Corporate Governance

Framework

The board of directors is committed to maintaining strict principles of good corporate governance to ensure the business is managed with the highest standards of professionalism, integrity, ethics, fairness and social responsibility. It considers itself fully accountable to stakeholders in its ongoing commitment to applying the disciplines and guidelines laid out in the Companies Act (Act 71 of 2008, as amended) (the Companies Act), the JSE Listings Requirements and the King Report on Governance for South Africa (King III).

To enable management to make recommendations to the board on matters of corporate governance we use independent external advisers to monitor regulatory developments, both locally and internationally. The board is of the opinion that, for the period 1 July 2013 to 30 June 2014, the requirements of the Companies Act and the JSE Listings Requirements have been met (unless otherwise stated). In line with the overarching 'apply or explain' principle of King III, the board has, to the best of its knowledge, applied or is embedding processes in support of the relevant King III principles.

Compliance with both the JSE requirements and King III is monitored by the audit and risk committee of the board.

The King III compliance checklist is available online at www.distell.co.za.

We aim to be transparent in our management process to assure our shareholders and other stakeholders that the company is managed within prudently determined risk parameters and in accordance with international best practice and ethical norms.

We continue to integrate sustainability into our business strategy as we are conscious of the importance of environmental, social and governance issues to our long-term prosperity. Our social and ethics committee monitors sustainability performance to ensure the Group's continuous improvement towards the highest standards of governance.

Sustainability

Distell's governing objective is to maximise value for shareholders and other key stakeholders, while also contributing to national prosperity. In striving towards this objective, we remain cognisant of the impact our business activities have on society and the environment. Therefore we follow a formal process to identify and assess the major risks that could impact negatively on sustainability as far as our operations are concerned.

In the year under review we continued to integrate sustainability into our business strategy, assisted by the social and ethics committee. The committee is chaired by an independent, non-executive director and comprises the managing director, the director for corporate affairs, Group company secretary and three executive management members. More information on the social and ethics committee appears on page 151 and also refer to the Corporate Responsibility report on page 130.

We prepared this report using the Global Reporting Initiatives' (GRI) G4 guidelines and the recommendations of King III. The information contained in the sustainability report is audited to a large extent by the internal audit department.

Although it is not fully validated, we are confident in the capacity of our internal control systems and processes to ensure the information it contains does not contradict the financial aspects of the integrated report.

Our material issues are summarised on pages 130 to 133.

Compliance with applicable laws and regulations

The Group company secretary and Group legal counsel are responsible for guiding the board in discharging its regulatory responsibilities. They have established a legal compliance framework which maintains an inventory of laws and regulations relevant to our business and sets out procedures to monitor compliance and mitigate risk.

We employ external specialists where necessary and conduct compliance training and education to reinforce ethical behaviour across the Group. Courses attended during the year included Introduction to Licensing Course, Protection of Personal Information (POPI) Legislative Compliance, Foodstuffs Seminar, Mandatory Export Legislation Seminar, Anti-Competition Seminar as well as an Intellectual Property Law Short Course. Management accepts the responsibility for implementing the controls necessary to ensure compliance with the law and convergence with the values of the Group.

During this financial year Distell initiated a process to review and revise its policies to create a robust anti-bribery/corruption policy, underpinned by anti-bribery specific controls. The Anti-bribery Compliance Project has been designed to ensure compliance with new South African legal requirements as well as global requirements in the foreign markets where we operate.

The regulations to the Companies Act requires the Group's social and ethics committee to monitor the implementation of a series of good corporate governance obligations, including the Organisation for Economic Co-operation and Development (OECD) recommendations on reducing corruption as well as the United Nations Global Compact Principles.

The Group's commitment to anti-bribery compliance is reflected in the following statement by Distell's managing director, Richard Rushton:

'… Distell has always been committed to doing business with integrity and with proper regard for ethical business practices. Our commitment to doing business ethically is unwavering. There is no room for exceptions. Complying with local and global anti-corruption laws is non-negotiable at Distell and acts of bribery and corruption by personnel or anyone acting on behalf of Distell will not be tolerated …'

To date the Group has:

- Conducted an anti-bribery risk assessment. This entailed scoping and reviewing Distell's business activities and policies to assess the extent of anti-bribery measures in place, coupled to the identification of key bribery/corruption risk areas and the development of controls and procedures to mitigate the risk.
- Developed and is implementing a policy document and framework for addressing ani-bribery policies through a compliance project.
- In preparation for the roll-out of the compliance project for the new financial year, Distell has begun to:
  - design and develop the anti-bribery due diligence procedures on third-party intermediaries and a business partner pre-clearance process; and
  - implement the project, incorporating development of the training material and roll-out of training throughout the Group. Extensive training roll-out is planned for the new financial year.

