

## Corporate Governance

“Corporate governance is a way of life and not merely a set of rules.”

**Brian Joffe**, *Chief Executive*

### **CORPORATE GOVERNANCE**

Corporate governance entails the accountable and transparent governance of the Group’s structures and systems within an ethical framework that will promote responsible consideration of all stakeholders.

The Board and the individual directors have long recognised that good corporate governance is compatible with and mutually dependent on strong leadership. The Board is committed to conforming to good corporate governance processes that will complement Bidvest’s entrepreneurial flair. This commitment involves leading the enterprise with integrity and in compliance with best international practices, whilst taking cognisance of the value systems of the countries and communities in which it operates.

The decentralised, entrepreneurial and incentivised environment in which the Group operates called for governance processes to be considered, implemented and embedded into the Group structure, through the introduction of the Group governance policy. The policy serves to guide all operations within the Group in applying best corporate governance practices at their respective levels within the Group.

### **Corporate code of conduct**

The Board, its committees, individual directors, officers of the Group and senior management acknowledge their responsibility to ensure that the principles set out in the code of conduct are observed.

Bidvest, through its corporate code of conduct is committed to

- The highest standards of integrity and behaviour in all dealings with stakeholders and society at large;
- Conducting business based on fair commercial competitive practices;
- Trading with customers and suppliers who subscribe to ethical business practices;
- Non-discriminatory employment practices and the promotion of employees to realise their potential through training and development of their skills; and
- Being proactive towards environmental, social and sustainability issues.

### **Code of ethics**

The Group has adopted a code of ethics that ensures business practices are conducted in a manner that is beyond reproach. The code of ethics is promoted across the Group and clearly states the acceptability of business practices by guiding policy and providing a set of ethical corporate standards that will encourage ethical behaviour and decision-making of the Board, managers and employees at all levels. The code will guide and sensitise ethical infringements, whilst specifying the enterprise’s social responsibility towards stakeholders.



The Board has been proactive in identifying the following aspects and has commenced a process in each division for the

- regular and formal identification of ethical risk areas;
- development and strengthening of monitoring and compliance policies, procedures and systems;
- establishment of easily accessible safe reporting (whistle blowing) channels;
- alignment of the Group's disciplinary code with its code of ethical practice;
- integrity assessment as part of selection and promotion procedures;
- induction of new appointees;
- training on ethical principles, standards and decision-making;
- regular monitoring of compliance with ethical principles and standards using the internal audit function;
- reporting to stakeholders on compliance;
- independent verification of conformance to established principles and ethical behaviour.

#### Corporate style, values and ethics

Bidvest's corporate value system promotes:

- Accountability  
to our employees and shareholders
- Acquisitiveness  
to expand and grow the business
- Decentralisation  
to put decision-making close to the customer
- Entrepreneurship  
to find innovative ways to grow the business
- Equal opportunity  
to perform and be rewarded
- Fairness  
in our interactions with stakeholders
- Honesty  
in all our dealings with our stakeholders
- Innovative business practice  
in our business practices
- Respect for human dignity, human rights and social justice  
for the dignity and rights of people and for the environment
- Service excellence  
to provide a compelling place to work and do business
- Transparency  
in maintaining open lines of communications with our stakeholders.

#### The Board of directors

Bidvest is a unique company, which is reflected in the composition and size of its board. The Board comprises seven (7) non-executive independent directors, four (4) non-executive, and nineteen (19) executive directors. B Joffe conducted the role of executive chairman and F Titi was the independent non-executive deputy chairman.

In July 2004, MC Ramaphosa was appointed non-executive chairman and B Joffe continued in the role of chief executive, with unchanged executive responsibilities. F Titi, who agreed to remain as deputy chairman until the new leadership structure had been finalised, subsequently resigned. The position of deputy chairman has been discontinued.

The completely decentralised decision-making structure, the independence and the character of the individual board members provide for open and transparent governance. Successful entrepreneurial individuals, whose recognition and ongoing participation in Bidvest is vital, manage the decentralised business units. In addition to the divisional chairmen, key operating executives, responsible for significant operations are included on the Board.

Board changes took place subsequent to the implementation of the BEE initiative with Dinatla and the acquisition of McCarthy. These new directors bring insight and diverse experience to the Board's deliberations.

