



# 2017

**RCL FOODS LIMITED  
CORPORATE  
GOVERNANCE REPORT**



# STATEMENT OF COMPLIANCE

For the period under review, the Board is of the opinion that the Group applied the requirements of King III. Where the Board has adopted a practice different from that recommended in King III, reasons for the alternative approach have been explained. The Board is further satisfied that it met the requirements of the Companies Act of South Africa and the JSE Listings Requirements.

The full King III application table is available on our website at [www.rclfoods.com](http://www.rclfoods.com).

King IV, published on 1 November 2016, replaces King III in its entirety. King IV is effective in respect of financial years commencing on or after 1 April 2017. RCL FOODS will adopt King IV in the next financial year to the extent possible.



## THE BOARD

### BOARD OF DIRECTORS

The Group has a unitary Board of 11 directors, of whom five are independent non-executive directors, four are non-executive directors and two are executive directors. There were no changes to the Board during the year. The Chairman of the Board, Mr JJ Durand, is not independent but, given his role as Chief Executive Officer (CEO) of Remgro, the Board deemed this arrangement appropriate and key to achieving the business objectives of RCL FOODS. The roles of Chairman and CEO are separate and a clear division of responsibility exists.

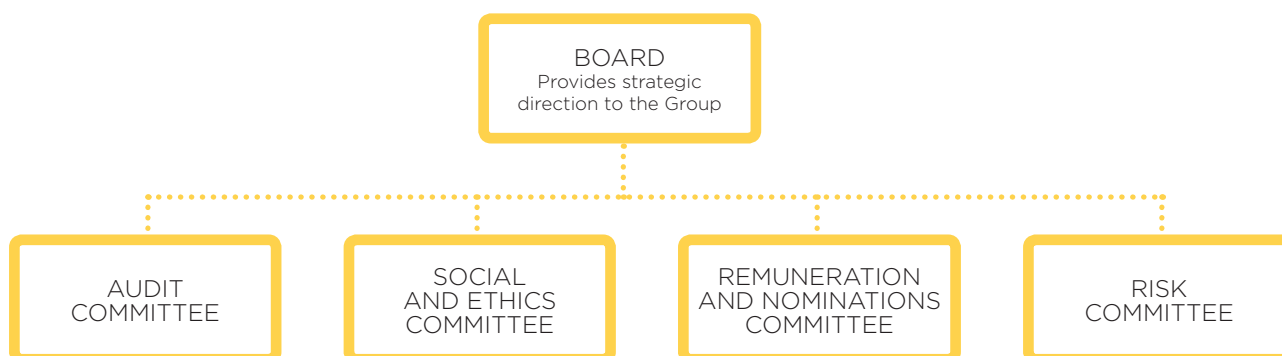
### BOARD COMPOSITION

The Board ensures that there is an appropriate balance of power and authority so that no individual or block of individuals has unfettered powers of decision making or influence on the Board. To ensure good governance and as recommended by King III, Mr RV Smither maintains his role as lead independent director. The Board effectively conducts the affairs of the Group through their diverse industry knowledge and experience.

Details of the directorate are provided on pages 52 and 53 of the Abridged Integrated Annual Report available on our website at [www.rclfoods.com](http://www.rclfoods.com).




## GOVERNANCE STRUCTURES



# THE BOARD CONTINUED

## BOARD RESPONSIBILITIES AND MEETING ATTENDANCE

The Board gives strategic direction to the Group, while retaining full and effective control over the Group and monitoring executive management in implementing plans and strategies. The roles and responsibilities of the Board are set out in formal Board Charters which are reviewed annually.

The complete terms of reference of the Board are detailed in the Board Charters available on our website  [www.rclfoods.com](http://www.rclfoods.com).

Advance apologies with reasons are received from directors who are unable to attend meetings.

MEMBERS	ATTENDANCE
NP Mageza*	3/5
DTV Msibi*	5/5
MM Nhlanhla*	4/5
RV Smither*	5/5
GM Steyn*	5/5
HJ Carse^	5/5
JJ Durand^	5/5
PR Louw^	4/5
GC Zondi^	5/5
M Dally #	5/5
RH Field#	5/5

### 2017 ACTIVITIES

- Approved the Group strategy and ratified the 2017 financial year budget;
- Approved the half year and year-end financial results and JSE announcements;
- Approved the Integrated Annual Report;
- Discussed and considered material issues relating to execution of strategy;
- Approval of non-executive directors' fees for tabling at the annual general meeting;
- Considered the declaration of directors' personal financial interests;
- Approval of major capital expenditure; and
- Considered committee report back to the Board.