A senior management team will actively and visibly lead Distell's anti-bribery policy and practice, and ensure that these policies and procedures are implemented consistently in all countries where Distell trades.

Business ethics and organisational integrity

We are committed to conducting our business with integrity and with proper regard for ethical business practices. The company expects all directors and employees to comply with these principles and to act in the best interests of the company at all times.

Our code of ethics and conduct is designed around a set of values as detailed on page 7 and sets out the standards of ethical behaviour required of all employees in their dealings with one another, with customers, suppliers and society in general.

The code also covers areas such as compliance with laws and regulations, and provides an administrative process for communication and compliance.

Transparency and accountability through the ethics line

All directors and employees are required to avoid conflicts of interest and to refrain from insider trading, illegal anti-competitive activities, bribery and corruption. All staff members are encouraged to remain vigilant and blow the whistle on fraud, theft, corruption and other irregularities by anonymously reporting such acts to the Group's independently operated 24-hour toll-free ethics line (Ethics hotline: 0800 004 822/distell@ethics-line.com). Refer to page 137 in the 'Our People' section for statistics and results for the year under review.

The board

Board role and responsibilities

The board has adopted a charter setting out its responsibilities, accountability and duty towards Distell. It appreciates that strategy, risk, performance and sustainability are inseparable and that the strategic direction it sets for the company must integrate all these elements.

The board strives to act in the best interests of the company. It assesses and authorises the plans and strategies submitted by senior management, agrees on key performance indicators, and identifies key risk areas and responses. Executive management is then charged with the detailed planning and implementation of these strategies in accordance with appropriate risk parameters.

The main responsibilities of the board in terms of its charter are to:

- create sustainable shareholder value;
- determine the Group's key objectives and provide it with strategic direction;
- consider and approve Distell's annual business plan and budget as submitted by management, including sustainability initiatives;
- establish committees to assist it in discharging its responsibilities and duties. These are a remuneration committee, a social and ethics committee and an audit and risk committee (for more detail refer to separate sections for the roles these committees fulfil on behalf of the board);
- monitor compliance with laws, regulations and the Distell Code of Conduct;
- prepare annual financial statements that fairly represent Distell's state of affairs by selecting and consistently applying suitable accounting policies;
- implement internal controls to manage both financial and operational risks, ensure adequate risk management practices are followed and oversee information technology governance;
- ensure that relevant and accurate information is timeously communicated to stakeholders;
- appoint new directors, including the chair of the board, chairs of committees and the managing director, based on the recommendations made by the remuneration and nominations committee;
- ensure that remuneration of directors and senior management complies with the remuneration policy;
- evaluate the performance and effectiveness of the directors, the board as a whole and its sub-committees on an annual basis;
- consider significant financial matters such as investment proposals;
- evaluate the viability of the Group as a going concern;
- evaluate and approve the integrated annual report and interim financial statements, thereby ensuring that these reports fairly represent the business;
- declare dividends to shareholders; and
- review annually the charters of all the board committees.

The composition of and attendance at committee meetings are set out below.

Board of directors

Independent non-executive directors	
DM Nurek (Chairperson)	(6/6)
FC Bayly*	(2/2)
JG Carinus	(6/6)
GP Dingaan	(6/6)
MJ Madungandaba	(6/6)
LM Mojela	(6/6)
CA Otto	(6/6)
AC Parker	(6/6)
CE Sevillano-Barredo	(6/6)
BJ van der Ross	(6/6)

Non-executive directors	
PE Beyers	(5/6)
Dr E de la H Hertzog	(6/6)
JJ Durand	(6/6)
LC Verwey***	(5/5)

Executive directors	
JJ Scannell**	(2/2)
MJ Botha	(6/6)
RM Rushton****	(4/4)

* Resigned 16 October 2013.
** Retired 31 December 2013.
*** Resigned 5 May 2014.
**** Appointed 1 November 2013.

The roles of the chairman and managing director are separated, with responsibilities divided between them.

The chairman has no executive responsibilities.

Refer to pages 24 and 25 for further information on each board member.

