

CORPORATE GOVERNANCE REPORT

Distribution and Warehousing Network Limited and its subsidiaries fully support the King Report on Governance for South Africa 2009 and the King Code of Governance for South Africa 2009 (King III). The board and individual directors are committed to the principles of transparency, integrity and accountability and accept their duty and responsibility to ensure that the principles set out in the Code of Corporate Practices and Conduct, as defined in the King III Report, are observed.

The board is satisfied that the group complies with the JSE Listings Requirements as well as with all material provisions of King III, as has been reported in the corporate governance register which is available on DAWN's website at www.dawnltd.co.za.

A summary of the principles contained in chapter 2 of King III is outlined below:

BOARD AND DIRECTORS

BOARD COMPOSITION

The unitary board of directors of DAWN is chaired by Diederik Fouché, a non-executive director. As the chairman is not independent, Lou Alberts, the lead independent director, fulfils an underpinning role to the chairman. The board composition reflects an appropriate mix of executive and non-executive directors. Specifically, at 31 March 2016 it comprised six non-executive directors, with three being independent, and four executive directors. The board included three black directors, translating into 30% black representation, with gender diversity translating into 10% through one of the directors being a white female.

On 1 April 2016, Stephen Connelly was appointed as independent non-executive director and, subsequently, as interim chief executive officer effective 1 May 2016, following the announcement by the board of Derek Tod's retirement as chief executive officer, effective 31 May 2016. On 14 July 2016, Dries Ferreira (chief financial officer) and Jan Beukes (group risk and compliance officer) resigned, effective 31 October 2016. On 14 July 2016, Hanré Bester was appointed as financial director.

The board will therefore, for F2017, comprise nine directors, of whom six are non-executive with three being independent, and three executive directors.

The board structure allows the non-executive directors to provide independent judgement on issues of strategy, performance, resources, transformation, diversity, employment equity and evaluation of performance and standards of conduct. While executive directors have service contracts and restraint agreements, they are also shareholders.

MEETING ATTENDANCE

Attendance at board meetings by the directors during the period 1 April 2015 to 31 March 2016 is outlined next.

	24 Jun 2015	13 Aug 2015	23 Oct 2015	4 Nov 2015	11 Nov 2015	27 Jan 2016	4 Feb 2016
Diederik Fouché (chairman) ¹	n/a	Y *	Y *	Y	Y	Y	Y
Tak Hiemstra (chairman) ²	Y	Y	Y	n/a	n/a	n/a	n/a
Lou Alberts	Y	Y	Y	Y	Y	Y	Y
Derek Tod ³	Y	Y	Y	Y	Y	Y	Y
Mohammed Akoojee ⁴	Y	Y	Y	via telecon	Y	n/a	n/a
Jan Beukes ⁵	Y	Y	Y	Y	Y	Y	Y
Dries Ferreira ⁶	Y	Y	Y	Y	Y	Y	Y
Gerhard Kotzee ⁷	Y	Y	apology	Y	Y	Y	Y
Saleh Mayet	Y	Y	Y	Y	Y	Y	Y
Dinga Mncube	Y	Y	apology	Y	Y	Y	Y
Veli Mokoena	Y	Y	Y	Y	Y	Y	Y
George Nakos ⁸	Y	n/a	n/a	n/a	Y *	apology	Y
René Roos	Y	Y	Y	Y	Y	Y	Y

* Attended by invitation.

¹ Appointed on 1 November 2015.

² Retired on 31 October 2015.

³ Retired on 31 May 2016.

⁴ Resigned on 12 November 2015.

⁵ Resigned on 14 July 2016, effective 31 October 2016.

⁶ Resigned on 14 July 2016, effective 31 October 2016.

⁷ Resigned on 29 February 2015.

⁸ Appointed on 12 November 2015.

CHAIRMAN, CHIEF EXECUTIVE OFFICER AND EXECUTIVE COMMITTEE

The roles of the chairman and chief executive officer are separate.

The role of the chairman is formalised and the chairman's ability to add value, and his performance against what is expected of his role and function, are assessed annually by the board. The board elects a chairman on an annual basis. The chairman is responsible for the effective leadership of the board as contemplated in King III. The board considers the number of outside chairmanships held and ensures a proper succession plan for the position of chairman.

The daily management of the group's affairs is delegated to the chief executive officer, who co-ordinates the implementation of board policy through the executive committee.