\* Independent non-executive director

^ Non-executive director

# Executive director

## ACCESS TO RECORDS AND INDEPENDENT ADVICE

Directors have unrestricted access to all Group information, records, documents and property. Non-executive directors have access to management and may meet separately with management, without the attendance of executive directors. All directors have access to the advice and services of the Company Secretary, and directors may obtain independent professional advice at the Group's expense, should they deem this necessary.

## COMPANY SECRETARY

The Board is cognisant of the duties of the Company Secretary who is accordingly empowered to properly fulfil those duties. Mr JMJ Maher is the Company Secretary and in addition to the statutory duties, he fulfils the following functions in line with the Board Charter:

- induction of directors;
- provides the Board and Directors individually with guidance as to how their responsibilities should be properly discharged in the best interests of the Group;
- provides guidance to the Board on the duties of the directors, matters of ethics and good governance; and
- acts as the primary point of contact between shareholders and the Group.

The Board assessed and was satisfied that the Company Secretary is competent and has the requisite qualifications and experience to effectively execute his duties. The Company Secretary maintains an arm's length relationship with the Board and the directors, taking into account that the Company Secretary is not a director of the Company and is not related to any of the directors.

## THE BOARD CONTINUED

### DIRECTORS' INDEPENDENCE

All independent non-executive directors are subject to an independence evaluation by the Board. The Board considers whether the director is independent in character and judgement and whether there are any relationships or circumstances which are likely to affect, or could appear to affect, the director's independence. Having considered the responses, the Board is of the opinion that Messrs NP Mageza, RV Smither, DTV Msibi, GM Steyn and Mrs MM Nhlanhla are independent. All other non-executive directors are not considered independent due to their capacities as directors of either Remgro Limited or the BEE consortium, who are major shareholders in RCL FOODS. All directors are required to declare, on an annual basis, any interest in proposed transactions or arrangements with the Group. In addition, all other material interests are disclosed by directors, as and when they arise.

### APPOINTMENTS TO THE BOARD

Procedures for appointment to the Board are formal and transparent and a matter for the Remuneration and Nominations Committee. The Remuneration and Nominations Committee consists of four non-executive directors and meets at least twice a year. Mr NP Mageza is the Chairman of the Remuneration and Nominations Committee. The other members are Messrs JJ Durand, GM Steyn and RV Smither. The Lead Independent Director of the Board serves as Chairman of the committee for nomination matters. The CEO and Chief Human Resources Officer also attend meetings of the Remuneration and Nominations Committee.

The committee considers the Board's composition, retirements and appointments of additional and replacement directors. 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 the business. Non-executive directors are selected on the basis of industry knowledge, professional skills and experience. On appointment to the Board, new directors visit the Group's businesses and meet with senior management, as appropriate, to facilitate their understanding of the Group and their fiduciary responsibilities. The Board has reviewed its required mix of skills and experience and other qualities such as demographics and diversity in order to assess its effectiveness and that of its committees and the contribution of each director.

In accordance with the Memorandum of Incorporation, not less than one-third of the directors are subject to retirement and re-election by shareholders on an annual basis. As a result of this requirement, at the 2017 annual general meeting, the following directors will retire by rotation but all offer themselves for re-election: Messrs RV Smither, DTV Msibi, GM Steyn, M Dally and RH Field.


### BOARD EFFECTIVENESS

For the period under review, the Company Secretary facilitated a performance evaluation of the Board and its committees based on the requirements of King III. The results of the individual assessments are consolidated by the Company Secretary and the Chairman of the Board is responsible for determining any actions required to enhance the effectiveness of the Board.