Whilst the executive directors are responsible for implementing strategies and operational decisions within the Group's businesses, the non-executive directors are viewed as independent by the Board and support the skills and experience of the executive directors. Their role is to bring judgement to bear, independent of management, on issues of strategy, budgets, performance, resources, transformation, diversity, employment equity, standards of conduct and evaluation of performance, whilst contributing to the formulation of policy and decision-making through, inter alia, their knowledge and experience.

The Board gives strategic direction to the Group, appoints the chief executive and the non-executive chairman and ensures that succession is planned. The non-executive directors ensure that the chair encourages proper deliberation of all matters requiring the Board's attention.

#### Functions of the Board

The Board Charter sets out clear direction with regards to the purpose of the Board, responsibilities of board members, composition and requirements for board meetings. The Board Charter also calls for an annual self-assessment applicable to the chief executive and the individual directors.

The Board is ultimately responsible for ensuring that the business remains a going concern and that it thrives. The

## Corporate Governance (continued)

Board retains full and effective control over the Group and monitors risk management and implementation of plans and strategies through a structured approach to reporting and accountability.

It is committed to an appropriate balance of power and authority to ensure that no one individual or Group of individuals can dominate the Board's decision-making process.

The Board met seven times during the period and has a formal schedule of matters reserved to it as recorded in the Board Charter. (➡ Directors' Report for attendance register.)

The Board has developed a formal corporate governance manual, which, inter alia includes a corporate code of conduct and board committee charters.

Board committee charters define the purposes, authority and responsibility of the various board committees and have been developed for the

- Board of Directors
- Executive Committee
- Audit Committee
- Nomination Committee
- Remuneration Committee
- Acquisition Committee

The Transformation Committee's purposes, objectives and responsibility are defined in The Bidvest Charter and a formal committee charter will be drafted.

The divisional boards have adopted the governance manual, where applicable. The process to entrench the corporate governance manual and the principles of good corporate practice and governance throughout the Group has been commenced under the auspices of the Audit Committee.

The Board and its committees are supplied with complete, relevant and timeous information, enabling them to fulfil their responsibilities. Directors have unrestricted access to Group information, records, documents and property. Non-executive directors have access to and are encouraged to meet with management. The information needs of the Board are well defined and regularly monitored. All directors have access to the advice and services of the Group secretariat and there is an agreed procedure by which directors may obtain independent professional advice at the Group's expense, should they deem this necessary.

The Group has adopted a formal policy, in line with the Insider Trading Act, that prohibits directors, officers and other selected employees in dealing with securities for a designated period preceding the announcement of its financial results or in any other period considered sensitive.

The Board defines levels of materiality, reserving specific power and delegating other matters with the necessary written authority to management. These matters are monitored and evaluated on a regular basis. The Board has developed a formal delegation of authority matrix guideline, which is being utilised by all Group companies.

Formal and transparent appointment procedures are in place and the board is assisted by the Nomination Committee. Periodically, directors visit the Group's businesses and have meetings with senior management to facilitate their understanding of the Group and their fiduciary responsibilities.

It is cognisant of the duties imposed on the Company Secretary who is accordingly empowered to properly fulfil those duties. In addition to the extensive statutory duties, the Company secretariat provides the Board and directors individually with detailed guidance as to how their responsibilities should be properly discharged in the best interests of the Group. The Company secretariat is the central source of information relative to guidance and advice to the Board, and within the Group, on matters of ethics and good governance.

The Board ensures that the Group complies with all relevant laws, regulations and codes of business practice and that it communicates with its shareholders and relevant internal and external stakeholders openly, promptly and with substance prevailing over form.

The Board identifies the key risk areas and key performance indicators for the Group, which are regularly updated. The entrepreneurial culture of the Group requires thorough risk control processes that identify and mitigate risks and assure that the Group's objectives are attained. This control environment sets the tone for the Group and covers, inter alia, ethical values, management's philosophy and the competence of employees. In general, risk areas confronting the Group are:

- Currency and economic volatility
- HIV/Aids in Africa
- Human capital or "people risk" mitigated through intensive skills development programmes
- Market risk caused by fluctuations in demand and competitive activity



The most fundamental mechanism for managing these risks is the diversified Bidvest business model that makes “owner-managers” accountable for all aspects of performance.

Through the Audit Committee, the Board regularly reviews processes and procedures to ensure the effectiveness of internal systems of control so that its decision-making capability and the accuracy of its reporting are maintained at a high level. The Board identifies and monitors the non-financial aspects relevant to the business of the Group and reviews appropriate non-financial information that goes beyond assessing the financial and quantitative performance of the Group. Other qualitative performance factors, which take into account broader stakeholder issues, are considered.