The chief executive officer, financial director, the risk and compliance officer, and the chief executives of the building, infrastructure and solutions segments as well as the executive responsible for logistics and the group procurement officer form the executive committee. DAWN has identified its prescribed officers as the members of the executive committee who are not executive directors.

APPOINTMENT OF DIRECTORS

Directors, both executive and non-executive, are appointed for their skill and experience. The appointment of new directors requires the unanimous approval of the board. The board established a formal orientation programme to familiarise incoming directors with the group's operations, senior management and its business environment and to induct them in their fiduciary duties and responsibilities. The board also provides input regarding senior management appointments. The company secretary assists with the director induction and continuing professional development training programmes. The induction and ongoing training programmes of the board incorporate risk governance as well as an overview of and any changes to laws, rules, codes and standards applicable on the company to enable directors to sufficiently familiarise themselves with the general content thereof to discharge their legal duties.

The board has the authority to remove any director without shareholder approval.

The rotation of all directors is every three years, as outlined in the company's memorandum of incorporation. The chairman rotates in his capacity as a director.

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ROLE AND RESPONSIBILITIES

The board provides effective leadership based on an ethical foundation and ensures that the company is seen to be a responsible corporate citizen. The board ensures that the company's ethics are managed effectively and ensures that all deliberations are based on the four values underpinning good governance – responsibility, accountability, fairness and transparency.

The board meets at least quarterly to initiate, evaluate and monitor business matters which have an impact on the wellbeing of the group and its stakeholders. These include setting group strategy, determining policy and instituting control measures.

The board appreciates that strategy, risk, performance and sustainability are inseparable and gives effect to this by contributing to and approving the strategy; identifying key performance and risk areas; ensuring that the strategy will result in sustainable outcomes; and, considering sustainability as a business opportunity that guides strategy formulation. DAWN's strategy is summarised on pages 19 and 20.

The board takes final responsibility for acquisitions and disposals, approves capital expenditure and appraises proposals from the executive and other board committees.

The board gives strategic direction to the group, appoints the chief executive officer and ensures that succession is planned.

A formal succession planning policy was adopted by the remuneration committee. The non-executive directors take responsibility for ensuring that the chair encourages proper deliberation of all matters requiring the board's attention. The board ensures that there is an appropriate balance of power and authority on the board so that no one individual or block of individuals can dominate the board's decision-making process.

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

The board and its committees are supplied with full and timely information which enables them to discharge their responsibilities and have unrestricted access to all group information, records, documents and property. Non-executive directors have access to management and may even meet separately with them, without the attendance of executive directors.

RISK MANAGEMENT AND MATERIALITY

The board has a comprehensive system of control ensuring that risks are mitigated and the group's objectives are attained.

This control environment sets the tone of the group and covers ethical values, management's philosophy and the competence of employees.

The board identifies the key risk areas and key performance indicators for the group. These are regularly updated and particular attention is given to technology and systems as the board is ultimately responsible for the governance of information technology.

The board defines levels of materiality, reserving specific power to itself and delegating other matters with the necessary written authority to management. These matters are monitored and evaluated on a regular basis.

SUSTAINABILITY

The board regards sustainability as a business opportunity to create value on social, economic and environmental levels. The objective of the group's sustainability programme is to eliminate or minimise adverse consequences for the group on the community and the environment and to improve the impact of the group's operations on the economic life of the community.

INDEPENDENCE ASSESSMENT

The board adopted a policy on the independence of directors. The test of independence is defined as "Independent of management and any business or other relationship that could materially interfere with the exercise of objective, unfettered or independent judgement by the director or the director's ability to act in the best interests of the DAWN group".

The board evaluated and concluded that three of the six non-executive directors are independent according to the Companies Act definition.

George Nakos and Veli Mokoena are not considered independent in terms of the definition due to their representation of a significant shareholder of the company. Diederik Fouché's independence is impaired as he has been the group's audit partner in the last three years.

One of the non-executive directors on the board has served a term exceeding nine years. The board reviewed the independence of Lou Alberts and, after due consideration, concluded that his long association with the group has not impaired his integrity, impartiality and objectivity and that he has retained his ability to act independently.

ROTATION OF DIRECTORS

In terms of the company's memorandum of incorporation, Veli Mokoena retires by rotation at the forthcoming annual general meeting. The retiring director is eligible and available for re-election. Shareholders will be requested to pass resolutions to ratify the appointments of Stephen Connelly, George Nakos and Hanré Bester at the annual general meeting to be held on Friday, 18 November 2016.