Appointment, orientation and development

Board member appointments are made transparently and involve the full board's consideration. A formal appointment procedure is defined in the board charter which stipulates that every effort should be made to ensure that it's composition adequately reflects the demographics of South Africa. The board is mindful of the need to continuously infuse fresh thinking and a relevant mix of skills and experience amongst its member to ensure it is adequately equipped to achieve the company's objectives.

Non-executive directors are appointed for their skills, knowledge and experience of other businesses and sectors. They are expected to make effective and independent contributions to decision-making and policy formation. Their diverse mix of skills is a major contributor to the proper functioning of the board and its committees, ensuring that issues are fully debated and that no individual or group dominates the board's decision-making processes. A formal induction programme exists for all new directors.

Generally, non-executive directors have no fixed term of appointment, but retire by rotation. They may make themselves available for re-election for a further term. The directors who retire are those who have been longest in office since their last election.

In accordance with the memorandum of incorporation the board appoints a managing director and the chairman annually. A notice period of one month is specified in the employment contracts of all executive directors. No restraint of trade agreements exist.

Individual performance standards have been set for both executive and non-executive directors. Self-assessment against individual and collective responsibilities is conducted annually, following the process laid out in the board charter.

All directors are deemed to have the expertise necessary to fulfil their duties and enjoy significant influence at meetings. This ensures a balance of authority and precludes any one director from exercising undue influence in terms of decision making.

Performance evaluation

An annual evaluation of the board's effectiveness, including the audit and risk committee, remuneration and nominations committee, and social and ethics committee, is undertaken internally by way of a written questionnaire. The chairman of the board then gives feedback individually to each director. The independence of non-executive directors is also evaluated, where appropriate, and a rigorous evaluation of all the directors with more than nine years tenure will be done.

Share trading

Procedures are in place to prevent directors and senior management of the Group from trading in the company's shares during price-sensitive or closed periods. In terms of the Group's policy closed periods commence two months prior to the expected publication date of the year-end or interim financial results of the company and run up to the publication date. Directors and senior management throughout the Group are informed of the closed periods by the company secretary.

Directors and the company secretary are required to advise the chair and obtain his clearance before dealing in Distell shares. Directors of subsidiary companies are required to advise the managing director and obtain his clearance, while other senior employees require the approval and clearance of the company secretary before dealing in Distell shares. Clearance is withheld during any closed period or where there exists unpublished, price-sensitive information in relation to the company shares.

Conflict of interest and director share trading

It is incumbent on directors to act in the best interests of the company at all times. All board members and the company secretary are required to sign a declaration disclosing the extent of their shareholdings in Distell, other directorships and any potential conflict of interest between their obligations to the company and their personal interests.

Where a potential conflict of interest does exist, they must recuse themselves from relevant discussions and decisions.

Independent advice

In appropriate circumstances individual directors may seek independent professional advice at the expense of the company in order to enable them to discharge their responsibilities as directors.

Company secretary's role and responsibilities

Mrs Lizelle Malan (BCom (Hons), CA(SA)) was appointed company secretary from 1 May 2014. She replaces Stoffel Cronjé (MA), who held this role from 1990 until his retirement.

The company secretary is responsible to the board for ensuring that proper corporate governance principles are adhered to and assists with director induction and ongoing training as necessary.

The company secretary prepares and circulates minutes of board and committee meetings and is responsible to ensure the board remains cognisant of its duties and responsibilities. She oversees the induction programme for key committees, including subsidiary company directors. Directors receive ongoing training and are kept abreast of relevant changes in legislation and governance best practice. All directors have unlimited access to, and may at any time seek the advice and services of, the company secretary.

The company secretary is not a director of the company and accordingly maintains an arm's length relationship with the board and its directors. The company secretary attends all meetings of the board and its committees.

Going concern

Twice a year the board reviews the Group's current financial position, budgets and cash flow projections and decides whether, to the best of its judgement, there are adequate resources to continue with operations in the foreseeable future.

Board meetings and attendance

The board meets at least every two months to review a formal schedule of matters, of which its members are fully briefed in advance. The board also meets on an ad hoc basis, if required. Effective chairing and a formal agenda ensure all issues requiring attention are raised and addressed. This enables directors to discharge their responsibilities by determining whether prescribed functions have been carried out according to set standards within the boundaries of prudent, predetermined risk levels and in line with international best practice.

Board committees

While the board remains accountable for the performance and affairs of the company, it delegates specific responsibilities to committees which operate under board-approved charters. All committees are chaired by an independent non-executive director who attends the annual general meeting in order to respond to shareholder queries.

