk committee and board meetings on changes in regulation applicable to the business of the company (including the JSE Listings Requirements and accounting standards and policies) and changes in the environment in which the company operates, as well as changes in the risk profile of the company. The board has in the course of the year been apprised of the changes in recommended best practice in relation to the governance of the company, as set out in King IV, and of the changes that the Clicks Group will bring about to ensure that it meets the standards set out in King IV.

The company secretary is responsible for ensuring that required notifications are given to the JSE and the Companies and Intellectual Property Commission, and on SENS, in relation to removals or resignations from and appointments to the board. Should a member be removed or resign, the reason for the removal or resignation will be disclosed. Disclosure of removals or resignations from and appointments to the board is also made in the Integrated Annual Report and in the governance report.

### **Independence and conflicts**

All six non-executive directors, including the chairman, are appropriately classified as being independent in terms of both the King IV definition and the guidelines outlined in the JSE Listings Requirements. Board members inform the board of any conflicts of interest in relation to particular items of business at the commencement of any board or committee meeting, or

as soon as the director becomes aware of such conflict or potential conflict. Directors recuse themselves from discussion or decisions on matters in which they have a conflict of interest, subject to any other action required in terms of the Companies Act, 2008. On an annual basis, directors confirm their financial, economic and related party interests. Directors are required to notify the company secretary of any significant changes.

The tenure of each director is disclosed in the Integrated Annual Report. David Nurek has served as a non-executive director for 21 years, Martin Rosen for 11 years and Fatima Abrahams, John Bester and Fatima Jakoet have each served for nine years. Where non-executive members have served more than nine years a summary of the views of the board on the independence of the member is disclosed in the Integrated Annual Report. Approval for the director's eligibility for re-election is granted by the board after assessment and conclusion that the member exercises objective judgement and that there is no interest, position, association or relationship which is likely to influence unduly or cause bias in decision-making. Non-executive directors are not entitled to remuneration that is contingent on the performance of the group.

None of the directors are significant providers of capital or ongoing funding to the organisation and none is an officer, employee or a representative of a significant provider of financial capital or funding. None of the non-executive directors participates in any company incentive scheme and shares held by non-executive directors are not material to the directors' personal wealth. This is considered annually by the remuneration and nominations committee.

None of the non-executive directors has been in the employ of the Clicks Group within the preceding three financial years or is a related party to an executive manager in the employ of the Clicks Group. None of the non-executive directors has been the designated external auditor or been in the employment of the designated external auditor in the preceding three financial years. None of the non-executive directors are advisers to the organisation. No directors are members of the board or the executive management of a significant customer or supplier to the organisation. None of the non-executive directors is a member of the board or the executive management of another organisation which is a related party to the group.

The governance report and Integrated Annual Report highlight that the board has extensive business experience and specialist skills across a range of

sectors, including retailing, accounting, finance, law, marketing and human resources. This enables the board to provide balanced and independent advice and judgement in the decision-making process. Disclosure is provided in the Integrated Annual Report in respect of board members' directorships held at other companies.

### Chair of the board

The chairman of the board is an independent non-executive director, which is required in terms of the board charter. The chairman is elected after the AGM. The board charter further details the role, responsibilities and term of office of the chairman and all board members. The chairman is not and has never been the CEO of the group. The independence of the chairman is disclosed in the Integrated Annual Report.

The chairman of the board is not a member of the audit and risk committee, although he attends meetings of this committee by invitation. The chairman of the board is a member of the remuneration and nominations committee and chairs nominations agenda items of this committee. The chairman of the board is the chairman of the social and ethics committee.

The board is aware of the professional commitments of any candidate for the position of chairman when this election takes place after the AGM. Should the need arise, the board will appoint a lead independent to act instead of the chair in his absence or where there is a conflict in respect of a decision. The nominations committee ensures there is a succession plan in place for the chairman of the board.

### COMMITTEES OF THE BOARD

The board charter allows for the delegation of responsibilities to committees formed by it to assist it in the execution of its duties, power and authorities. The Companies Act, 2008, and the JSE Listings Requirements also dictate the formation of certain committees as well as their composition and statutory mandates. The board has delegated additional responsibilities to these committees, over and above their prescribed mandates. The board presently has three standing committees, namely the audit and risk committee, the remuneration and nominations committee, and the social and ethics committee.

Delegation of authority to a sub-committee is set out in the terms of reference for that committee. The terms of reference also set out, inter alia, the composition, purpose, powers and authority of the committee, the scope of its mandate and its relationship to the board; the committee's access to the company's records, facilities, employees and any other resources

necessary to discharge its duties and responsibilities; and the prescribed frequency of, attendance at and procedure to be followed in meetings. The terms of reference of the various committees are reviewed annually and any changes are approved by the board. Only directors are appointed as members of the committees. Each committee's terms of reference detail the role, functions and responsibilities of the committee. Each committee's terms of reference set out the delegated authority in respect of decision-making, responsibility and fulfilment of its duties.

As provided for in these committees' terms of reference, members of the social and ethics committee and remuneration and nominations committee are appointed by the board for an indefinite period, provided that if a member ceases to be a director that member will simultaneously cease to be a member of the committee. The board has the power to remove any members of a committee and to fill any vacancies created by such removal. Members of the audit and risk committee are elected annually by shareholders and their tenure is accordingly from one AGM to the next. Vacancies on the audit and risk committee may be filled in terms of the Companies Act, 2008.