ANNUAL BOARD EVALUATION

An annual evaluation of the board was conducted in 2016 and consisted of a questionnaire being completed by all board members. The results were collated by the company secretary and passed on to the board who assessed the results. The board concluded that the organisation's performance versus that of its peers and comparisons of industry are to be aggressively considered in a manner that enhances comprehensive risk oversight.

This annual evaluation is comprehensive, encompassing all aspects of the board's responsibilities. It covers the effectiveness of the board as a whole.

Nomination for re-appointment of a director only occurs after evaluation of performance and attendance at meetings by the director.

The chairman annually appraises the chief executive officer and the results of this appraisal are considered by the remuneration committee to guide it in its evaluation of the performance and remuneration of the chief executive officer.

BOARD CHARTER

The purpose of the charter is to regulate the parameters within which the board will operate and to ensure the application of the principles of good corporate governance in all dealings by, in respect and on behalf of, the company and furthermore to set out the roles and responsibilities of the board and individual directors, including the composition and relevant procedures of the board as well as the various legislation and regulations affecting their conduct.

The board charter was reviewed, updated and approved by the board on 4 February 2016 and is available for inspection at the company's registered office.

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BOARD COMMITTEES

Specific responsibilities have been formally delegated to board committees with defined terms of reference, life span and function, clearly agreed upon reporting procedures and a written scope of authority. The committees are appropriately constituted with due regard to the skills required by each committee and the committees' terms of reference are reviewed once a year. There is transparency and full disclosure from the board committees to the board. Board committees are free to take independent outside professional advice as and when necessary and are subject to regular evaluation by the board to ascertain their performance and effectiveness.

The board committees are the:

- Audit committee;
- Risk committee;
- Remuneration committee;
- Nomination committee;
- Social, ethics and transformation committee; and
- IT steering committee.

AUDIT COMMITTEE

The report of the audit committee is outlined on pages 86 to 88.

RISK COMMITTEE

At year-end the risk committee's membership constituted, as independent non-executive directors, Saleh Mayet (Chairman), Lou Alberts and Dinga Mncube, Diederik Fouché as non-executive director, and the executive directors being Derek Tod and Dries Ferreira. The chairman of the audit committee was also the chairman of the risk committee. The executive responsible for enterprise-wide risk, Jan Beukes, is an *ex officio* member of the committee.

Internal audit has a standing invitation to meetings.

Attendance at meetings by members of the risk committee during the period 1 April 2015 to 31 March 2016 is outlined below.

	19 Jun 2015	4 Nov 2015	29 Jan 2016
Saleh Mayet (chairman)	Y	Y	Y
Lou Alberts	Y	Y	Y
Collin Bishop ¹	Y	n/a	n/a
Diederik Fouché ²	n/a	Y	Y
Dries Ferreira ³	Y	Y	Y
Tak Hiemstra ⁴	apology	n/a	n/a
Gerhard Kotzee ⁵	n/a	Y	Y
Dinga Mncube	Y	apology	Y
Derek Tod ⁶	Y	Y	Y

¹ Resigned on 30 June 2015.

² Appointed on 1 November 2015.

³ Resigned on 14 July 2016, effective 31 October 2016.

⁴ Retired on 31 October 2015.

⁵ Resigned on 29 February 2016.

⁶ Retired on 31 May 2016.

The overall objective of the committee is to effectively communicate and oversee the process, models and frameworks for managing risk across the group to:

- safeguard the group's assets and investments;
- support business objectives and sustainability under normal as well as under adverse operating conditions; and
- behave responsibly towards all stakeholders having a legitimate interest in the group.

Whilst the board is ultimately responsible for the maintenance of an effective risk management process, the committee assists the board in assessing the adequacy of the risk management process to ensure that:

- the group has implemented an effective policy and plan for risk management that will enhance the group's ability to achieve its strategic objectives; and
- the disclosure regarding risk is comprehensive, timely and relevant.

The committee utilises a heat risk-mapping process aimed at identifying key risk areas and key performance indicators. It assesses and addresses, *inter alia*, physical and operational risk, HR risk, technology risk, business continuity and disaster recovery, credit and market risk and governance and compliance risk. This assists the board in its assessment and management of risk.

An evaluation has been performed of the chief risk and compliance officer as well as the risk committee. The board considers the process of risk management to be effective in meeting its intended objectives.

The performance of the committee is evaluated by the board once a year.

The terms of reference of the risk committee was reviewed, updated and approved on 29 January 2016 and ratified by the board on 4 February 2016 and is available at the company's registered office for inspection.