#### **Board committees**

The Board has established a number of committees, which are responsible to the Board. Specific responsibilities have been formally delegated to these committees with clearly defined terms of reference, in respect of duration and function, reporting procedures and written scope of authority documented in a formal charter. There is transparency and full disclosure from the board committees to the Board. Board committees are free to take independent outside professional advice, as and when necessary, and are subject to regular evaluation by the Board to ascertain their performance and effectiveness. The principal board committees are as follows:

#### **Executive Committee**

The Executive Committee consists of the Executive Chairman, the Group financial director, the divisional chairmen, MBN Dube and LI Jacobs. The Executive Committee considers and refers major decisions, which have their sanction, to the Board for approval. Non-executive directors are invited to attend these meetings.

#### **Remuneration Committee**

The Remuneration Committee consists of JL Pamensky (Chairman), DDB Band, D Masson and P Nyman. The committee is responsible for the assessment and approval of a remuneration strategy for the Board directors and divisional executives, in consultation with the Chief Executive.

The executive director, who is a member of the Remuneration Committee, is excluded from the review of his own remuneration.

The Remuneration Committee's overall strategy is to ensure that employees are rewarded for their contribution to the Group's operating and financial performance, by taking into account industry, market and country benchmarks. In order to promote an identity of interests with shareholders, share incentives are considered to be critical elements of executive incentive pay. Schedules setting out directors' remuneration and equity interests appear in the Directors' Report.

#### **Audit Committee**

An Audit Committee was established in 1995 and is an important element of the Board's system of monitoring internal controls. The members of the committee are JL Pamensky (Chairman), DDB Band, N Cassim, D Masson, B Moffat, P Nyman and AC Salomon. The committee meets at least four times a year and the Group internal audit manager and external auditors are invited to attend every meeting. Other members of the management team attend, as required.

The Audit Committee Charter defines and guides the Audit Committee with adequate reference to its purpose, membership, authority and duties. The committee is responsible for reviewing the interim and final financial statements and assesses whether these are appropriate to meet the current and future needs of the business. Their duties further include assessing whether significant business, statutory and financial risks have been identified and are being monitored and managed through internal financial control procedures, and that appropriate standards of accounting, governance, reporting and compliance are in operation.

The Audit Committee has a responsibility to recommend to the Board, for its consideration and acceptance by shareholders, the appointment of external auditors. The Audit Committee also sets out the principles for the performance of non-audit services by the external auditors. The Audit Committee reviews divisional Audit Committee reports.

Each division has its own audit committee, which subscribes to the same Group audit philosophies and reports to both the divisional board and the Group Audit Committee. Each divisional audit committee has at least one member who is a non-executive to the division. A non-executive chairs the committee where appropriate.

#### **Acquisition Committee**

Acquisitions with perceived potential conflicts are referred to the Acquisition Committee for an in-principle decision as to whether the acquisition should be investigated and pursued. This committee consists of B Joffe, DK Rosevear, DDB Band, D Masson and JL Pamensky. Acquisitions are, depending on their magnitude, sanctioned by the Executive Committee and submitted to the Board for approval.

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### Nomination Committee

The Nomination Committee constitutes a majority of non-executive directors so as to ensure its independence and objectivity. The committee comprises JL Pamensky (Chairman), D Masson, B Joffe and T Slabbert. The primary purpose of the committee, as set out in the Nomination Committee Charter, is to ensure that the procedures for the appointments to the Board are formal and transparent. The committee considers the composition of the Board, retirements and appointments of additional and replacement directors and makes appropriate recommendations to the Board.

Executive directors are appointed to the Board on the basis of skill, experience and level of contribution to the Group and are responsible for the running of their businesses. Non-executive directors are selected on the basis of industry knowledge, professional skills and experience.

The committee is responsible for ensuring that nominees are not disqualified from being directors and prior to their appointment investigate their backgrounds in line with the requirements for listed companies set by the JSE.

Executive directors retire by staggered rotation and stand for re-election at least every three years in accordance with the articles of association. Non-executive directors are appointed for specified terms, subject to re-election and Companies Act provisions relating to the removal of directors. The re-appointment of non-executive directors is not automatic. Directors are subject to re-election by shareholders and sufficient biographical information is provided to shareholders enabling an informed decision.