# BOARD COMMITTEES


RCL FOODS is committed to achieving the highest level of corporate governance and ethical business behaviour in order to create sustainable value for its stakeholders. The directors recognise that good corporate governance is about leadership and that there exists the need to conduct the enterprise with integrity and in compliance with legislation, regulations and best practices relevant to the Group's business. Governance in the Group extends beyond mere legislative and regulatory compliance and the directors strive to entrench an enterprise wide culture of good governance and ethical conduct. For RCL FOODS corporate governance incorporates the structures, processes and practices that the Board use to assist them in managing and directing the company's operations.

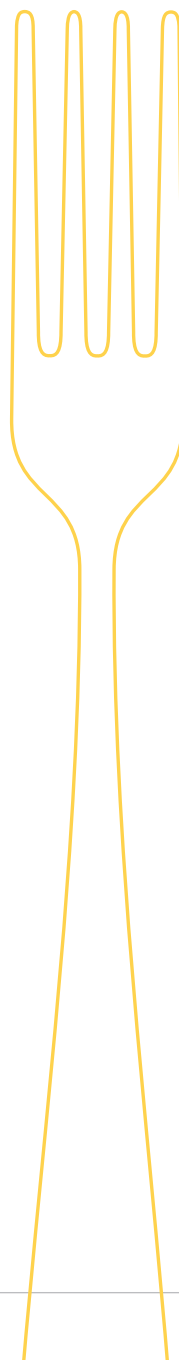
Board committees assist the Board in discharging its responsibilities. The role and responsibility of each Board committee is set out in formal charters defining terms of reference, duration and functions, clearly agreed upon reporting procedures and scope of authority for each committee. Committees are free to obtain independent external professional advice as and when necessary and are subject to evaluation by the Board to ascertain their performance and effectiveness.

The complete terms of reference of the Board committees are detailed in the individual committee  charters available on our website at [www.rclfoods.com](http://www.rclfoods.com).

## AUDIT COMMITTEE

The Audit Committee ensures that the Group's financial standing is sound. It also ensures that the internal financial controls are adequate and effective. In addition, it approves the external audit fees, ensures that the internal audit department is independent and effective and that the finance processes are effective.

The detailed Report of the Audit Committee has been included in the Abridged Integrated Annual Report on pages 84 and 85 available on our website at [www.rclfoods.com](http://www.rclfoods.com). 



# BOARD COMMITTEES CONTINUED

## RISK COMMITTEE

### RESPONSIBILITIES AND MEETING ATTENDANCE

The Risk Committee is responsible for overseeing the adequacy and overall effectiveness of the Group's risk management function and its implementation by management.

Further details of the risk management process is included on page 9 on this report. The material risks impacting the Group are included on pages 28 to 33 as part of the Abridged Integrated Annual Report available at [www.rclfoods.com](http://www.rclfoods.com).



Advance apologies with reasons are received from directors who are unable to attend meetings.

MEMBERS	ATTENDANCE
GC Zondi	3/3
RV Smither	3/3
GM Steyn	3/3
M Dally	3/3
RH Field	3/3

#### 2017 ACTIVITIES

- Reviewed the risk profile to ensure the alignment with Group strategic objectives;
- Considered changes in the risk profile of the Group and divisions and the impact on business;
- Reviewed strategic risk registers for all divisions, confirming mitigation strategies developed by management;
- Reviewed assurance results of the combined assurance model against approved monitoring plans;
- Reviewed the Group's revised sustainability strategy and received updates on:
  - progress against sustainability targets;
  - the status of the implementation of key sustainability projects; and
- Evaluated the insurance programme to ensure that all insurable risks were covered where practical.

## REMUNERATION AND NOMINATIONS COMMITTEE

### RESPONSIBILITIES AND MEETING ATTENDANCE

The Remuneration and Nominations Committee is responsible for the assessment and approval of the remuneration strategy for the Group, reviewing and approving short-term and long-term incentive pay structures for the Group executives and managers, positioning of executive pay levels relative to market benchmarks and assessment and authorisation of specific reward proposals for Group executives.



The detailed Remuneration Report is available on our website at [www.rclfoods.com](http://www.rclfoods.com).

Advance apologies with reasons are received from directors who are unable to attend meetings.

