

**38. Capital management**

The board of directors' policy is to maintain a strong capital base so as to maintain investor, supplier and market confidence, while also being able to sustain future development of the businesses. The board of directors monitors both the demographic spread of shareholders, as well as the return on capital, which the Group defines as total shareholders' equity, excluding minority interests and the level of distributions to ordinary shareholders. The Group's objective is to maintain a distribution cover of approximately two and a quarter times headline earnings for the foreseeable future. The methods of distribution include dividends, return of share premium, capitalisation issues as well as share buy-backs in lieu of distributions. The level of cover of distributions takes into account prevailing market conditions, future cash requirements of the businesses, Group liquidity requirements, as well as capital adequacy ratios.

The board seeks to maintain a balance between the higher returns that might be possible with higher levels of gearing and the advantages and security afforded by a sound equity position. The Group's target is to achieve a return on shareholders' interest of between 20% and 25%. In 2015 the return was 18,6% (2014: 17,5%). Refer to pages 10 and 11 of this report for the historical return on total shareholders' interest since 2005.

In the early days of the Group, acquisition activity was generally funded via the raising of equity capital, however, over the past 10 years, far more favourable credit markets have enabled the use of debt as a far more effective tool of capital. The current credit markets have been extremely volatile, increasing the cost of debt in the weighted average cost of capital for the Group thereby enabling a potential return to tapping the equity markets to fund future growth.

From time to time the Group purchases its own shares on the market, the timing of these purchases depends on market prices. Primarily the shares are intended to be used for issuing shares under the Bidvest Share Incentive Scheme (refer note 26). The maximum number of share options which can be issued to employees under the Bidvest Share Incentive Scheme is limited to 43 954 148 shares. The Group does not have a defined share buy-back plan. These shares are currently held as treasury shares.

There were no changes in the Group's approach to capital management during the year.

With the exception of the Group's banking and insurance subsidiaries, whose capital is well within the statutory requirements, neither the Company nor any of its other subsidiaries are subject to externally imposed capital requirements. The Group has in principal a target debt/equity ratio of 40%, however, in a trading and services business, the debt/equity ratio is a poor measure of the funding capacity of the Group. In order to ensure a more reflective measure of debt capacity is utilised, the Group has adopted an interest cover target of between five to six times. Net interest cover for the year to June 30 2015 was nine times (2014: nine times).

**39. Related parties*****Identification of related parties***

The Group has a related-party relationship with its subsidiaries, associates and joint ventures. Key management personnel have been defined as the executive and non-executive directors of the Company. The definition of key management includes the close members of family of key management personnel and any other entity over which key management exercises control. Close members of family are those family members who may be expected to influence, or be influenced by that individual in their dealings with the Group. They may include the individual's domestic partner and children, the children of the individual's domestic partner, and dependants of the individual or the individual's domestic partner.

***Transactions with key management personnel***

Independent non-executive directors do not participate in the Group's share option and share purchase schemes or conditional share awards.

Details pertaining to executive directors' compensations are set out in the directors' report on pages 78 to 83. Directors' remuneration in total is included in note 2.

The Group encourages its employees to purchase goods and services from Group companies. These transactions are generally conducted on terms no more favourable than those entered into with third parties on an arm's-length basis, although in some cases nominal discounts are granted. Transactions with key management personnel are conducted on similar terms. No abnormal or non-commercial credit terms are allowed, and no impairments were recognised in relation to any transactions with key management personnel during the year, nor have they resulted in any non-performing debts at the year-end.

Similar policies are applied to key management personnel at subsidiary level who are not defined as key management personnel at the Group level.

Certain of the directors of the Group are also non-executive directors of other public companies which may transact with the Group. The relevant directors do not believe they have significant influence over the financial or operational policies of those companies. Those companies are thus not regarded as related parties.