







# KING III CODE

## PREAMBLE










The Board recognises the link between effective governance, sustainable performance and the creation of long term value for all of its stakeholders. The Board is committed to the principles of transparency, integrity, fairness and accountability, and recognises the need to implement good corporate governance principles. The Board therefore seeks to apply the principles as set out in King III.

Dis-Chem has performed an assessment of the application of the principles set out in King III. The assessment is reflected below together with key actions envisaged to achieve application, where gaps exist.










Key:	
Applied	
Partially applied/improvement initiatives in progress	
Not applicable	

Principle	Applied	Comments
<b>Chapter 1 - Ethical leadership and corporate citizenship</b>		
1.1 The Board should provide effective leadership based on an ethical foundation		The board operates in accordance with the board charter which holds it responsible for developing and managing the strategy and control of Dis-Chem. The board leads the organisation in accordance with principles based on transparency, accountability, integrity and ethical leadership. Appointments to the board have been made based on skill, expertise and experience required to provide Dis-Chem with a strategy which will be sustainable and ethical and will also take into account the short and long- term impacts on the economy, society and the environment and internal and external stakeholders. The board will also be accountable under the code of ethics of Dis-Chem.
1.2 The Board should ensure that the Company is and is seen to be a responsible corporate citizen		The board ensures that Dis-Chem is, and is seen to be, a responsible corporate citizen by having regard to not only the financial aspects of the business of Dis-Chem. Under the board charter, the board is required to consider the impact of Dis-Chem's operations on society and the environment in conjunction with its financial performance. The board is cognisant that its performance and interaction with stakeholders is guided by the Constitution and the Bill of Rights and that it must procure that management develops and implements corporate citizenship policies and programs with relevant stakeholders.
1.3 The Board should ensure that the Company's ethics are managed effectively		The Board is committed to actively cultivating a culture of ethical conduct. The social and ethics committee has been established and is mandated to exercise oversight over ethics management within the Group and to ensure that the board has a full understanding of ethics related matters. The board charter, along with Dis-Chem's code of ethics, requires the board to build and sustain an ethical corporate culture in Dis-Chem.








## KING III CODE (continued)

Principle	Applied	Comments
<b>Chapter 2 - Board and Directors</b>		
2.1 The Board should act as the focal point for and custodian of corporate governance		The board operates in accordance with the board charter which sets out the board's responsibilities to ensure that it directs, governs and maintains effective control of Dis-Chem and that relationships with management and stakeholders are monitored. The board as a whole is responsible for effective corporate governance. Through its meetings and interaction with management, the Board ensures that applicable principles are implemented and a high level of compliance maintained. The board meets as often as is required to fulfil its duties but at least four times a year.
2.2 The Board should appreciate that strategy, risk, performance and sustainability are inseparable		In assessing performance and strategy, the board takes cognisance of sustainable development and risk management in its decision-making. This performance is assessed by the audit and risk committee and considered at the main board level.
2.3 The Board should provide effective leadership based on an ethical foundation		Ethics form part of the values of Dis-Chem and the board. The social and ethics committee is responsible for giving direction and providing oversight over ethical leadership within the Group. Dis-Chem has a code of ethics that has been approved by the Board.
2.4 The Board should ensure that the Company is and is seen to be a responsible corporate citizen		The board ensures that Dis-Chem is, and is seen to be, a responsible corporate citizen by having regard to not only the financial aspects of the business of Dis-Chem. The Board is responsible for ensuring that the Group protects and enhances the well-being of the economy and society.
2.5 The Board should ensure that the Company's ethics are managed effectively		Ethics are the responsibility of the board as a whole. The management of ethics forms an important aspect of the Board's responsibility and focus. Dis-Chem has a code of ethics that has been approved by the Board.
2.6 The Board should ensure that the Company has an effective and independent audit committee		The Group's audit and risk committee has been established and consists of four independent non-executive Directors, with the collective skills and experience required to perform their duties and appropriate to Dis-Chem. The chairman of the board is not a member of the audit committee. The members of the audit and risk committee have the necessary financial experience and skills to serve on such a committee.
2.7 The Board should be responsible for the governance of risk		The board as a whole is responsible for the governance of risk. The audit and risk committee has been established to assist the board in this regard. Refer to 4.1.
2.8 The Board should be responsible for information technology (IT) governance		The board as a whole is responsible for the governance of IT. The audit and risk committee assists the board in this regard. Refer to 5.1.
2.9 The Board should ensure that the Company complies with applicable laws and considers adherence to non-binding rules, codes and standards		Compliance with all applicable laws and adherence to non-binding rules, codes and standards form part of the responsibility of the board and represents the values of Dis-Chem in its role as a responsible corporate citizen. The various board sub-committees i.e. the audit and risk and the social and ethics committees, assist the board in monitoring such compliance.