The committee annually reviews the Board's required mix of skills and experience and other qualities such as its demographics and diversity in order to assess the effectiveness of the Board, its committees and the contribution of each director.

### Transformation Committee

Following the successful implementation of the Dinatla initiative, a BEE Transformation Committee was formed to facilitate the socio-economic transformation process within the Group. Key functional resources were designated within each business unit to continue the socio-economic transformation drive at business unit level. The Transformation Committee has developed an enterprise-based charter, *The Bidvest Charter* that will guide the Bidvest BEE transformation strategy. The Transformation Committee comprises MBN Dube (Chairman), LG Boyle, L Jacobs and T Slabbert.

### Subsidiary listings

Bidvest plc, previously listed on the Luxembourg and Australian Stock Exchanges, and Bidcorp plc, previously listed on the London Stock Exchange, are separate legal entities with their own corporate governance standards. Bidvest plc and Bidcorp plc have become wholly owned subsidiaries and these listings were terminated.

## ACCOUNTABILITY

### Going concern

The directors endorse and are of the opinion that the Group has sufficient resources to maintain the business for the near future. Consequently, the going concern basis for preparing the financial statements is adopted.

The Board minutes the facts and assumptions used in the assessment of the going concern status of the Group at the financial year-end. At the interim reporting stage, the directors consider their assessment at the previous year-end of the Group's ability to continue as a going concern and determine whether any of the significant factors in the assessment have changed to such an extent that the appropriateness of the going concern assumption at the interim reporting stage has been affected.

### Auditing and accounting

The Board is of the opinion that their auditors observe the highest level of business and professional ethics and that their independence is maintained.

The Group aims for efficient audit processes using its external auditors in combination with the internal audit function. Management encourages unrestricted consultation between external and internal auditors resulting in periodic meetings to discuss matters of mutual interest, the exchange of working papers and management letters and reports, and a common understanding of audit techniques, methods and terminology.

### Internal financial controls

The directors are responsible for adequate internal control systems that will provide reasonable assurance regarding the safeguarding of assets and the prevention of their unauthorised use or disposition, the maintenance of proper accounting records and the reliability of financial and operational information used in the businesses.

The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide reasonable, not absolute, assurance against material misstatement or loss. There is a continuous process



for identifying, evaluating, managing, monitoring and reporting on significant risks faced by the Group.

The Group's system of internal financial control includes policies and procedures, clearly defined lines of accountability and delegation of authority, and makes provision for comprehensive reporting and analysis against approved standards and budgets. Compliance is tested by way of management review, internal audit check and external audit. The Group's various divisional audit committees consider the results of these reviews on a regular basis and confirm the appropriateness and satisfactory nature of these systems, while ensuring that breakdowns involving material loss, if any, together with remedial actions, have been reported to the respective boards of directors.

#### **Internal audit function**

The internal audit departments are independent appraisal functions, whose primary mandate is to examine and evaluate the effectiveness of the applicable operational activities and the attendant business risks. The internal audit function includes the examination of the systems of internal financial control, so as to bring material deficiencies, instances of non compliance and development needs to the attention of the Audit Committee, external auditors and operational management for resolution.

Internal audit is an independent and objective assurance and consulting activity designed to add value to and improve the Group's operations. Internal audit undertakes a continuous function in measuring, evaluating and reporting on the effectiveness of risk control, governance systems and processes. It considers their economy of application and efficiency in meeting the objectives of the organisation using a systematic, disciplined approach. Internal audit further provide:

- assurance that the management processes are adequate to identify and monitor significant risks;
- confirmation of the adequacy and effective operation of the established internal control systems;
- credible processes for feedback on risk management and assurance; and
- objective confirmation that the Board receives the appropriate quality of assurance and reliable information from management.

The purpose, authority and responsibility of the internal audit function is formally defined in an internal audit charter, which has been approved by the Board and

which is consistent with the Institute of Internal Auditors' definition of internal auditing. Divisional internal audit committees have their own internal audit function that ensures that the necessary controls are in place for effective risk management and monitoring.

The activities of the divisional internal auditors are co-ordinated by the internal audit manager based at the corporate office, who has unrestricted access to the Audit Committee and its Chairman. The Group internal audit manager reports at all Audit Committee meetings and attends all divisional audit committee meetings.

The internal audit function communicates with other internal and external auditors to ensure proper coverage and to minimise duplication of effort. The external auditors also review reports issued by internal audit.