MEMBERS	ATTENDANCE
NP Mageza	2/3
RV Smither	3/3
GM Steyn	3/3
JJ Durand	3/3

#### 2017 ACTIVITIES

- Recommended that one director, due to retire in terms of Group policy, be re-appointed;
- Reviewed the succession planning for the Chief Executive Officer and senior executive positions;
- Reviewed the performance objectives and key activities of the Chief Executive Officer and senior executives;
- Provided guidance on evaluation of the performance of executive directors;
- Approved the remuneration policy;
- Ensured that the remuneration of the Chief Executive Officer, executive directors and executive committee members are in line with the remuneration policy;
- Approved the appointment and packages of senior executive positions within the Group; and
- Approved all awards pursuant to the RCL FOODS Share Appreciation Rights Scheme and Conditional Share Plan.

# BOARD COMMITTEES CONTINUED

## SOCIAL AND ETHICS COMMITTEE

### RESPONSIBILITIES AND MEETING ATTENDANCE

The role of the Social and Ethics Committee is to assist the Board with monitoring and reporting on social, ethical and transformational practices that are consistent with good and responsible corporate citizenship. The Social and Ethics Committee is satisfied that it has carried out its responsibilities for the year in compliance with its approved mandate. The Chairman of the Social and Ethics Committee, Mr GC Zondi, will be available at the annual general meeting to answer any questions relating to the statutory obligations of the committee.

Advance apologies with reasons are received from directors who are unable to attend meetings.

MEMBERS	ATTENDANCE
GC Zondi	2/2
MM Nhlanhla	2/2
M Dally	2/2
RH Field	2/2
2017 ACTIVITIES	
<ul style="list-style-type: none"> <li>Considered the proposed refocus of the Group's Corporate Social Investment strategy;</li> <li>Considered the impact of the proposed new B-BBEE codes on the Group's scorecard;</li> <li>Reviewed the Group's progress against the 2020 Employment Equity plan;</li> <li>Reviewed current developments with respect to labour relations;</li> <li>Reviewed the Group's consumer relations, including advertising, public relations and compliance with consumer protection laws; and</li> <li>Reviewed the results of anti-corruption efforts in relation to the outcomes of the whistle-blowing hotline investigations and considered fraud risk mitigation measures.</li> </ul>	



# GOVERNANCE PROCESS

## CODE OF CORPORATE CONDUCT AND ETHICS

It is a fundamental policy of the Group to conduct its business with honesty and integrity and in accordance with the highest legal and ethical standards. The Code of Corporate Conduct and Ethics Policy governs the conduct of all employees. RCL FOODS' induction programme educates new employees on the ethics, values and business culture of the Group. It is a requirement that all employees sign an acknowledgement that they have read and understood the contents of the policy and that contravention of the basic standards contained therein may result in disciplinary action, including dismissal. The Corporate Code of Conduct and Ethics Policy is available to all employees on the Group's intranet.

## ANTI-BRIBERY AND CORRUPTION

The Group has a zero-tolerance policy to bribery, fraud and corruption. The Code of Corporate Conduct and Ethics sets the guidelines that define acceptable and responsible behaviours of the Group and all employees.

The code prohibits:

- all cash gifts;
- the giving or receiving of gifts, loans, favours or any other benefit, which may be regarded as influencing business, labour or governmental decisions;
- donations or contributions to a political party; and
- engaging in activities which may be in conflict of interest with the Group's employment position.

As part of the Group's anti-fraud and anti-corruption efforts, internal audits are conducted to assess the status of internal controls including controls to minimise the risk of fraud.

The Board recognises the need for a confidential reporting mechanism (whistle-blowing hotline) covering fraud and other risks. The whistle-blowing hotline, an anonymous toll-free number, provides an impartial facility for all stakeholders to report fraud, statutory malpractice, crime and deviations from policy.

In line with its commitment to transparency and accountability, the Group takes action against employees and others who are guilty of fraud, corruption or other misconduct, or who are in breach of Group policies.

Procedures are in place for the independent investigation of matters reported and for appropriate follow-up action.

During the year under review, 63 allegations were received. 29 of these matters were resolved resulting in either criminal charges, resignations or disciplinary action against the relevant individuals. The balance of the calls were closed due to either insufficient information supplied by the caller or that the allegations were found to be untrue.