## KING III CODE (continued)








Principle	Applied	Comments
<b>Chapter 2 - Board and Directors</b>		
2.10 The Board should ensure that there is an effective risk-based internal audit		The audit and risk committee formulates and monitors Dis-Chem's risk management policies, monitors Dis-Chem's governance compliance and oversees the scope and performance of internal audit. PWC has been appointed as the Group's internal auditors.
2.11 The Board should appreciate that stakeholders' perceptions affect the Company's reputation		Dis-Chem engages its stakeholders on multiple levels and this allows Dis-Chem to manage issues effectively and timeously and also mitigate/reduces the likelihood of reputational risks. Refer to 8.1.
2.12 The Board should ensure the integrity of the company's integrated report		The Board has approved the integrated report and in so doing ensured the integrity of the report. The audit and risk committee has been established to assist the board in this regard. Refer also to 9.1.
2.13 The Board should report on the effectiveness of the Company's system of internal controls		The board reports on the effectiveness of Dis-Chem's system on internal control in the integrated report. The audit and risk committee has been established to assist the board in this regard.
2.14 The Board and its Directors should act in the best interests of the Company		The board and directors are cognisant of their fiduciary and other duties and responsibilities under the Companies Act and King III. Directors will be required to exercise objective judgement and there will be a board agreed process through which directors will be permitted to take independent advice. The board charter requires disclosure of conflicts of interest, which are also underpinned by the applicable law and regulations. Appropriate policies in respect of dealing in securities by the directors, management officials and other employees will be enforced.
2.15 The Board should consider business rescue proceedings or other turnaround mechanisms as soon as the Company is financially distressed as defined in the South African Companies Act		The board monitors the solvency and liquidity of Dis-Chem continuously and issues going concern statements. This will enable the board to consider business rescue against other appropriate measures should Dis-Chem become financially distressed.
2.16 The Board should elect a chairman of the Board who is an independent Non-Executive Director. The CEO of the Company should not also fulfill the role of chairman of the Board		The chairman of the board is an independent non-executive director. The board charter formalises the role of the chairman and his/her performance is assessed annually. The chief executive officer of Dis-Chem does not also fulfil the role of Chairman.
2.17 The Board should appoint the chief executive officer and establish a framework for the delegation of authority		The board has appointed a chief executive officer of Dis-Chem, as well as key members of the senior management team, who are required to function in terms of an approvals framework wherein the board defines its own levels of materiality and delegates functions of management appropriately.
2.18 The Board should comprise a balance of power, with a majority of Non-Executive Directors. The majority of Non-Executive Directors should be independent		The majority of the members of the board are non-executive directors and such non-executive directors are also independent. In making further appointments to the board, the board charter requires directors to consider the appropriate skills and experience, as well as the diversity and demographics required, to ensure that the board can discharge its functions effectively.