The audit and risk committee

The composition of and attendance at committee meetings are set out below:

Audit and risk committee	
CE Sevillano-Barredo (Chairperson)	(4/4)
GP Dingaan	(4/4)
DM Nurek	(4/4)

Role: The audit committee plays an essential role in governing the processes necessary to ensure that financial reporting throughout the Group is accurate and reliable.

The committee comprises three independent, non-executive directors, nominated by the board and confirmed by shareholders.

The committee meets at least four times per year and the managing director, financial director, external audit, head of internal audit and selected senior management attend the meetings.

The main objectives of the committee are to:

- perform the statutory functions of an audit committee in terms of the Companies Act and other functions delegated to it by the board;
- review the adequacy and effectiveness of the financial reporting process and the system of internal control, external audit and reporting of the Group;
- oversee the management of financial and operating risks and the Group's procedures for monitoring compliance with laws and regulations and Distell's own code of business conduct;
- review and approve the Group's integrated annual report, annual financial statements, interim reports and other financial media releases, before final approval is obtained from the board;
- oversee risk management procedures and information technology governance; and
- make recommendations to the board on all related matters.

The committee makes the following statements:

Independence of external auditor

Distell has a policy relating to the provision of audit, audit-related tax and other non-audit services by its independent auditor. It clearly sets out the services that may and may not be performed by independent auditors. The committee preapproves audit and non-audit services to ensure that neither the independence nor the objectivity of the auditors is impaired in the conduct of the audit.

The committee is satisfied with the independence of the external auditor. The analysis of audit fees and fees for non-audit services is provided on page 97.

Expertise of the financial director and the finance function

As required by the Listings Requirements of the JSE, the committee considered the experience and expertise of the Group's financial director and is satisfied that it is appropriate. The committee has also reviewed and satisfied itself that the composition, experience and skills of the finance function meet the Group's requirements.

Discharge of responsibilities
The committee has determined that it has discharged both its legal and general responsibilities in terms of the board charter and the Companies Act during this financial year. Distell's board is in agreement with this and has approved the interim and year-end financial statements as well as the integrated annual report.

The information contained in the report has been partially validated with combined assurance obtained from external and internal assurance providers.

The social and ethics committee

The main responsibility of the committee is monitoring the company's social and economic development, its corporate citizenship and its labour relations, measured against specific indicators.

Refer to page 151 for a comprehensive social and ethics report.

The remuneration and nominations committee

The main responsibility of the committee is to ensure that the Group's directors and senior executives as well as the non-executive directors are fairly rewarded for their individual contributions to overall performance in a manner that is in the best interests of shareholders.

Refer to page 152 for a comprehensive remuneration report.

Statement of internal control

The board recognises the importance of systems of internal control that support the achievement of the Group's policies and objectives, and is ultimately responsible for implementing and maintaining them.

It should be noted that such systems are designed to manage rather than eliminate the risk of overriding internal controls and can provide reasonable, but not absolute, assurance against misstatement or loss.

While the board of directors is responsible for internal control systems and for reviewing their effectiveness, responsibility for their actual implementation and maintenance rests with executive management.

The systems of internal control are based on established organisational structures, together with written policies and procedures, and provide for suitably qualified employees, segregation of duties, and clearly defined lines of authority and accountability. They also include standard cost and budgetary controls and comprehensive management reporting.

The internal audit department continually monitors the effectiveness of and adherence to the internal control systems through a process of 'control self-assessment' (CSA). The CSA programme supplements the existing audit evaluation of internal control systems and is designed to assess, maintain and improve controls on an ongoing basis. Internal control checklists formalise compliance with critical internal controls and require management to report on own compliance on a monthly basis and to provide an audit trail as proof. Significant findings with respect to non-compliance with policies and procedures are highlighted in reports and brought to the attention of both management and the audit and risk committee. The audit methodology provides for independent validation of reported information to ensure the reliability of the results.

The Group's treasury department is responsible for managing exposure to interest rate, liquidity and currency risks. Treasury functions and decisions are guided by written policies and procedures, as well as by clearly defined levels of authority and permitted risk assumption. While non-leveraged derivatives are purchased periodically to hedge specific interest rate or currency exposures, the Group treasury does not undertake speculative financial transactions.

In the period under review audit reviews did not indicate any material lapse in the functioning of internal controls. The audit and risk committee and the board are satisfied that control systems and procedures are suitably implemented, maintained and monitored by qualified personnel, with an appropriate segregation of authority, duties and reporting lines.