## LEGAL COMPLIANCE

RCL FOODS manages its business responsibly and in compliance with the statutory and regulatory requirements which are underpinned in the legal compliance frameworks of the individual divisions which are designed to increase awareness of the applicable legislation and to provide assurance to the Board that the risks posed by non-compliance with legislative and regulatory obligations are being addressed.

The Group keeps up to date with all intended or promulgated legislation through regular interaction with the Group's corporate attorneys who keep the Group informed of changes in the legal landscape.

The audit and risk teams, Group corporate attorneys and external assurance providers assess significant legal risks and the level of compliance as part of their annual audit activities and reports from the various functions are submitted to the Risk, Audit and Social and Ethics Committees on a regular basis.



# GOVERNANCE PROCESS CONTINUED

## CONSUMER AND PRODUCT LEGISLATION

As a participant in the food industry, the health and safety of the Group's customers is paramount. The Group therefore endeavours to comply with the strictest food safety standards by embedding international practices across the supply chain to build customer trust, ensure customer satisfaction and to drive sustainability in a changing environment. A full list of the Group's accreditation to International Standards and further detail on the Group's practices with respect to consumer and product legislation and consumer relations is included in the Sustainable Business Report available on our website at [www.rclfoods.com](http://www.rclfoods.com). The Group's adherence to consumer protection laws is continuously monitored by internal and external parties.

## INTERNAL AUDIT FUNCTION

Internal audit is an independent, objective function that provides assurance on the Group's activities by adopting a risk-based audit approach geared towards creating value and improving business processes.

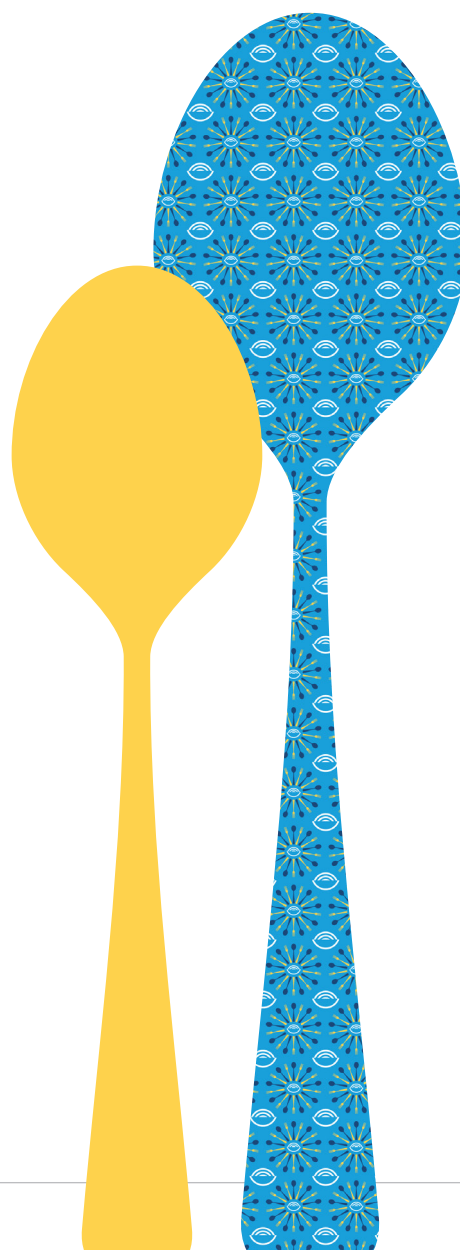
It considers risks that may impact the achievement of the Group's strategic objectives and evaluates the adequacy and effectiveness of the internal control systems and risk management.

The detailed Report of the Audit Committee has been included in the Abridged Integrated Annual Report on pages 84 and 85 available on our website at [www.rclfoods.com](http://www.rclfoods.com).

## IT GOVERNANCE

IT is an integral part of RCL FOODS' business and is fundamental to the support, growth and sustainability of the Group. Through the rapid expansion of the Group, the IT landscape has changed significantly, creating an environment of diversity and varying levels of maturity. Significant progress has been made in obliging IT governance practices across the Group.

To aid in consistent IT service delivery and governance, IT within the Group is directed by a dedicated IT director and the overall responsibility for IT governance lies with the Board.



# GOVERNANCE PROCESS CONTINUED

## RISK MANAGEMENT

Risk management is considered by the Board to be a key business discipline, designed to balance risk and reward and to protect the Group against uncertainties that could threaten the achievement of business objectives.