The Audit Committee is satisfied that adequate, objective internal audit assurance standards and procedures exist within the Group. At committee meetings internal audit reports on the major business units are reviewed, together with proposals for the ongoing internal assurance processes. The adequacy and capability of the Group's internal audit structures are subject to review annually.

Audit plans for each business segment are tabled annually to take account of changing business needs. Follow-up audits are conducted in areas where major weaknesses are identified.

The internal audit plan, approved by the Audit Committee, is based on risk assessment, which is of a continuous nature in an attempt to identify not only existing and residual risks, but also emerging risks, as well as issues highlighted by the Audit Committee and senior management. Internal audits are conducted formally at each business unit at least once in a two-year cycle. This risk assessment is co-ordinated with the Board's own assessment of risk.

Where the external auditors also perform the internal audit function, due care is taken to ensure that there is adequate segregation between the two functions in order to ensure that their independence is not impaired.

#### **Risk management**

The Board is responsible for the total process of risk management. It sets the risk strategy, which is based on the need to identify, assess, manage and monitor all known forms of risk across the Group. Risk management is conducted after consulting with the executive directors and senior management.

Management is accountable to the Board for designing, implementing and monitoring the processes of risk management and integrating them into the day-to-day activities of the Group. The risk aversion philosophy is communicated to all managers and employees in an



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endeavour to incorporate this philosophy into the language and culture of the Group. Risk management and internal control are practiced throughout the Group and are embedded in day-to-day activities.

The Audit Committee attests that there are adequate systems of internal control in place to mitigate the significant risks faced by the Group to an acceptable level. The systems are designed to manage, rather than eliminate, the risk of failure or to maximise opportunities to achieve business objectives. Risk is not only viewed from a negative perspective. The review process also identifies areas of opportunity, such as where effective risk management can be turned to a competitive advantage.

The management of risk and loss control is decentralised, but in compliance with Group policies on risk financing and self-insurance. Compliance measurement is conducted through the review of periodic risk activity reports including measurement of identified losses. The decentralised structure and geographic spread ensures that the overall Group risk is balanced and minimised.

At operational level, senior management identifies major business risks, promotes awareness, introduces applicable control environments and procedures and applies risk-monitoring techniques. The divisional audit committees identify the manner and extent to which risk is controlled and/or reduced, whilst monitoring the process.

Bidvest's decentralised structure forms the basis of the Group's business continuity plan with each of the operations being self-sufficient with disaster recovery and management succession plans. The individual business units are sufficiently small and independent of each other to eliminate Group-wide disaster risk.

In addition to the Group's other compliance and enforcement activities, the Board recognises the need for a confidential reporting process ("whistle blowing") covering fraud and other risks. The whistle blowing reporting procedures were relaunched and the "whistle blowing hotline" was substituted with a 24-hour call centre that ensures formal reporting and feedback.

Whilst operating risk can never be fully eliminated, the Group endeavours to minimise it by ensuring that the appropriate infrastructure, controls, systems and human resources are in place throughout the businesses. Key policies employed in managing operating risk involve the segregation of duties, transaction authorisation, monitoring and financial and managerial reporting.

The effectiveness of the internal control systems, including the potential impact of changes in the operating and business environments, is monitored through regular management reviews (with representation letters on compliance signed annually by the chief executive and chief financial officer of each major business unit), testing by internal auditors and testing of certain aspects of internal financial control systems by the external auditors during the course of their statutory examinations. Directors make annual written declarations of interests and are obliged to report any potential or actual conflicts.

### RELATIONS WITH SHAREHOLDERS

The Group pursues dialogue with institutional investors based on constructive engagement and the mutual understanding of objectives, having regard to statutory, regulatory and other directives regulating the dissemination of information by companies and their directors. To achieve this dialogue there have been a number of presentations to and meetings with investors and analysts to communicate the strategy and performance of the Group. The quality of this information is based on the standards of promptness, relevance and transparency. The Group makes every effort to ensure that information is distributed via a broad range of communication channels, including the Internet, having regard for security and integrity while bearing in mind the need that critical financial information reaches all shareholders simultaneously.

The Board accepts its duty to present a balanced and understandable assessment of the Group's position in reporting to stakeholders, taking into account the circumstances of the communities in which it operates and the greater demands for transparency and accountability regarding non-financial matters. Reports address material matters of significant interest and concern to all stakeholders and present a comprehensive and objective assessment of the Group so that all stakeholders with a legitimate interest in the Group's affairs can obtain a full, fair and honest account of its performance.