Internal financial controls

It is the responsibility of the audit and risk committee and the board to review and approve the annual financial statements, while the external auditors provide an independent opinion based on their audit.

Internal financial controls (IFCs) are designed to mitigate the risk of material misstatement in the financial statements and disclosures.

The audit and risk committee, in line with the requirements of King III, oversees a formal process that assesses and reports on the effectiveness of our IFCs annually. This entails identifying the risks of misstatement and the controls that address them, assessing the adequacy of the controls and confirming that they are properly maintained.

The evaluation of the effectiveness of the IFCs entails both a top-down and bottom-up approach. Firstly, financial statement account balances and disclosures deemed significant are analysed to determine the systems and processes that contribute to the transactions being recorded, accumulated and disclosed. Secondly, continuous control activities, carried out by employees on a daily basis, are evaluated by the internal audit function and are mapped to financial statement accounts.

Combined assurance, adopted as a governance principle, considers all identified key risks when reporting to the board through the audit and risk committee. This co-ordinated approach to the execution of assurance activities involves the participation of management, internal and external auditors, as well as other independent internal assurance providers.

The combined assurance model entails the following:

- risk-based independent internal audits, covering all transaction cycles. A three-tier audit approach involves independent audits by Group internal audit, regional audits and continuous control self-assessment by management;
- embedded information technology system controls, tested by the external auditors and independent professional service providers;
- comprehensive monthly management reporting that follows standard cost and budgetary control systems;
- special audit procedures regarding journal entries, reconciliations, manual interventions and year-end processes;
- transparency of management estimates and judgements; and
- an effective complaint-gathering and management system.

During the year under review nothing came to the attention of the board and the external or internal auditors to indicate any material lapse in the functioning of internal financial controls.

Internal audit

The internal audit function provides assurance and consulting services, involving an independent review of an organisation's records, operations and procedures to evaluate the efficiency, effectiveness, compliance and the existence of adequate internal controls to mitigate risks in achieving the organisation's objectives.

It performs a key role in the Group's assurance structure. The mandate of the internal audit function is set out in the internal audit and audit and risk committee charters. The internal audit department functions under the direction of the committee and has unrestricted access to its chair and a standing invitation to attend meetings of the executive committee. However, to protect their independence, representatives do not hold membership of these committees. The internal audit unit reports directly to the committee chair and is also responsible to the company secretary on day-to-day matters.

The internal audit function forms an integral part of the Group's combined assurance framework and, together with the facilitation role performed in the risk management process, establishes a robust, risk-based approach to identifying the risk management processes to be tested and evaluated. This methodology enables the internal audit to provide assurance that the key strategic, statutory, financial and operational risks are understood, identified, and effectively managed and mitigated.

The combined assurance framework forms the basis for assessing potential risk areas to include in the yearly risk-based internal audit plan, which is approved in advance by the audit and risk committee.

Each audit assignment is followed by a detailed report to executive management, including recommendations on aspects requiring improvement. The internal audit provides an annual written assessment of the effectiveness of the system of internal controls to the audit and risk committee, which, in turn, reports the state of internal controls to the board.

External audit

It is the responsibility of the audit and risk committee to nominate the Group's external auditor and to determine the terms of engagement and confirm the independence of this supplier. The external auditors express an independent opinion on the annual financial statements and provide reasonable, but not absolute, assurance on the accuracy and reliability of financial disclosures.

The audit and risk committee meets with the external and internal auditors and executive management four times per year to ensure that their efforts pertaining to risk management and internal control are properly co-ordinated.

Information technology governance

The board, through the audit and risk committee, is ultimately responsible for establishing frameworks and processes to ensure adequate information technology governance.

Information technology risks are governed by the Control Objectives for Information and Related Technology (COBIT) governance framework. The controls and procedures are identified and detailed in policy manuals. Compliance is measured against these standards by specialised independent service providers and the internal audit. Management reports the progress of internal risk responses to the audit and risk committee, which in turn reports to the board who ensures that IT is properly managed to support the Group's objectives.

Risk management

The board, through the audit and risk committee, is ultimately responsible for the governance of risk. The committee ensures that adequate frameworks and methodologies are in place to identify risks, assess the probability of occurrence and review their impact.

The audit and risk committee reviews the effectiveness of the Group's risk management processes and plans. Risk registers of significant risks facing the Group are discussed, as are management's plans to control and mitigate these risks within board-approved ranges of tolerance. The committee then reports to the board on the key risks facing the Group and the responses adopted.