## KING III CODE (continued)




Principle	Applied	Comments
<b>Chapter 2 - Board and Directors</b>		
2.19 Directors should be appointed through a formal process		<p>Appointments to the board are a matter for the consideration of the board as a whole and are to be made in a formal and transparent manner. In this process, the board is assisted by the nomination committee, acting under the guidance of the chairman of the board, which is tasked with developing and recommending to the board criteria for selection of candidates to serve on the board and assisting the board with identifying and evaluating suitable nominees to recommend to shareholders for election.</p> <p>Directors are also appointed by the shareholders at the Annual General Meeting.</p>
2.20 The induction of and ongoing training and development of Directors should be conducted through formal processes		The nomination committee has the function to ensure that new directors undergo an appropriate induction process and it recommends to the board the need for board participation in continued education programs.
2.21 The Board should be assisted by a competent, suitably qualified and experienced company secretary		The board has appointed a company secretary who is not a director of Dis-Chem and who the board believes is suitably qualified and experienced to fulfil his functions in assisting the board and the chairman appropriately and on an objective, arm's length basis.
2.22 The evaluation of the Board, its committees and the individual Directors should be performed every year		The board charter requires the board to conduct annual evaluations of its performance against its roles and responsibilities, as well as that of individual directors. Each committee evaluates its own performance and the nomination committee monitors and reports to the board periodically on the performance of the committees.
2.23 The Board should delegate certain functions to well-structured committees but without abdicating its own responsibilities		The board has established an audit and risk committee, a remuneration committee, a nomination committee and a social and ethics committee. Formal terms of reference have been adopted for each of these committees, which is reviewed on an annual basis. The composition of each committee, as well as a description of its terms of reference, is disclosed in Dis-Chem's integrated annual report. Delegating authority to board committees or management, other than the specific matters for which the audit and risk committee carries ultimate accountability in terms of the Companies Act, does not mitigate or discharge the board and its directors of their duties and responsibilities and the board fully acknowledges this fact. Committee chairpersons report back to the board at board meetings.
2.24 A governance framework should be agreed between the Company and its subsidiary boards		As a listed entity, the board and management are cognisant that Dis-Chem must comply with the listings requirements of the JSE Limited. Particular regard is to managing the trading of securities, closed periods and managing price sensitive information. The board charter requires the board to respect the fiduciary responsibilities of any director serving on a subsidiary board in a representative capacity.
2.25 Companies should remunerate Directors and executives fairly and responsibly		The remuneration committee ensures that the remuneration policy is aligned with Dis-Chem's strategic goals and linked to individual performance.






## KING III CODE (continued)

Principle	Applied	Comments
<b>Chapter 2 - Board and Directors</b>		
2.26 Companies should disclose the remuneration of each individual director and certain senior executives		The remuneration report of Dis-Chem, which is published in its integrated annual report, discloses the details of the remuneration for all directors and prescribed officers of Dis-Chem, in accordance with the requirements of the Companies Act, the Listings Requirements of the JSE Limited and King III. The relevant disclosure is also included in the Group's annual financial statements.
2.27 Shareholders should approve the Company's remuneration policy		Every year, the remuneration report of Dis-Chem, which is published in its integrated annual report, will be presented to shareholders to pass a non-binding advisory vote at Dis-Chem's annual general meeting. The first vote will take place at the AGM in July 2017.