The Board has assigned oversight of the Group's risk management function to the Risk Committee. The Chairman of the Audit Committee is also a member of the Risk Committee, thereby ensuring that information relevant to these committees is transferred regularly.

The Board has approved a corporate risk management policy that defines the objectives of and commitment to risk management. The policy is based on principles of the International Committee of Sponsoring Organisations of the Treadway Commission (COSO) framework and complies with the requirements of King III. It involves continuous risk identification at both a strategic and operational level, as well as the evaluation of mitigating controls.



## GOVERNANCE PROCESS CONTINUED

Formal risk assessments are performed bi-annually where existing risks are re-assessed and new and emerging risks are identified through a combination of facilitated workshops and interviews with Group executives and management, the detail of which is illustrated below.

STEP

1



### CONTEXT SETTING AND RISK IDENTIFICATION

Through interviews, facilitated workshops, surveys and industry benchmarking, executives and management identify and define risks that would impact the achievement of strategic goals which may include operational, financial, regulatory and strategic risks.

STEP

2



### RISK ANALYSIS AND EVALUATION

Risks are assessed, (both quantitatively and qualitatively) rated and ranked by management, as defined in the RCL FOODS risk assessment criteria, based on probability, impact and control effectiveness.

STEP

3



### RISK RESPONSE

Risks are reviewed and appropriate treatment methods, that would manage risks to an acceptable level aligned with strategy, are approved by management. Management may decide to avoid the risk by eliminating risk through preventative processes, accept the risk by maintaining the risk at its current level, share the risk with an independent counterparty or manage the risk by implementing policies and procedures to lower risk.

STEP

4



### RISK REPORTING AND MONITORING

The relevant operating Boards and Risk Committee are periodically updated on management's assessment of existing and emerging risks, risk response strategies and mitigating controls in place to manage risks to an acceptable level. Assurance on controls is provided through the combined assurance model.

The material risks impacting the Group are included as part of the Abridged Integrated Annual Report available at [www.rclfoods.com](http://www.rclfoods.com).

# GOVERNANCE PROCESS CONTINUED

## COMBINED ASSURANCE

RCL FOODS operates a combined assurance framework which aims to optimise the assurance coverage obtained from management, internal assurance providers and external assurance providers on the risk areas affecting the Group.

RCL FOODS' combined assurance framework is integrated with the Group's risk management approach. Risks facing the Group are identified, evaluated and managed by implementing risk mitigations. Assurance on the effectiveness of controls mitigating risks is obtained from various assurance providers in a co-ordinated manner, which avoids duplication of effort. The Risk Committee considers the risks and the assurance provided through the combined assurance framework and periodically advises the Board on the state of risks and controls in RCL FOODS' operating environment. This information is used as the basis for the Board's review, sign-off and reporting to stakeholders via the Integrated Annual Report on risk management and the effectiveness of internal controls within the Group.

## DEALING IN SECURITIES

The Group has a formal policy, established by the Board and implemented by the Company Secretary, prohibiting dealing in securities by directors, officers and other selected employees for a designated period preceding the announcement of its financial results or in any other period considered sensitive. The Chairman, through the Company Secretary, approves all dealings by directors during "open" periods.

## REPORTING TO STAKEHOLDERS

Effective stakeholder engagement is vital to good corporate governance. The Group is committed to ensuring that relevant and accurate information is timeously communicated to all stakeholders.

For more detail on the stakeholder engagement process refer to the Sustainable Business Report available on our website at [www.rclfoods.com](http://www.rclfoods.com).



## ACCESS TO INFORMATION

The Group has complied with the requirements of the Promotions of Access to Information Act, 2000.

## INTERNAL CONTROLS

The executive directors are responsible for ensuring that internal control systems exist that provide reasonable assurance regarding the safeguarding of assets and the prevention of their unauthorised use or disposition, proper accounting records are maintained and the financial and operational information used in the business is reliable. The full King III application table is available on our website at [www.rclfoods.com](http://www.rclfoods.com).



**MORE FOOD  
TO MORE  
PEOPLE  
MORE OFTEN**



[www.rcffoods.com](http://www.rcffoods.com)