A structured, formal and planned approach to risk management determines the Group's risk profile. The Group's formal management processes embed the identification, management and reporting of risks.

The Group has adopted a continuous, systematic and integrated enterprise-wide risk management process that focuses on identifying, assessing, managing and monitoring all known forms of risk across the Group. This includes economic, environmental and social impacts and opportunities. Management, assisted by external consultants, continues to further develop and enhance its comprehensive risk management framework and related controls. This includes training and communication, continuous control self-assessment by line management and comprehensive reporting.

A central risk manager is responsible for setting risk management and associated financing policies and procedures, and reports to the audit and risk committee.

Major risks are the subject of ongoing attention by the board of directors and are given particular consideration in the Group's annual board-approved business plans. The most significant risks currently faced by the Group include those pertaining to:

- building and protection of the image of our brands;
- legal and governance non-compliance;
- supply chain and procurement;
- excise;
- illicit trading in alcohol;
- product tampering, sabotage or contamination and their impact on brand reputation;
- the failure to develop and execute appropriate international strategies and make acquisitions;
- human resource vulnerabilities such as skills shortages and the inability to retain talent;
- environmental non-compliance;

- business interruption;
- information technology;
- currency, interest rate and credit risk; and
- failure due to non-compliance with internal control systems.

These risks and risk responses, which are also reported on in this annual report and in the electronic sustainability report (www.distell.co.za), are included in the Group's integrated risk management structure.

The audit and risk committee is satisfied with the effectiveness of the risk management process.

Investor relations

It is important that the board achieves an appropriate balance between its various stakeholder groups and the best interests of the company. The board is also aware of the growing demand for transparency and accountability on sustainability issues and is therefore committed to providing timely and transparent information on corporate strategy and financial performance.

The Group manages communications with its key financial audiences, including institutional shareholders and financial analysts. The goal is to pass timeous, relevant and accurate information to all stakeholders in accordance with the JSE Listings Requirements.

Information sessions are conducted following the publication of interim and final results. Executive directors, as well as representatives from management, attend these sessions. A broad range of public communication channels is also used to disseminate information.

The Group chairman encourages shareholders to attend and actively participate in the annual general meeting. The chairs of the Group's audit and risk, social and ethics, and remuneration and nominations committees are present to respond to questions from shareholders. Voting at annual general meetings is conducted by way of a show of hands or a poll and the Group proposes separate resolutions on each significant issue. The results of voting and any issues raised at the meeting are released on the JSE's electronic news service, SENS.

Stakeholder engagement

We determine our material issues not only from an in-depth understanding of the legal environment and the management of our various risks, but also from close engagement with a variety of stakeholders, including shareholders, customers, suppliers, government, employees, affected communities and the wider society.

Many of these engagements occur in the ordinary course of conducting business. Communication between the board and stakeholders on economic, environmental and social topics occurs through various channels including the annual general meeting and stakeholders can contact the company secretary directly.

Closed periods

In line with its commitment to ethical business conduct the Group has personal account trading and directors' dealings policies in place to restrict dealing in its securities by directors and employees during closed or price-sensitive periods. Compliance with policies is monitored on an ongoing basis.

General investor interaction during this time is limited to discussions on strategy and historical, publicly available information.

Social and Ethics Committee Report

The composition of the committee and attendance at committee meetings are set out below:

Social and ethics committee	
GP Dingaan (Chairperson)	(2/2)
JJ Scannell*	(1/2)
MJ Botha	(1/2)
RM Rushton**	(1/1)

Other non-board members include VC de Vries, SW Klopper, CJ Cronjé***, L Malan**** and W Bührmann.

* Retired 31 December 2013.
** Appointed 24 April 2014.
*** Retired 30 April 2014.
**** Appointed 24 April 2014.

Distell's social and ethics committee is responsible for monitoring the company's environmental, social and economic development, its corporate citizenship, its labour relations and its measures to promote ethical business practices. The committee uses the following indicators, amongst others, to carry out its oversight work:

- Distell's performance in terms of the Employment Equity Act and Broad-based Black Economic Empowerment legislation and Codes of Good Practice.
- Compliance with other relevant legislation, including consumer protection laws.
- The United Nations Global Compact principles of business conduct, which focus on human rights, labour, environment and anti-corruption.
- Monitoring of the ethics line and appropriate action in respect thereof.