Principle	Applied	Comments
<b>Chapter 3 - Audit Committees</b>		
3.1 The Board should ensure that the Company has an effective and independent audit committee		Dis-Chem has established an audit and risk committee, comprised of independent non-executive directors, the terms of reference of which have been approved by the board and comply with section 94 of the Companies Act and King III.
3.2 Audit committee members should be suitably skilled and experienced independent Non-Executive Directors		The members of the audit and risk committee are independent non-executive directors of Dis-Chem. The members are professionally qualified, financially literate and have the requisite industry skills and experience.
3.3 The audit committee should be chaired by an independent Non-Executive Director		The chairman of the audit and risk committee is an independent non-executive director.
3.4 The audit committee should oversee integrated reporting		The terms of reference of the audit and risk committee require the committee to oversee the integrated annual report and impose suitable duties upon the committee to ensure that this is attended to. The audit committee has recommended the integrated annual report to the Board for approval.
3.5 The audit committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities		The terms of reference of the audit and risk committee require the committee to ensure that an appropriate combined assurance model, which addresses all the significant risks of Dis-Chem, is implemented.
3.6 The audit committee should satisfy itself of the expertise, resources and experience of the Company's finance function		The terms of reference of the audit and risk committee require the committee to satisfy itself of the appropriateness of the expertise and adequacy of resources of the finance function of Dis-Chem, including that of the chief financial officer of Dis-Chem. The results of such a review are included in the annual financial statements on the Group website.
3.7 The audit committee should be responsible for overseeing of internal audit		The terms of reference of the audit and risk committee require it to agree and approve the internal audit plan, evaluate the performance of the internal audit function, ensure that it is subject to an independent quality review and ensure that the internal audit function is adequately resourced.





## KING III CODE (continued)

Principle	Applied	Comments
<b>Chapter 3 - Audit Committees</b>		
3.8 The audit committee should be an integral component of the risk management process		The terms of reference of the audit and risk committee require the committee to oversee Dis-Chem's risk management process and in particular, have regard to the financial reporting risks, internal financial controls, fraud risks and IT governance (including IT risks which relate to financial reporting).
3.9 The audit committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process		The audit and risk committee is responsible for overseeing the external audit process, fees, terms of engagement and remuneration, the policy for non-audit services and Reportable Irregularities. Accordingly, the audit and risk committee recommends external auditor appointments to the board.
3.10 The audit committee should report to the Board and shareholders on how it has discharged its duties		The terms of reference of the audit and risk committee require the committee to report to the board on its statutory duties and the duties assigned to it by the board at each board meeting. The committee is also required to report to shareholders on its statutory duties and the same will be disclosed in the annual financial statements on the Group website.




Principle	Applied	Comments
<b>Chapter 4 - The governance of risk</b>		
4.1 The Board should be responsible for the governance of risk		The board charter establishes the board's ultimate responsibility for risk governance. The audit and risk committee has been established to assist the board in this regard. The terms of reference of the audit and risk committee require that the committee develops a policy and plan for a system and process of risk management, which is documented and approved by the board on an annual basis.
4.2 The Board should determine the levels of risk tolerance		The board charter requires the board to set Dis-Chem's level of risk tolerance and limits for Dis-Chem's risk appetite on an annual basis and monitor the same accordingly.
4.3 The risk committee or audit committee should assist the Board in carrying out its risk responsibilities		The audit and risk committee has been established to assist the board in carrying out its risk responsibilities, overseeing internal financial controls, overseeing financial reporting risks and overseeing fraud risks as they relate to financial reporting and IT risks as they relate to financial reporting.
4.4 The Board should delegate to management the responsibility to design, implement and monitor the risk management plan		The Chief Financial Officer is accountable to the board for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities of the Company. The board charter and the terms of reference of the audit and risk committee will delegate the development of the risk strategy to management through systems and processes. Management is accountable to integrating risk management into the daily activities of Dis-Chem.
4.5 The Board should ensure that risk assessments are performed on a continual basis		The audit and risk committee is responsible to ensure that effective and on-going risk assessments are performed and that a systematic, documented, formal risk assessment is conducted annually.





