

Risk management

Business risks and opportunities

The Bidvest board appointed a risk committee to assist in recognising all material risks to which the Group is exposed and ensuring that the requisite risk management culture, policies and systems are in place and functioning effectively. Risks are assessed on an enterprise-wide level and their individual and joint impact considered. Internal audit assists in evaluating the effectiveness of the risk management process and comment on this in their own assessment reports. Management is accountable to the board for implementing and monitoring the processes of risk management and integrating this into day-to-day activities. Divisionally, risk committees and risk registers are engaged to actively focus management on critical issues faced at a business and industry level. The key strategic risks are reported to the Group risk committee for consideration at board level. The risk committee membership is annually reviewed.

The material risks identified below have emerged because of analysing and understanding the direction in which each entity is moving as well as the overlay of the Group's strategy and macro-conditions. Our strong risk management disciplines allow us to convert risks into opportunities.

Key risks	Material focus areas	Management commentary	Opportunity
1	Increasingly complex and value-sensitive business environment	A proliferation of regulatory and governance requirements across industries add costs in an already price-sensitive market while consuming a growing amount of management time and resources. Management focuses on key senior relationships with our customers to allow for mutually beneficial contract outcomes. Innovative solutions are required. Visibility into related-party transactions and potential conflicts of interests receive deliberate board and management attention, facilitated by our governance structures and independent ethics facility. Impact on KPIs: ➤ HEPS growth ➤ ROFE ➤ Strategic metrics	Bidvest's decentralised model allows it to be nimble and implement value-adding solutions and structures at operational level.
2	Remaining competitive and relevant	We are a customer-centric organisation. The protection of its core business strength and reputation is critical. We encourage creative approaches and innovation and embrace the ability to adapt quickly and proactively to changing customer requirements, market dynamics and digital advancement. Bidvest constantly evaluates its digital strategies. Impact on KPIs: ➤ HEPS growth ➤ ROFE ➤ Strategic metrics ➤ TSR vs peer group	Agility, a can-do attitude and appropriate digital strategies result in innovative solutions and open up additional opportunities.
3	Fostering positive long-term relations with key suppliers	This remains a cornerstone of the way we do business and is recognised as a major strength. Management is constantly challenged to manage and grow these relationships. The Group builds sustainable, value-adding relationships. Impact on KPIs: ➤ HEPS growth ➤ TSR vs peer group	Constant communication and monitoring of demand changes allow our businesses to be proactive and part of the solution.
4	Developing and maintaining high calibre staff	We focus on maintaining and rewarding a high performance culture. It encourages an entrepreneurial attitude and develop people through training academies, graduate and learnership programmes and recognition. The short/medium-term disruption in the event of sudden departures due to lack of skilled management is well understood. Impact on KPIs: ➤ Strategic metrics ➤ HEPS growth	Bidvest understands that people create wealth, companies report it. Home-grown talent thrives in our entrepreneurial, decentralised model.
5	Cost-effective, enabling IT systems and support structures	Our IT governance framework supports effective and efficient management of people, technology and information. Specific attention is given to cyber security. Our internal audit ensures adherence to the IT frameworks and guidelines. Comprehensive group-wide property damage and business interruption insurance is in place. Impact on KPIs: ➤ HEPS growth ➤ ROFE	Enable and empower the decentralised business model in the most cost-effective manner, to operate optimally and grow. Encourage more enablement of business through digital innovation.
6	Asset management	Management actively monitors and drives performance in asset management, particularly working capital. This receives the focused attention of the audit committee and divisional boards. Credit risk and inventory levels are crucial. We respond by staying close to customers. Impact on KPIs: ➤ HEPS growth ➤ ROFE ➤ TSR vs peer group	Ambitious working capital targets and dynamic sourcing support returns and add value to customers. Our strong financial position allows us to remain acquisitive.