REMUNERATION COMMITTEE

The report of the remuneration committee is set out on pages 59 to 79.

NOMINATION COMMITTEE

At year-end the nomination committee comprised Diederik Fouché (Chairman), Saleh Mayet and Lou Alberts.

Following Tak Hiemstra's resignation, effective 31 October 2015, Diederik Fouché was appointed as chairman of the nomination committee from 1 November 2015, as required by King III's stipulation that the chairman of the board be the chairman of the nomination committee. Diederik is not independent, but since the lead independent director, Lou Alberts, is a member of the nomination committee, the board is satisfied with the appropriateness of Diederik's appointment as chairman of the nomination committee.

The chief executive officer, financial director, head of human resources and other members of senior management, as may be required, assurance providers, professional advisors and board members may be in attendance at nomination committee meetings, but by invitation only and may not vote. The company secretary is the secretary of this committee and assists the committee with the appointment of directors.

Attendance of meetings by members of the nomination committee during the period 1 April 2015 to 31 March 2016 is outlined below.

	30 Jun 2015	2 Nov 2015	27 Jan 2016	17 Mar 2016
Lou Alberts	Y	Y	Y	Y
Tak Hiemstra (Chairman) ¹	Y	n/a	n/a	n/a
Diederik Fouché (Chairman) ²	n/a	Y	Y	Y
Saleh Mayet	Y	Y	Y	Y

¹ Retired on 31 October 2015.

² Appointed on 1 November 2015.

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A formal policy details procedures for appointment to the board.

The role of the committee is to assist the board to ensure that the board has the appropriate composition for it to execute its duties effectively. The committee annually reviews the board's required mix of skills, experience and other qualities to assess the effectiveness of the board, its committees and the contribution of each director.

Should any vacancies arise on the audit committee, the board will, on recommendation of the nomination committee, fill such vacancy within 40 business days, as stipulated in the Companies Act, no 71 of 2008, as amended.

Formal agreements exist between non-executive directors and the company.

Executive directors have service contracts and restraint agreements, where applicable, and are appointed on the basis of their skills, experience and level of contribution to and impact on the group's activities. Non-executive directors are selected on the basis of industry knowledge and their professional skills and experience to enhance organisational decision-making.

All directors are subject to election by shareholders, retire by staggered rotation and stand for re-election in accordance with the company's memorandum of incorporation. At least one-third of the directors of the company retire by rotation at the company's annual general meeting.

The names of directors submitted for election or re-election are accompanied by sufficient biographical information to enable shareholders to make an informed decision in respect of their election.

The board performs an evaluation of the effectiveness of the nomination committee annually.

The terms of reference of the nomination committee was reviewed, updated, approved and ratified by the board on 11 November 2015 and is available at the company's registered office for inspection.

SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE

The board is committed to the spirit and principles of broad-based black economic empowerment (BBBEE), including socio-economic development objectives, and to this end a social, ethics and transformation committee was established.

During the year under review, the social, ethics and transformation committee comprised Veli Mokoena (non-executive chairman), René Roos (executive director) and Jan Beukes (executive director) as well as a member of executive management, Alison Grobbelaar. The group ethics officer and the group internal audit executive have standing invitations to meetings and other members of management attend by invitation.

Attendance at meetings by members of the social, ethics and transformation committee during the period 1 April 2015 to 31 March 2016 is outlined below.

	29 Feb 2016	30 Mar 2016
Veli Mokoena (Chairman)	Y	Y
Jan Beukes ¹	Y	Y
René Roos	Y	Y
Alison Grobbelaar	Y	Y

¹ Resigned on 14 July 2016, effective 31 October 2016.

The committee assists the board in ensuring that there are appropriate strategies and policies in place to progress transformation.

The committee seeks to address any and all issues pertaining to the transformation of the group into an organisation that is not only relevant in the context of a democratic South Africa, but also to ensure that the composition of the group is fully representative of the cultural landscape that is prevalent in the country and to ensure that DAWN is a leader in the implementation of HR and IR practices that recognise the equality of all individuals. DAWN seeks to implement, through careful and considered processes, measures that do not detract from the group's long-term goal of delivering sustainable returns to all shareholders and stakeholders alike.

The social, ethics and transformation committee's statutory-specific functions include the monitoring of the company's activities, having regard to any relevant legislation, other legal requirements or prevailing codes of best practice, with regard to matters outlined in the Companies Act, no 71 of 2008, as amended.