## KING III CODE (continued)

Principle	Applied	Comments
<b>Chapter 4 - The governance of risk</b>		
4.6 The Board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks		The audit and risk committee are required to ensure that the risk management framework and processes are in place to implement the same are adequate for the purpose of anticipating unpredictable risks.
4.7 The Board should ensure that management considers and implements appropriate risk responses		The terms of reference of the audit and risk committee requires the committee to ensure that management develops adequate risk responses. The appropriateness of risk responses is reviewed by the audit and risk committee as well as the board.
4.8 The Board should ensure continual risk monitoring by management		The terms of reference of the audit and risk committee requires the committee to ensure that there is effective and continual monitoring of risk management and that the responsibility for monitoring risk is defined in the risk management plan. The audit and risk committee provides regular feedback to the board on matters within its mandate.
4.9 The Board should receive assurance regarding the effectiveness of the risk management process		Management provides assurance to the audit and risk committee that the risk management plan is integrated into the daily activities of Dis-Chem and internal audit will provide a written assessment of the effectiveness of the system of internal controls and risk management to the board.
4.10 The Board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders		The audit and risk committee discloses in the integrated annual report any undue, unexpected or unusual risks, such as material losses. The chief audit executive and the Group's external auditors provide oversight in this regard.

Principle	Applied	Comments
<b>Chapter 5 - The governance of Information Technology</b>		
5.1 The Board should be responsible for IT governance		The board charter requires the board to assume responsibility for IT governance and the audit and risk committee assists the board in carrying out these duties by establishing appropriate IT policies, frameworks and strategy. IT is represented at the audit and risk committee and board level.
5.2 IT should be aligned with the performance and sustainability objectives of the Company		The audit and risk committee ensures that Dis-Chem's IT strategy is integrated into Dis-Chem's business processes.
5.3 The Board should delegate to management the responsibility for the implementation of an IT governance framework		Management is responsible for the implementation of the structures, processes and mechanisms for the IT governance framework. A suitably qualified and experienced chief information officer is mandated by the board to guide IT governance within the Group.
5.4 The Board should monitor and evaluate significant IT investments and expenditure		The audit and risk committee oversees the value delivery of IT and monitors the return on investment from significant IT projects. In addition, the committee ensures that processes are in place to protect Dis-Chem's information systems.






## KING III CODE (continued)




Principle	Applied	Comments
<b>Chapter 5 - The governance of Information Technology</b>		
5.5 IT should form an integral part of the company's risk management		The terms of reference of the audit and risk committee require the committee to ensure that management demonstrates that Dis-Chem has adequate business resilience arrangements in place for disaster recovery and that Dis-Chem complies with all IT laws and related rules, codes and standards.
5.6 The Board should ensure that information assets are managed effectively		The board is responsible for IT governance and accordingly ensures that information assets are identified, managed and treated as important business assets. The terms of reference of the audit and risk committee require the committee to ensure that systems are in place for the management of information which includes security, information management and privacy.
5.7 A risk committee and audit committee should assist the Board in carrying out its IT responsibilities		The audit and risk committee require the committee to ensure that IT risks are adequately addressed and that assurance is given to confirm that adequate controls are in place. The chief information officer reports to the main boards.

Principle	Applied	Comments
<b>Chapter 6 - Compliance with laws, codes, rules and standards</b>		
6.1 The Board should ensure that the Company complies with applicable laws and considers adherence to non-binding rules, codes and standards		Dis-Chem has adequate systems and functions in place to ensure that it complies with all applicable laws and any instances in respect of exceptions, shortcomings and proposed changes are managed by the board. The various board sub-committees i.e. the audit and risk and the social and ethics committees, assist the board in monitoring such compliance.
6.2 The Board and each individual director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the Company and its business		The directors appointed to the board of Dis-Chem are suitably skilled and experienced with regard to the applicable laws, rules, codes and standards on Dis-Chem and its business. The company secretary keeps the board informed of relevant laws, rules, codes and standards including any changes. On-going training and updates will be conducted at regular intervals.
6.3 Compliance risk should form an integral part of the Company's risk management process		Through Dis-Chem's risk management framework, the risk management function identifies, assesses and responds to compliance risks. This is monitored by the board through the audit and risk committee. The risk management framework is currently being updated.
6.4 The Board should delegate to management the implementation of an effective compliance framework and processes		The responsibility for compliance with legislation is the responsibility of the Chief Financial Officer. The Chief Financial Officer, assisted by the audit and risk committee and, where necessary, external counsel, is required to design and implement appropriate compliance structures, processes and systems.