Each committee's terms of reference detail the process for reporting to the board. The social and ethics committee is required in terms of the JSE Listings Requirements to report to shareholders at the AGM on the matters within its mandate, which it does. It is also entitled to attend the AGM and be heard on any matter falling within its mandate, per the Companies Act, 2008.

The board evaluation process allows directors to evaluate the performance and effectiveness of the various committees. This is not explicitly recorded in the terms of reference of the committees, but because the committee is a sub-committee of the board it is subject to the overarching authority and functioning of the board and the board charter. The board charter prescribes that the performance of each of the committees is to be evaluated regularly to ensure that the composition, mandate and authority of each committee enables it to provide effective assistance to the board.

The potential impact on availability of directors arising from cross-membership between committees is managed through scheduling of meetings. The board considers the responsibilities of each director and the director's ability to serve adequately on each committee when making appointments to committees and in scheduling of committee meetings. In addition, through

## CORPORATE GOVERNANCE REPORT 2017 (CONTINUED)

having some non-committee members attend committee meetings, transfer of knowledge, collaboration and co-ordinated functioning of committees is promoted.

Roles and responsibilities are delegated to specific committees. No two committees have jurisdiction over the same matter other than in the consideration of remuneration where both the remuneration and nominations committee and the social and ethics committee bear responsibility to ensure that the remuneration policy is fair. While both the social and ethics committee and the audit and risk committee consider compliance issues, these committees consider these issues with different focuses.

There is a balanced distribution of power between the board, its committees and the executive management. No individual or committee has the ability to dominate decision-making, and no undue reliance is placed on any individual or committee.

The board has satisfied itself that each committee, as a whole, has the necessary knowledge, skills, experience and capacity to execute its duties effectively. This is reviewed annually during the committees' performance evaluation.

Each committee has a minimum of three directors as its members. Where the composition of a committee is restricted by law or in terms of the JSE Listings Requirements, these constraints are expressed in the terms of reference of the committee and given effect to.

Members of the executive and senior management are invited to attend committee meetings either by standing invitation or on an ad hoc basis to provide pertinent information and insights in their areas of responsibility.

Members of the board are entitled to attend committee meetings as observers. However, members attending as observers are not entitled to participate without the consent of the chair; do not have a vote; and are not entitled to fees for such attendance, unless payment of fees is agreed to by the board and shareholders.

The board applies its mind to all information, opinions, recommendations, reports and statements presented by committees or their members. The delegation of the board's authority in defined areas to committees does not absolve the board or its directors from their respective accountabilities to ensure the discharge of their duties and responsibilities.

The following disclosure is made in respect of each committee:

- its role and associated responsibilities and functions;
- its composition;
- areas of focus during the reporting period;
- the number of meetings held; and
- attendance at committee meetings is disclosed in this report, including that of external advisers or invitees who regularly attend meetings.

As disclosed in the Integrated Annual Report and in this report, the directors confirm that the committees have functioned in accordance with their written terms of reference during the financial year.

### Audit and risk committee

The audit and risk committee is a statutory committee of the board appointed in terms of section 94(7) of the Companies Act, 2008. It has duties assigned to it by the board over and above its statutory duties. Specific responsibilities include providing oversight in respect of the effectiveness of the group's finance function, external and internal assurance services, and risk management with particular focus on combined assurance arrangements and the relationship between external and internal assurance providers and the group. The audit and risk 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 committee also reviews, comments on and is responsible for the integrity of the group's annual financial statements and reviews interim reports, preliminary or provisional result announcements, summarised integrated information, trading statements and other intended releases of price-sensitive information. The audit and risk committee further oversees integrated reporting. The committee considers the results of the formal documented review of the group's system of internal financial controls and risk management, including the design, implementation and effectiveness of the internal financial controls. The audit and risk committee is also responsible for 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 deliberations of the audit and risk committee do not reduce the individual and collective responsibilities of board members with regard to their fiduciary duties and responsibilities, and members continue to exercise due care and judgement in accordance with their legal obligations as directors of the company. This is provided for in the audit and risk committee's terms of reference.

All members of the audit and risk committee are independent non-executive directors and are chartered accountants, with the necessary expertise in accounting and finance. The chairman of the audit and risk committee is appointed annually by the board from the committee members elected by shareholders. John Bester and Fatima Jakoet were re-elected to the committee at the January 2017 AGM, and David Nurek was elected to the committee at the same meeting in an interim capacity while the company sought an independent non-executive director for appointment to the board to replace Nkaki Matlala. Nonkululeko Gobodo was appointed to the committee to replace David Nurek after her appointment as a non-executive director on 1 March 2017.

The audit and risk committee meets independently with the head of internal audit after each audit and risk committee meeting to facilitate an exchange of views and concerns that may not be appropriate for discussion in an open forum. The chairman of the audit and risk committee meets with the head of internal audit quarterly to discuss progress and performance of the internal audit function and raise any key concerns. The audit and risk committee meets independently with the external audit partner on an annual basis. Management is not present in any of these meetings.

The audit and risk committee report is included in the annual financial statements and details the role of the committee and whether or not it is satisfied in respect of the external audit functions, independence of the firm, its audit partner rotation policy, quality of work and provisions of non-audit services (including the value thereof). The report also contains details of significant matters in the annual financial statements that have been considered by the audit and risk committee and sets out the audit committee's views on the effectiveness of the head of internal audit and the internal audit function.

The audit and risk committee also sets out the committee's view on the internal financial controls of the group. There were no material issues noted in the financial year. Any significant weaknesses in the design, implementation or execution of the group's internal financial controls that resulted in material financial loss, fraud, corruption or error would be disclosed in the audit and risk committee report.