In addition, and complementary to its statutory duties in terms of the Companies Act, the committee assists DAWN to discharge its business sustainability with respect to the implementation of practices that are consistent with good corporate citizenship.

The terms of reference of the social, ethics and transformation committee is reviewed annually and is available at the company's registered office for inspection.

The committee prioritises objectives identified by the board and targets are set for attaining results on matters pertaining to society, ethics, sustainability and transformation. The social, ethics and transformation report appears on pages 80 to 83 of the integrated report.

DAWN IT STEERING COMMITTEE

The use of technology is a continuing focus area in the DAWN group. The board assumes the responsibility for the governance of information technology (IT) and places it on the board agenda.

The board recognises the important role that IT governance plays in the management of risks and the achievement of group objectives and has approved a long-term investment for the implementation of warehousing and distribution management systems as well as an Enterprise Resource Planning (ERP) system across the group to add value to the business and mitigate risks.

Aligned to the implementation of the ERP system and maturing IT environment, management is making progress towards alignment to leading IT Control Frameworks, such as ITIL, and Control Objectives for Information and Related Technology Control Framework (COBIT) to ensure an appropriate IT governance model that helps in delivering value from IT and understanding and managing the risks associated with IT. The framework also aims to bridge the gap between business requirements, control needs and technical issues and ensures the integrity of information and information systems. Included is a key focus on information availability, information security, information technology operations, asset management and compliance to laws and regulations.

Brendan Clark is the appointed chief information officer (CIO) and has twenty years' experience in the IT industry. His qualifications include a National Diploma in Electrical Engineering: Light Current and Electronic Communication as well as IT-related certifications and certificates.

The IT steering committee assists the board in its responsibility for IT governance and facilitates the integration of the IT strategy into group companies' strategic and business processes. A robust process has been implemented to identify, and exploit, where appropriate, opportunities to improve the performance and sustainability of the group, in line with triple bottom line objectives, through the use of IT. The committee's members are Dries Ferreira (chairman), Jan Beukes, René Roos and Brendan Clark. The group internal audit executive has a standing invitation to meetings and executives from business units attend meetings by invitation.

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Attendance of meetings by members of the IT steering committee during the period 1 April 2015 to 31 March 2016 is outlined below.

	22 Sep 2015	19 Jan 2016
Dries Ferreira (chairman) ¹	Y	Y
René Roos	Y	Y
Brendan Clark	Y	Y
Jan Beukes ²	Y	Y

¹ Resigned on 14 July 2016, effective 31 October 2016.

² Resigned on 14 July 2016, effective 31 October 2016.

The risk committee ensures that IT risks are adequately addressed and obtains appropriate assurance that controls are in place and effective in addressing IT risks in line with group risk appetite and external governance requirements.

The board receives assurance from management and independent assurance on the effectiveness of IT internal controls from internal audit and/or independent parties, when required. Internal audit uses software to improve efficiencies and controls. The implementation of the group's new ERP system has allowed further improvements in the effective use of technology throughout the audit process.

The audit committee fulfils an oversight role of the risk management process and specifically oversees financial reporting risks, internal financial controls, fraud risks and IT risks as it relates to financial reporting and the going concern of the group.

The terms of reference of the IT steering committee was reviewed, updated and approved by the board on 4 February 2016 and is available at the company's registered office for inspection.

INSIDER TRADING

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 from the end of the respective reporting period to the date of the announcement of the financial results or in any other period considered price sensitive.

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COMPANY SECRETARY

All directors have access to the advice and services of the company secretary and there is an agreed procedure by which directors as well as the board committees may obtain independent professional advice at the company's expense, should they deem this necessary.

The company secretary provides guidance to the board as a whole and to individual directors with regard to how their responsibilities should properly be discharged in the best interests of the group. The company secretary also oversees the induction of new directors and assists the chairman and the chief executive officer in determining the annual board plan, board agendas and formulating governance and board-related issues. The company secretary assists with the evaluation of the board and its committees as well as of the directors.

The company secretary ensures that the board charter and the terms of reference of board committees are reviewed and updated annually.

The board appointed iThemba Governance and Solutions (Pty) Ltd as company secretary. iThemba is managed by Ms Annamarie van der Merwe (Bluris, LLB, LLM), who has more than 20 years' experience as company secretary in the listed environment, and the board is satisfied that the iThemba team has the necessary skills and experience to fulfil this function with the required empowerment from the board.

The board has during the year under review considered and satisfied itself of the competence, qualifications and experience of the company secretary.