The committee reports to shareholders and other stakeholders via the company's integrated annual report and the sustainability report.

In accordance with its formal mandate from the board Distell's social and ethics committee met twice during the year under review – in August 2013 and in February 2014. The committee reviewed Distell's performance in respect of the following:

- Environmental impact, particularly as regards water savings, energy efficiency, waste management and climate-change readiness.
- Product quality.
- Consumer protection.
- Ethics and anti-corruption.
- Human rights.
- Social investment.
- Responsible drinking.
- Human resources as regards the employment relationship (including employee engagement, labour relations and fair employment practices) and educational assistance for employees.
- Transformation, with the focus on employment equity, broad-based black economic empowerment and corporate culture.

The committee is satisfied that Distell has procedures in place that address the above-mentioned areas. However, it is clear that the company is struggling to achieve racial representivity at senior- and top-management levels, and that the issue of responsible drinking remains a challenge that all companies in the liquor industry have to rise to. These two very important matters are a priority for Distell's management to address.

The committee noted that anti-corruption and -bribery policies were being prepared and that communication campaigns and training sessions would be held with staff and certain external stakeholders in respect of these. The committee also noted that Distell had become a member of the United Nations Global Compact during May 2013.

GP Dingaan
Chairperson Social an Ethics Committee

Stellenbosch
25 August 2014

Remuneration Report

Dear Shareholder

The mandate of the remuneration and nominations committee is to ensure that performance, contribution and reward are linked to the overall strategy of the Group, thereby enhancing shareholder value.

Our **remuneration principles** are critical to the sustained success and well-being of the company, and apply to the attraction, development and retention of talented and diverse employees. These principles are adhered to at both individual and team levels.

The committee ensures that the remuneration principles achieve the following:

- Attract highly skilled employees, making Distell an employer of choice.
- Motivate and retain current talent within the workforce.
- Ensure that the CEO and executive team are motivated to achieve the long-term strategic plan of the Group.
- Ensure that there is a strong link between performance, contribution and reward.
- Clearly differentiate pay between strong performers and average performers.
- Ensure that the Group's directors and senior executives are fairly rewarded for their contributions to overall performance in a manner that is in the best interests of shareholders.

Our **remuneration philosophy** is to promote a culture of excellence in order to maintain our industry leadership. Distell's approach to remuneration is fully aligned to the achievement of its business strategy.

Share incentives are considered a vital element of executive incentive pay. All permanent employees participate in the Group's Employee Performance Management System, while the Distell Group Limited Equity Settled Share Appreciation Right Scheme offers long-term incentives to those eligible, based on their role, influence and performance.

Following the appointment of our new managing director, Richard Rushton, our remuneration policy was reviewed to align pay structures and incentives more closely with our corporate strategy and best practice. We commissioned PwC Reward Services to do an extensive benchmarking exercise to assess our remuneration of executive management and directors in relation to the market, focusing on equivalent pay structures amongst comparable JSE-listed companies. All data was carefully analysed, and medians and ranges applied to establish appropriate compensation levels.

No significant changes to the remuneration policy have been proposed for the 2015 financial year. The result of the benchmark proved that Distell's non-executive directors' (NED) fees are not sufficiently competitive against the market, with all of our fees being below the median. Regarding the median, a reasonable accepted tolerance band of 20% above and below is generally applied to NED fees. From the above, a phased approach over three years is proposed (the median being adjusted by 7% for 2016 and 2017).

In the remainder of the report below we highlight, in greater detail, the responsibilities of the committee, the key issues considered during the year and our remuneration policy to be presented for shareholder approval later this year.

AC Parker
Chairman of the Remuneration and Nominations Committee

Stellenbosch
25 August 2014

Remuneration governance

The committee meets quarterly and its duties, as mandated by its charter, comprise the following:

- To determine and approve the Group's general remuneration policy, tabled at each annual general meeting for approval by the shareholders.
- To annually review and approve the remuneration packages of the most senior executives, including incentive pay and increases.
- To annually review the remuneration of the directors of the board and its committees, and make proposals to the board for final approval by shareholders at the annual general meeting.
- To approve amendments to the Group's share-based incentive plans and subsequent share allocations to employees.
- To appoint directors.
- To ensure seamless succession at senior management level.

The composition of and attendance at committee meetings are set out below:

Remuneration and nominations committee	
AC Parker (Chairperson)	(3/3)
DM Nurek	(3/3)
LM Mojela	(2/3)
JJ Durand	(3/3)

The Group's CEO and company secretary also attend the meetings, but do not participate in the determination of their own remuneration.