The external auditor, EY Inc., has been the auditor of the group for the past five years and is considered independent. The audit partner rotates off the audit after five years in terms of JSE Listings Requirements and the firm ensures adequate succession planning is in place.

The audit and risk committee members are satisfied with the quality of work produced by the external auditors and are not aware of any adverse quality indicators.

The audit and risk committee report includes the committee's assessment of the financial knowledge, expertise and experience of the chief financial officer; the appropriateness, expertise and adequacy of resources of the finance function; and the experience of senior members of management responsible for the finance function. The audit and risk committee report sets out the work that it has done to discharge its mandate.

### Remuneration and nominations committee

The remuneration committee and the nominations committee 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. Much of this committee's mandate and functioning is set out in this report in the context of the appointment of members of the board.

The remuneration and nominations committee ensures the group has a competitive remuneration policy and governance framework which is aligned with the group's strategic and organisational performance objectives. The policy is transparent with a pay framework that clearly differentiates between occupational levels of work and pay grades that facilitate remuneration benchmarking for each job within a skill pool.

The primary responsibilities of the committee include:

- ensuring the remuneration policy is aligned to and promotes the achievement of the group's strategic objectives and encourages individual performance;
- ensuring that annual guaranteed pay, scarce skills premiums, benefits and incentives are appropriately benchmarked to ensure the group is competitive in the employment market;
- ensuring all benefits, including retirement benefits and other financial arrangements, are justified and correctly valued;
- reviewing and approving the performance evaluation of the chief executive officer and executive directors against agreed deliverables;
- reviewing incentive schemes to ensure alignment to shareholder value creation and that the schemes are administered in terms of the rules; and
- reviewing the remuneration of non-executive directors and recommending adjustments to the fees at the AGM.

The committee is responsible for reviewing succession plans for the board, CEO and senior management, and appraises the board thereof. In addition, the remuneration and nominations committee is responsible for recommending to the board the process for evaluating the board, directors, chair of committees and committees, and once this process has been approved, to ensure that it is carried out on a regular and formalised basis. In the context of remuneration, this committee bears primary responsibility for reviewing, monitoring and recommending for approval the remuneration policies of the group, including salary increases; long and short-term incentive scheme participation, metrics and payments; and that the group's remuneration policies and practices are fair.

All members of the remuneration and nominations committee are independent non-executive members of the board. Oversight of remuneration has been delegated to the remuneration and nominations committee. Its terms of reference prescribe that it must comprise at least three non-executive directors, one of whom is to be the chair of the board and the majority of whom are to be independent. The committee is currently comprised of four independent non-executive directors, being Fatima Abrahams, John Bester, David Nurek and Martin Rosen.

### **Social and ethics committee**

The social and ethics committee is a statutory committee of the board established in terms of the Companies Act, 2008. The responsibilities of the social and ethics committee are detailed in its terms of reference, which include its duties per the Companies Act, 2008, the JSE Listings Requirements and King IV, and other responsibilities allocated to it by the board. Its mandate is largely dealt with above in the context of the group's ethics, responsible corporate citizenship and sustainability. The committee's terms of reference have been revised to accord with the prescripts of King IV, such revision having been approved at the October 2017 board meeting. The committee, following this revision, is comprised of at least three board members, the majority of whom must be independent non-executive directors. The present members of the social and ethics committee, two of whom are independent non-executive directors, are Fatima Abrahams (who was appointed as chair of the committee in October 2017), David Nurek and the chief executive officer, David Kneale. Executive director Bertina Engelbrecht served on the committee during the 2017 financial year and stood down as a member subsequent to year-end. She will in future attend meetings as an invitee. The members of the committee are nominated and appointed by the board.

### **PERFORMANCE EVALUATION**

The board is conscious of its responsibility to evaluate its own performance, the performance of its sub-committees, of its chair and of the company secretary. It has delegated the responsibility of determining how these evaluations are conducted to the remuneration and nominations committee, which also has oversight of the conduct of the evaluation. The remuneration and nominations committee recommends to the board the process for evaluating the board, directors, chairs of committees, the committees themselves and the company secretary. These evaluations are not externally facilitated. Once this process has been approved by the board, the committee ensures that it is carried out annually and on a formalised basis.

An annual questionnaire-based evaluation is undertaken by the directors which include 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 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 that the board contributes to value creation in the company and has the relevant knowledge to make a meaningful contribution to the group's affairs. The directors believe that board meetings are well organised and efficiently run; and that 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. The board is satisfied that the evaluation process improves its performance and effectiveness. The company secretary was evaluated as meeting the requirements for the role and discharging his responsibilities adequately.

The chairman of the board discusses the results of these reviews with the board, the chairpersons of the committees, with each director and with the company secretary. The chairman of the board receives feedback on his performance from the remuneration and nominations committee, which is chaired by an independent non-executive director. Should remedial action be required, the remedial action taken or to be taken will be described in this report.

The annual work plan of each committee includes a

session for review of the committee's performance as a whole for the financial period that has passed. This session provides an opportunity for consideration, reflection and discussion of the committee's performance. The directors confirm that each committee has functioned in accordance with its terms of reference in the past financial year.

## APPOINTMENT AND DELEGATION TO MANAGEMENT

### CEO appointment and role

The board is responsible for the appointment of the CEO. The CEO is the most senior member and leader of the group executive committee. All the authority of the board that is conferred on management is delegated through the CEO, so that the authority and accountability of management is considered to be the authority and accountability of the CEO insofar as the board is concerned. The CEO and the group executive committee are responsible for the implementation and execution of the strategy and the ongoing management of the business.