## KING III CODE (continued)

Principle	Applied	Comments
<b>Chapter 7 - Internal Audit</b>		
7.1 The Board should ensure that there is an effective risk based internal audit		Dis-Chem has appointed PWC as their internal auditors whom the board believes has adequate skills and resources to perform their prescribed role. The audit and risk committee formulates and monitors risk management policies, monitors governance compliance and oversees the scope and performance of internal audit.
7.2 Internal audit should follow a risk based approach to its plan		The board charter requires a risk-based approach to internal audit planning to be adopted in assessing the Group's control environment and aligning it to the risk assessment process.
7.3 Internal audit should provide a written assessment of the effectiveness of the Company's system of internal controls and risk management		The board charter requires internal audit to be aligned with the risk assessment process. An internal audit charter has been established, which ensures that the internal audit function forms an integral part of the combined assurance model and this model is applied to financial, operational, compliance and sustainability issues. The assurance model forms part of an effective governance, risk management and internal control framework.  Internal audit will issue their first assessment of the effectiveness of the Company's system of internal controls and risk management in the forthcoming year.
7.4 The audit committee should be responsible for overseeing internal audit		The audit and risk committee formulates and monitors Dis-Chem's risk management policies, monitors Dis-Chem's governance compliance and oversees the scope and performance of internal audit.
7.5 Internal audit should be strategically positioned to achieve its objectives		Dis-Chem's independent internal auditors report to the audit and risk committee. The internal audit function is suitably skilled and resourced and a quality assurance plan is currently being finalised.

Principle	Applied	Comments
<b>Chapter 8 - Governing stakeholder relationships</b>		
8.1 The Board should appreciate that stakeholders' perceptions affect a company's reputation		The board charter requires the board to ensure that good relations are maintained with Dis-Chem's major shareholders and its strategic stakeholders and to build and maintain stakeholders' trust and confidence in Dis-Chem. Engagement with stakeholders is aimed at the establishment of open, interactive relationships.
8.2 The Board should delegate to management to proactively deal with stakeholder relationships		A policy managing relationships with stakeholder groups exists and an investor relations has been appointed.
8.3 The Board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the Company		In exercising decisions in the best interests of Dis-Chem, the board charter also requires directors to consider the legitimate interests and expectations of its stakeholders.

## KING III CODE (continued)

Principle	Applied	Comments
<b>Chapter 8 - Governing stakeholder relationships</b>		
8.4 Companies should ensure the equitable treatment of shareholders		In compliance with its responsibilities under the Companies Act and the listings requirements of the JSE Limited, the board is cognisant of its duty to ensure that all shareholders are treated equitably.
8.5 Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence		A policy managing relationships with stakeholder groups exists and an investor relations has been appointed.
8.6 The Board should ensure that disputes are resolved as effective, efficiently and expeditiously as possible.		A policy establishing a formal dispute resolution processes for addressing internal and external disputes will be introduced during the year that follows the reorganisation. In the interim, Dis-Chem has a practice of including dispute resolution clauses in all of its agreements.

Principle	Applied	Comments
<b>Chapter 9 - Integrated reporting and disclosure</b>		
9.1 The Board should ensure the integrity of the Company's integrated report		Through the audit and risk committee, the board ensures that there are controls in place to enable it to verify and safeguard the integrity of the integrated report. In addition, the audit and risk committee is tasked with evaluating sustainability disclosures.
9.2 Sustainability reporting and disclosure should be integrated with the Company's financial reporting.		Dis-Chem's first integrated report, in addition to commentary on its financial results, integrates sustainability and financial reporting.
9.3 Sustainability reporting and disclosure should be independently assured		The audit and risk committee has overseen the compiling of Dis-Chem's first sustainability report and its disclosures will be independently assured in future years.