Risk management *(continued)*

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7	Making successful acquisitions	A defined framework and process for acquisitions is in place. Post-acquisition reviews are conducted. Bidvest has a proven track record of acquisitive driven growth. As well as the efficient and effective integration of acquired companies. Impact on KPIs: ➤ HEPS growth ➤ ROFE ➤ TSR vs peer group	We seek bolt-on acquisitions to broaden our product and service ranges. We seek tactical domestic acquisitions to deliver innovative solutions. We are looking for international acquisitions within specific niches where we can compete in a value accretive manner.
8	Meeting and exceeding customer expectations	We are a client-centric business that encourages entrepreneurial behaviour. Creative approaches and innovation is encouraged. Collaboration and digitalisation are increasing across the Group. Impact on KPIs: ➤ HEPS growth ➤ ROFE ➤ Strategic metrics	A consistent track record and strong reputation tend to result in repeat business on commercially attractive terms.
9	Environmental impact consciousness	Our companies seek win-win gains through cost saving that delivers environmental gains. Environmental and recycling initiatives have been in place for many years. Overall Bidvest's environmental footprint is low. Impact on KPI: ➤ Strategic metrics	Bidvest invests in technology that impacts favourably on the environment and results in cost-effective solutions.
10	Continued low business confidence, constrained pro-growth oriented capital outlays and weakening longer term growth potential in SA	We are committed to job creation and economic growth through the expansion of our SA operations. It welcomes the launch of "#BusinessBelieves in South Africa". Impact on KPIs: ➤ HEPS growth ➤ ROFE ➤ TSR vs peer group	We see growth opportunities in SA. Bidvest has committed R1bn capital to build a LPG tank terminal in Richard Bay. Several large domestic acquisitions are also under consideration.

Internal audit pivotal role-player in our combined assurance model

The internal audit function is an independent, value-adding, progressive and responsive service to Bidvest shareholders. It fulfils a role of objectively evaluating the business processes and controls to appropriately manage the risk and support management's commitment to a strong control environment and operational excellence.

A risk-based internal audit plan is approved by the divisional and Group audit committees on an annual basis and is re-calibrated quarterly for the IA function to provide assurance services against the relevant and elevated risks of the business.

The internal audit function is well-constituted with a professional audit staff (more than 25 CA(SA)s in senior audit positions) with sufficient knowledge, skillset and experience to execute on the board approved internal audit charter that is consistent with the Institute of International Auditors' definition of internal audit as well as the principles of King IV. Given the ever-increasing dependencies of the business on IT, specialised IT audit and consulting skills have become a necessity in the function. Analytics and automation are well-entrenched into the mechanisms of the internal audit functions with further disruptive robotic initiatives being the focus for the future of internal audit.

IT governance

The board acknowledges technology as a mechanism to access, protect and manage information. In relation to the IT framework below, the board governs both technology and information so that these support the organisation in achieving its strategic objectives. The IT forum is represented by CIOs from each division and is a platform within which to:

- Share knowledge, research and experience
- Leverage digitalisation and technology trends
- Harness the economies of scale and Group purchasing power
- Establish subject matter expert and centres of excellence surrounding topical technology issues
- Benchmark vendor services delivery and price.

Each IT environment across Bidvest is subjected to an IT audit as part of the internal audit plan. The IT audit assesses the design and effectiveness of the IT environments from a control perspective coupled with providing a view on the strategic enablement of IT by the businesses:

- **IT resources.** Fit-for-purpose in-house operational IT skills, with the necessary strategic IT oversight, are in place. These are complemented by outsourced vendors with specialist networking, telecommunications, and cyber security skillsets
- **Business resilience.** Business resilience controls (including technical controls) are appropriately implemented by the individual companies, based on the needs of the company. Incident response management is being given increased focus
- **Technology investment.** The IT functions generally run very lean with a common philosophy to sweat IT-related assets. However, significant investment is beginning to be made in the IT innovation and digitisation space across Bidvest
- **Project assurance.** Major IT projects are well-governed, with input from the necessary stakeholders. Major projects are timeously implemented
- **IT dependency.** Business and IT are continuously enhancing alignment, through IT representation on the various board and executive committees, and in recognition of the key role IT plays in the various businesses
- **Management of IT risk exposure.** Significant attention is given to this across the IT environments, with an increasing focus on the management of IT risk exposure related to any new acquisitions
- **Cyber security.** Significant attention has been given to the identification and management of cybersecurity risks across Bidvest. Implementation and enhancement of the necessary controls are being performed on a case-by-case basis, dependent on the risks identified
- **Vendor management.** Vendor relationships are effectively managed by the Company IT departments. Economies of scale are leveraged where appropriate
- **Data governance.** Data governance, including the necessary supporting IT architecture, is receiving attention by the various companies, especially those with the greatest exposure to data risks. Companies have identified the need for leveraging existing data assets to enable business intelligence insights.