As a member of the board the CEO is in attendance at board meetings and is able to be held to account by the board as to the executive management of the group and his performance as CEO. The CEO is required to report to the board at least on an annual basis in respect of the group's progress in achieving its goals and business objectives. In addition, at least annually, the CEO is required by the board charter to communicate to the board senior management's succession planning and management development initiatives, including details of Clicks Group's compliance with employment equity and human capital development initiatives. The CEO attends meetings of the remuneration and nominations committee and of the audit and risk committee by invitation, and is a member of the social and ethics committee.

Additional professional activities carried out by the CEO are declared to the board to allow it to assess any potential or actual conflicts of interest and to assess any impact that these may have on the CEO's availability to attend to his function as CEO. Any such additional appointment would also have to be approved by the board. The CEO is currently not a member of any other board outside of the organisation.

The board evaluates the CEO's performance against specific and agreed targets on an annual basis.

The chief executive is subject to a twelve-month notice

period and the other executive directors to a six-month period. On an annual basis the board reviews the talent and succession plan for senior and executive management including the CEO.

### Delegation

The board has delegated certain of its functions to its committees and other functions have been delegated via the CEO to the group's executive management. The board charter distinguishes between those matters that are reserved only for the board and those that are to be delegated to management via the CEO, and the committees' terms of reference set out delegation to the committees. The extent of delegation appears from what is set out above.

An authority matrix further delineates the competencies and authorities of various bodies and roles.

The board is satisfied that the delegation of authority framework contributes to role clarity and the effective exercise of authority and responsibilities. Annual evaluations are conducted of the CEO and executive management to confirm their competence, which provides assurance to the board that the delegation of functions to executive management is appropriate.

### Professional corporate governance services to the board

The company secretary provides professional corporate governance services to the group. The company secretary ensures that board procedures, regulations and governance codes are adhered to. As and when it is appropriate, the company secretary provides guidance to the directors on governance, compliance and their fiduciary responsibilities. The company secretary engages regularly with executive management and the chairman as to the support provided by the company secretary and thereby helps to ensure that this support is appropriate and meets the needs of the board.

A full-time employee of the Clicks Group serves as head of legal and company secretary. The appointment, remuneration and removal of the company secretary is a matter for the board and not for executive management, and as such the board has tacitly approved the arrangement.

The appointment and functions of the company secretary are in line with the requirements of the Companies Act, 2008, and the JSE Listings Requirements. The board takes responsibility to ensure that the company secretary has the necessary competence, gravitas, objectivity and authority, and is empowered to discharge his duties

in the best interests of Clicks Group. In terms of the JSE Listings Requirements the board considers and satisfies itself on an annual basis on the competence, qualifications and experience of the company secretary to carry out the required responsibilities. The board is satisfied that the company secretary is the gatekeeper of good governance and that the directors are able to look to the company secretary for guidance on their responsibilities and duties. Directors have unrestricted access to the advice and services of the company secretary. Directors are also entitled to seek independent professional advice at the company's expense after consultation with the chairman (as is provided for in the board charter).

The board is satisfied that an arm's length relationship exists between the company secretary and the board. The company secretary is independent and has unrestricted access to the board. The company secretary is not a member of the board but attends board meetings in the discharge of the company secretary's functions and maintains records of meetings.

The company secretary works closely with the chairman to ensure the proper and effective functioning of the board and the integrity of the board governance processes. In addition to the statutory duties of the company secretary, the company secretary provides the board as a whole and the directors individually with guidance as to how their responsibilities should be properly discharged in the best interests of Clicks Group. Per his letter of appointment, for administrative matters and in his role as head of legal, the company secretary reports to the chief financial officer.

The directors are 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.

David Janks, the company secretary at the time, resigned from the group effective 9 September 2016. Following his resignation, Annalize Barnard was appointed acting company secretary until Matthew Welz was appointed as the group head of legal and company secretary, effective 1 November 2016.

### GOVERNANCE FRAMEWORK AND RELATIONSHIP BETWEEN GROUP COMPANIES

The Clicks Group has one overarching governance body with ultimate responsibility for all group business units, including responsibility for oversight, governance and setting of direction for group companies. At board

and committee meetings, the board is given insight into the material affairs of all group companies.

The group's formalised governance framework is set out in a number of documents including the board charter, committees' terms of reference, the group authority matrix and various group-wide policies. The group further ensures effective control of subsidiary companies, adherence to policies and implementation of strategies, as well as accountability, by having main board directors sit as directors for each of the subsidiary companies.

A group governance framework does not detract from the legal obligations of the directors and office bearers of the various group companies. Each subsidiary company must conduct its affairs in accordance with its own MOI and in compliance with contractual obligations as may exist in shareholders' agreements or the like. The board of the holding company ensures that each subsidiary within the group is recognised as a separate and independent juristic person to whom its directors have fiduciary duties. Governance processes and frameworks are applicable to the holding company and all subsidiaries.

The appointment of directors to the governing bodies of subsidiaries is regulated by the MOI of the company concerned. The ultimate holding company does not engage directly with the subsidiary companies in this regard. In most instances subsidiary companies are wholly owned by their parent companies.

### RISK GOVERNANCE

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. The board is responsible for the oversight of the risk management process and has delegated responsibility to the audit and risk committee.

A risk framework approved by the board 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. The group uses a broad limit of materiality of 5% of profit before tax as the indicator of the group's capacity to tolerate a potential loss. 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 pharmaceutical markets. The group executive is responsible for designing and implementing the risk management process and monitoring ongoing progress.