Remuneration policy

Our remuneration policy comprises the following:

- Appropriate mix of short- and long-term incentives to align employees' and shareholders' interest over the long term.
- Competitive total remuneration packages offered to employees relative to the industry and market.

Non-executive directors

Non-executive directors receive a fixed annual retainer. This remuneration is augmented by compensation for services on committees of the board. A premium is paid to the chair of the board as well as the chairs of the board committees. Remuneration is not linked to the company share price or results and non-executive directors do not qualify for shares under the company's share incentive scheme. The board annually reviews and makes recommendations regarding the remuneration of non-executive directors for approval by shareholders.

The fees payable to non-executive directors for the years ended 30 June 2014 and 30 June 2013 are as follows:

	30 June 2014 R	30 June 2013 R
Board chairperson	**574 000**	520 500
Board member	**163 000**	148 000
Audit and risk chairperson	**163 000**	148 000
Audit and risk member	**73 000**	66 000
Remuneration chairperson	**41 000**	37 000
Remuneration member	**41 000**	37 000
Social and ethics chairperson	**20 500**	18 500
Social and ethics member	**20 500**	18 500

The proposed fees for the year ending 30 June 2015 are as follows:

	30 June 2015 R
Board chairperson	735 500
Board member	202 725
Audit and risk chairperson	205 840
Audit and risk member	84 287
Remuneration chairperson	119 700
Remuneration member	63 000
Social and ethics chairperson	94 500
Social and ethics member	56 196

The policy report will be put to a non-binding shareholder vote at the 2014 annual general meeting and, if approved, the policy will take formal effect from that date.

Executive management

Our remuneration strategy aims to attract, motivate and retain competent and committed managers who have the ability to provide strategic direction and sustainably drive shareholder value in a manner that is consistent with best practice and aligned with the interests of shareholders.

We therefore seek to reward employees at market-related levels and in accordance with their contribution to the Group's operating and financial performance. To achieve this goal we apply a combination of basic remuneration plus additional short- and long-term incentives. Share incentives are considered a vital element of executive remuneration in order to align their interests with those of the Group's shareholders.

Distell structures packages on a total cost-to-company basis, incorporating basic remuneration, car allowance, medical and retirement benefits. Remuneration packages are reviewed annually and a formal system of job evaluation, performance assessment and market comparison ensures that remuneration is fair and sensible.

Short-term incentives

All permanent employees participate in the Group's Employee Performance Management System, where annual performance bonuses are determined based on the extent to which financial and non-financial objectives are met. Performance targets, verifiable and aligned to the Group's strategies and business plans, are agreed annually in advance. If threshold performance levels are not achieved, no bonuses are paid.

By collective agreement employees within the bargaining unit qualify for a fixed annual bonus equal to one month's salary.

Long-term incentives

Long-term incentives take the form of shares in the Distell Group Limited Equity Settled Share Appreciation Right Scheme. Employees who may participate are selected on the basis of individual performance, influence in the business and retention criteria. Allocations are subject to the rules of the scheme, which have been approved by shareholders.

Recipients are entitled to Distell shares with a value equal to the increase in the market value of a Distell share over the period, multiplied by the number of share appreciation rights (SARs) granted at inception and subsequently exercised by each recipient involved. Employees are offered the SARs at market value on the day of the award, which means they benefit only when additional value is created.

Participants are entitled to exercise SARs granted to them in three tranches: on the third, fourth and fifth anniversaries of the SARs grant date. All SARs must be exercised by participants before the seventh anniversary of the grant date. No specific performance criteria are stipulated.

The Distell senior executive team consists of 14 members, including the managing director and chief financial officer, who are members of the Group board. We have disclosed their compensation in total (refer to note 40 in the annual financial statements). The salaries of the executive directors are:

	Salaries R'000	Incentive bonuses R'000	Retirement fund contributions R'000	Medical aid contributions R'000	Vehicle benefits R'000	30 June 2014 R'000	30 June 2013 R'000
Executive							
JJ Scannell*	**1 989**	**1 010**	**413**	**14**	**166**	**3 592**	6 338
RM Rushton**	**2 942**	**–**	**611**	**20**	**257**	**3 830**	–
MJ Botha	**2 016**	**425**	**419**	**28**	**287**	**3 175**	3 017

* Retired 31 December 2013.
** Appointed 1 November 2013.