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. Risk associated with key future strategic initiatives are included in the group risk register and updated as the nature of the risk changes relative to the stage of the project. The group maintains an environmental risk register, which is reviewed by internal audit. Actions monitoring effectiveness of risk management are included in the group and business unit risk registers. These are regularly reviewed and discussed at audit and risk committee meetings. As noted above, key group risks together with the opportunities which indicate how the group is using its competitive advantage to manage the impacts of the material issues on value creation, are disclosed in the Integrated Annual Report.

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. The risk management methodology was reviewed by an external assurance provider in 2015 and recommended enhancements adopted. This risk management strategy is used by the group to perform risk management. All significant projects are subject to the group executive committee's oversight, which enhances risk management. Consideration is given periodically for the need to receive periodic independent assurance on the effectiveness of risk management.

The Integrated Annual Report contains details of material risks managed by the group, which include the trading environment, competition, regulation, people and technology risks. Central to determining the material issues disclosed are the needs, expectations and concerns of the stakeholder groups most likely to influence the group's ability to create sustainable value. Key group risks together with the opportunities which indicate how the group is using its competitive

advantage to manage the impacts of the material issues on value creation are disclosed in the Integrated Annual Report. An overview of the risk management process is highlighted in the audit and risk committee report which is included in the annual financial statements.

## TECHNOLOGY AND INFORMATION GOVERNANCE

The board is responsible for IT governance and understands the strategic importance of IT in the achievement of the group's strategic objectives. The board has approved a policy that articulates and gives effect to its set direction on the employment of technology and information, and has delegated the responsibility to implement and execute effective technology and information management to management. The CFO and group executive review strategic operating plans to deliver and manage group technology assets.

The resourcing of the IT function, key IT projects and work streams are included in the board's annual review of short, medium and long-term strategic objectives, and IT governance is an item on the board's agenda. An IT steering committee is established to report on various matters including governance of technology, compliance with relevant frameworks and results of audit reviews. The IT steering committee reports to the chairman of the audit and risk committee and provides feedback to the board on a quarterly basis.

Executive management exercises ongoing oversight of technology and information management resources and of all IT activities including technologies, information, staffing and processes across the organisation. Quarterly reports are provided to the IT steering committee, the audit and risk committee and the board.

IT risk management is embedded within the IT department and the IT risk register is reviewed and updated at each IT steering committee meeting. Significant IT risks are included in the group risk register. Business resilience is a strategic programme reported on at each IT steering committee meeting, and an update is provided to the audit and risk committee. The IT security team has implemented a solution to monitor the IT environment for IT governance and security incidents using a security incident event management system, including cyber penetration tests, and monitors social media for adverse events.

Third-party service providers and outsourced services are managed via supplier performance contracts and

specific terms and conditions are included in all contracts. Return on investment is defined for IT investments and projects, and is measured and reported. The group CFO is a member of the investment committee and reviews the reasonableness of projects. The board approves all significant IT investments in accordance with its authority levels. Information security policies that include disposal of information technology assets have been implemented. Disposal of obsolete information technology has been outsourced to specialist third parties and governed by service level agreements.

The group has an information security policy and employee code of conduct policy which is reviewed annually and includes the authorised use of information technology. These policies are monitored and action is taken against individuals found to be in breach thereof. IT governance includes the monitoring of the authorised use of software. Regulatory requirements are embedded within each business unit and these include IT. Specific IT regulatory requirements such as Payment Card Industry certification are independently assessed on an annual basis.

Information security policies are implemented within the organisation to support confidentiality, integrity and availability of information; privacy of personal information; and monitoring of security information. Rewards and recognition programmes are in place to attract and retain human intellectual capital in this sphere.

The IT strategy includes assessment of technology architecture and new technology investments to align to business strategy objectives. Technology partners to the group are carefully selected following a formal request for proposal process. The risks associated with outsourcing of technology are governed by formal service level agreements. Developments in technology that will create value for the group are adopted into project investments. A business continuity plan has been implemented to manage any business disruptions.

Information technology reviews are included as part of the internal audit plan to provide independent assurance on the effectiveness of technology controls, information systems and governance. Independent assurance reviews on the technology supporting the group's technology and information arrangements are also performed by the external auditors and other service providers as appropriate.

An overview of the arrangements for governing and managing technology and information is disclosed

including key areas of focus during the reporting period, objectives, significant changes in policy, significant acquisitions and remedial actions taken as a result of major incidents. In addition, planned areas of future focus are disclosed. Actions taken to monitor the effectiveness of technology and information management and how the outcomes were addressed are disclosed in the Integrated Annual Report.

### COMPLIANCE GOVERNANCE

The board is responsible for the governance of compliance with applicable laws and with adopted, non-binding rules, codes and standards. It sets the direction for how compliance should be approached and addressed in the organisation. The board approves policy that articulates and gives effect to its direction on compliance, and that identifies which non-binding rules, codes and standards the organisation has adopted.

The board has delegated responsibility for implementation and execution of effective compliance management to executive management, which responsibility is primarily discharged by a group compliance officer under oversight of the group head of legal. The compliance officer and good pharmacy practice manager are responsible for providing advice to the operational business units; creating awareness and developing an understanding of the relevant existing, new and amended legislation and regulation and how these relate to each other; 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.

Changes in legislation, the impact thereof on the group and the actions to be taken by management are reported and monitored at audit and risk committee meetings. Key areas that received focus in the past financial year included the Pharmacy Act and its regulations, the Medicines and Related Substances Act and its regulations, as well as the anticipated practical impact of the Protection of Personal Information Act. Compliance with the Consumer Protection Act, Companies Act, 2008, and Competition Act received attention during the period.

The internal audit plan for 2018 includes a review of processes within the compliance function.

An overview of the arrangements for governing and managing compliance is disclosed in the Integrated

Annual Report. Should any material compliance issues or issues that required board consideration arise in a reporting period, these would be disclosed in the Integrated Annual Report. No material penalties, fines and/or sanctions were imposed on the group in the period.

## REMUNERATION GOVERNANCE

The board is responsible for the governance of remuneration and on how remuneration should be approached. The board has delegated the responsibility for overseeing all elements of remuneration, including the remuneration philosophy and policy, and the implementation of the policy to the remuneration and nominations committee.

The group's remuneration policy is aimed at driving a high-performance culture that creates sustainable value for shareholders. It is based on the total rewards strategy and integrates the five key elements that attract, motivate and retain human capital to achieve the desired business results, namely: compensation; benefits; performance and recognition; learning and development; and work-life integration. The remuneration philosophy and reward principles remain consistent with last year while the remuneration policy has been aligned to King IV to outline the group's approach to fair, responsible and transparent remuneration practices across the business.

The reward principles of fair and responsible remuneration, market competitiveness, and pay for performance are entrenched in the policy. The policy is transparent with a pay framework that clearly differentiates between occupational levels and pay grades that facilitate remuneration benchmarking for each job within a skill pool. The remuneration mix includes a combination of monetary and non-monetary rewards for employees in exchange for their time, efforts, talent and performance at an individual, team and company level. The group's remuneration policy uses performance measures that support positive outcomes across the economic, social and environmental context in which the organisation operates.

The annual performance review of all employees focuses on both financial and non-financial levers across the following metrics:

- financial performance;
- business process improvement, including transformation targets, where this can be influenced by the employee;
- customer satisfaction; and
- learning and growth.

Employees are required to achieve a satisfactory performance rating to fully qualify for participation in the short-term incentive scheme. An annual performance-based salary increase is paid to all permanent non-bargaining unit employees. Collective salary increases are negotiated with the representative trade union for the Clicks bargaining unit.

The annual pay increase of the executive directors is directly related to individual performance ratings and aligned to the annual increase ranges per performance rating as determined by the committee and applied consistently across the group. The sustainability of the group's business is critical in determining remuneration and the board is satisfied that the performance targets do not encourage increased risk-taking by the executives. A significant portion of short-term and long-term remuneration is variable and designed to incentivise executive directors. Short-term and long-term incentives are an integral part of the total rewards framework and aim to align employee performance with the interests of shareholders. Long-term incentive schemes are aimed at aligning executive remuneration with shareholder interests by rewarding executives for the creation of shareholder value over the medium term. Participation in the long-term incentive schemes is limited to senior executives. The long-term incentive schemes are regularly reviewed and enhanced to align with evolving best practice locally and internationally, based on engagement with major shareholders.

The group's remuneration policies and reports cover all types of remuneration including guaranteed remuneration; variable remuneration; payments on termination; sign-on; retention and restraint payments; commissions; and allowances. The Integrated Annual Report discloses the remuneration of the board and meets the requirements of the Companies Act, 2008. The Integrated Annual Report includes a section on company remuneration, a summary of the remuneration policy, background statements, and an overview of the rewards structure. The remuneration (salary structures, annual increases and incentive schemes) of the board and executive management is disclosed in detail and the remuneration elements are dealt with at a high level in respect of other employees. The background statement in the Integrated Annual Report provides considerations and key decisions on factors influencing remuneration which include: internal and external factors; results of voting on the remuneration policy; use of consultants and the remuneration discussions; key focus areas and decisions; and an overview of whether the policy has rewarded value creation.

## CORPORATE GOVERNANCE REPORT 2017 (CONTINUED)

The rewarding value creation report details a description of the remuneration framework. Performance hurdles are disclosed for the long-term incentive scheme based on compound annual growth rate (CAGR) of diluted headline earnings per share (DHEPS) and total shareholder return (TSR) over a three-year period. The short-term incentive scheme is based on the return achieved on average monthly net assets. The proportion, performance hurdles and caps on short and long-term incentive schemes are disclosed for executive management.

The main provisions of the remuneration policy address the objectives of the policy and the manner in which the policy seeks to accomplish these. A narrative description of the potential consequences on the total earnings for executive management, of applying the remuneration policy under minimum, on-target and maximum performance outcomes is disclosed. The group's rewarding value creation report provides information to allow an informed decision on the potential consequences on total remuneration through application of the remuneration policy, and contains an explanation of how the policy addresses fair and responsible remuneration for executive management in the context of overall employee remuneration. The board holds the view that this is sufficiently clear to allow stakeholders to form views as to the remuneration policies and practices of the group.

Pay levels are based on national and retail market benchmark data and are reviewed annually to ensure the group remains competitive in the employment market. Premiums are paid for scarce and critical skills such as pharmacy, buying and planning, finance and IT skills based on the relevant market data. The group's benchmarking and market information is based on independent surveys, including the PricewaterhouseCoopers REMchannel, Deloitte Top Executive and The Hay Group surveys. These benchmarking exercises recognise the complexity of the group's business model and the regulatory environment within which the group operates. The group also participates in a biannual benchmarking exercise to maintain a competitive remuneration position in respect of pharmacists and pharmacy managers. A description is provided in the rewarding value creation report regarding the basis for benchmarking and setting non-executive directors' remuneration. The remuneration policy is available in the Integrated Annual Report.

The remuneration of each executive director is disclosed in detail in the rewarding value creation report, and this includes in a separate table the total

figure of remuneration received and receivable for the reporting period and all the remuneration elements that it comprises, including the value of the total annual guaranteed package (salary, pension and other benefits) and variable pay (performance-based short-term incentive and performance-based long-term incentive), each disclosed at fair value. All relevant details and the performance hurdles of long-term incentive awards not yet vested are also disclosed for executive directors. The fair value of such awards that have not yet vested is not disclosed, given the price-sensitive nature of future DHEPS and TSR projections. There are no executive employment contracts that create an obligation for payments on termination of office or employment.

The Integrated Annual Report provides detailed disclosure in respect of each incentive scheme and its vesting periods as well as the cash value of all awards made under variable remuneration incentive schemes that were settled during the year.

Whether short-term and long-term targets are met is reviewed by the remuneration and nominations committee before any incentive payments are made to executive directors. This is also subject to review by the group's external auditor. For long-term incentive payments the achievement of the CAGR of DHEPS and TSR over a three-year period and the achievement against performance hurdles is disclosed.

The fee structure for non-executive directors is benchmarked annually against a retail comparator group. The fees paid to non-executive members for participation in respect of board and committee meetings are separately disclosed. The remuneration of non-executive directors for the ensuing calendar year is presented for shareholder approval by special resolution.

Clicks Group values the views and insights of investors, and encourages shareholders to proactively engage with management on remuneration issues to enable informed decisions to be made when voting on the group's remuneration policy and the remuneration implementation report.

In January 2017 at the AGM the group's remuneration policy was put before shareholders for a non-binding advisory vote, which was supported by 98.3% of shareholders who voted. From 2018 the group's remuneration policy and the remuneration implementation report will be proposed to shareholders for non-binding advisory votes at the AGM each year. In accordance with King IV, and as set out in the remuneration policy,

in the event that either the remuneration policy or the implementation report receives 25% or more dissenting votes from shareholders, management will seek to engage directly with these shareholders to:

- ascertain the reasons for the dissenting votes; and
- address legitimate and reasonable objections or concerns by clarifying or amending the remuneration policy, its implementation or processes, or reviewing the remuneration governance, or taking other steps to resolve the concerns.

Should it become applicable, the group will in the following year's rewarding value creation report disclose:

- with whom the company engaged, and the manner and form of engagement to ascertain the reasons for dissenting votes; and
- the nature of steps taken to address legitimate and reasonable objections and concerns.

## ASSURANCE

### Combined assurance

The audit and risk committee ensures that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities; the combined assurance received is appropriate to address all the significant risks facing the group; and monitors the relationship between the external assurance providers, internal assurance providers and the company. Whilst combined assurance is overseen by the board and audit and risk committee, the group executive owns and manages risk and is responsible for designing and implementing the risk management process and monitoring thereof. The group executive regularly reviews the group's risks to ensure mitigation strategies are being implemented and are effective.

The group internal audit, legal, compliance and risk management functions and relevant policies facilitate risk management and compliance in the group. Compliance functions within each business manage the compliance to policies and processes. The material activities and risks noted by each specialist function are reported to the audit and risk committee.

The internal audit department, which reports functionally to the audit and risk committee, comprises areas of specialty relating to forensics and fraud, health and safety assessments, process reviews in finance, operations, IT and the effectiveness of manual and automated controls. The activities and risks noted by the internal audit and forensics functions are reported to the audit and risk committee.

The external auditors work closely with the internal audit function to avoid duplication of assurance. The lead audit partner is invited to each audit and risk committee meeting wherein he presents the audit plan, provides feedback on audit progress and results, and updates the board on changes in IFRS which may impact the group.

Plans, progress and results of all work performed by external assurance providers are presented to the various committees that are responsible for the area of assurance (e.g. results of the BBBEE review by EmpowerLogic is presented to the social and ethics committee, forensic/fraud reviews are presented to the audit and risk committee, and IT and security reviews to the IT steering committee and audit and risk committee). Regulatory inspections are managed through the compliance and legal departments and any findings noted by regulatory inspectors are presented at the audit and risk committee. All external audit and key independent reports including IT, security and governance-related matters are discussed at either the audit and risk committee or IT steering committee meetings.

### Assurance of external reports

The board assumes responsibility for the integrity of external reports issued by the organisation and sets the direction for how assurance of these should be approached and addressed. The board's direction in this regard takes into account legal requirements in relation to assurance, and whether this assurance should be applied to the underlying data used to prepare a report, or to the process for preparing and presenting a report, or both.

In determining how to assure external reports, consideration is given to the intended audience to ensure that it provides them with the necessary information to make informed decisions, and to the measurement or evaluation of the underlying subject matter of the report. The board is satisfied that the combined assurance model is effective to ensure the integrity of the group's external reports.

The audit and risk committee report included in the annual financial statements provides descriptions of the various assurance functions, services and processes underlying the preparation and presentation of the annual financial statements and Integrated Annual Report. The directors' report included in the annual financial statements and the directors' approval of the Integrated Annual Report include a statement by the board on the integrity of the reports and the basis for this statement, with reference to the assurance applied.

### Internal audit

The internal audit function, under the oversight of the audit and risk committee, is recognised as an integral part of the governance structure of the group.

The internal audit charter is reviewed annually. The charter is in line with the International Internal Audit (IIA) standards and defines the roles, responsibility and authority of internal audit, including its role within combined assurance. Updates to the charter are approved by the audit and risk committee.

The internal audit function is independent of management. Management designs and implements the controls that are in place to manage key risks. Internal audit provides assurance over the effectiveness of the internal control environment. The internal audit function is established by the board and its responsibilities are determined by the audit and risk committee and it is accountable to the committee for assurance over internal controls. The head of internal audit position carries with it the authority necessary for internal audit to meet its objectives. The head of internal audit is invited annually to all strategy meetings, executive meetings and IT steering committee meetings to be informed of strategy and policy decisions, their implementation and the impact thereof.

Internal audit pursues a risk-based approach to planning as opposed to a compliance approach, which is limited to the evaluation of the adherence to procedures. The risk-based approach has the benefit of assessing whether the process intended to serve as a control is an appropriate risk mitigation measure. The approach of internal audit is informed by the strategy of the company and is confirmed quarterly to the audit and risk committee. 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. The group maintains a risk register that is updated annually as part of the strategy planning process. In October each year internal audit provides an overall statement to the audit and risk committee regarding the effectiveness of the group's governance, risk management and control processes.

The board has delegated the appointment and remuneration of the head of internal audit to the audit and risk committee. The group head of internal audit is appraised annually by the audit and risk committee in respect of his competence, objectivity and skills. The dismissal of the head of internal audit is a board responsibility with the concurrence of the audit and risk committee. The head of internal audit reports

functionally to the chair of the audit committee and administratively to the chief financial officer of the group.

Internal audit presents to the audit and risk committee its resourcing and skills matrix, highlighting any changes in resources, skills and competencies. Additional resources and skills required are approved by the committee. The co-sourcing arrangement in place provides specialist skills and supplements resources as required. The head of internal audit confirms annually to the audit and risk committee the independence, credibility and professionalism of the internal audit function and its adherence to the IIA code of ethics. The head of internal audit is a chartered accountant registered with the South African Institute of Chartered Accountants and is subject to the competency and ethical requirements of this body. The head of internal audit has unrestricted access to, and communicates directly with, the audit and risk committee, including in private meetings without management present. The chairman of the audit and risk committee meets with the group head of internal audit on a regular basis.

An internal quality review assessment of the internal audit function was performed in 2016 and an independent quality review of the internal audit function will be performed in February 2018 and every five years thereafter.

### STAKEHOLDERS

The group follows a board-endorsed stakeholder engagement programme which is available on the Clicks Group website. Performance indicators have been developed for each primary stakeholder group and these are reported and reviewed at board meetings. Primary stakeholder groups have been identified that are most likely to influence the group's ability to create sustainable shareholder value. The group provides timely, relevant, and accessible information to its stakeholders, subject to legal and strategic considerations.

The board has delegated responsibility for stakeholder management to the social and ethics committee and executive management who apprise the board of any key matters that arise and how they have responded to these. The group engages in open and transparent, mutually beneficial relationships. Qualitative and quantitative performance indicators have been developed for each primary stakeholder group to determine the outcome of the engagement and these measures are refined on an ongoing basis. Key stakeholders who influence the group's ability to create sustainable value include customers, staff, suppliers, industry regulators and providers of capital.

Stakeholder risks are assessed in the course of performing the group's risk assessments and, where specific risks are identified, mitigation measures are prepared or implemented (as is appropriate). The board and the audit and risk committee exercise oversight in respect of the group's risk assessments. Where stakeholders have contractual relationships with the group, formal dispute resolution procedures are ordinarily contracted for. Further, where relationships with stakeholders are subject to regulation, in many instances the relationship (which may include dispute resolution processes) is impacted on by this regulation. Examples thereof include the Consumer Protection Act's impact on the group's interaction with customers, or the Pharmacy Act's impact on its relationships with pharmacists and the Department of Health.

The group provides relevant information to its stakeholders while having regard to legal and strategic considerations. The degree of corporate transparency and communication is considered with reference to the company stakeholder policies, relevant legal requirements and the maintenance of the group's competitive advantage. The stakeholder engagement process, which list the identified stakeholders, the aim of the identification, approach in respect of the engagement, key issues and responses to them, is disclosed in the sustainability portal on the group's website. The group engages with regulators on an ongoing basis to attempt to maintain clear and open channels of communication, to further the exchange of information in relation to the potential and actual impact of regulation on the group's business and on society.

The notice of AGM is published on the group's website and, where required, notifications are sent to shareholders. Members of the board and executive management are available at the AGM, should shareholders wish to engage with them. The group retains the services of an investor relations consultancy, Tier 1 Investor Relations, and executive directors regularly travel to the countries where significant shareholders are domiciled to ensure that shareholders have access to forums in which they can engage with the group. Use of formal communication channels such as SENS is also part of the group's strategy for engagement with shareholders. All SENS announcements are placed before the board for consideration.

As a matter of course all directors attend the AGM and are available to respond to shareholder queries.

Directors not attending submit apologies to the chairman before the AGM. The AGM meeting invitation includes the partner of the external auditors. Ordinarily the partner will attend the meeting. Shareholders, including minorities, are treated equitably. All shareholders are minority shareholders in that no one shareholder (or defined grouping of shareholders) exerts an absolute control over the group, its directors or its management.

The results of the AGM are posted on the group's website and on SENS. Minutes are held by the company secretary and are available upon request.

### 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

The Clicks Group does not engage in practices that could limit competition or in anti-competitive conduct that could adversely impact on customers.

The directors are committed to ensuring that all group executives and employees whose roles could place them in a position where this is relevant 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.

### 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.