

# Corporate Governance Report

## INTRODUCTION

The board of directors ("the Board") of Shoprite Holdings Limited ("Shoprite Holdings" or "Company") and senior management subscribes to high ethical standards and principles of corporate governance, and recognises that sound governance can benefit long-term equity performance and enhance shareholder value. The Company's corporate governance system is the cornerstone of its primary objective of creating value for material stakeholders in a sustainable way.

A governance model has been adopted and implemented by the Group through the introduction of specialist disciplines such as risk management, legal and compliance.

## CORPORATE GOVERNANCE STATEMENT

South Africa's commitment to world class principles and guidelines on corporate governance was cemented with the introduction of the third King Report on Corporate Governance ("King III") on 1 March 2010. King III was formulated to, amongst others, promote the legislative framework set out in the new Companies Act 71 of 2008 (as amended) ("the Companies Act") and has therefore become the cornerstone of corporate governance principles. The JSE Listings Requirements requires listed companies to comply with the recommendations of King III.

The Board governs according to the principles of discipline, responsibility, fairness, social responsibility, transparency and accountability of directors to all material stakeholders. These principles are reflected in the group's business principles, internal controls and policies.

With regard to the financial year under review, the directors of Shoprite Holdings believe that it complied with all the significant requirements of King III. In instances where we do not comply, this is stated and explained.

## BOARD OF DIRECTORS

The details of individual attendance at board meetings are set out below:

NON-EXECUTIVE DIRECTORS	23/08/2010	02/11/2010	21/02/2011	24/05/2011
CH WIESE	√	√	√	√
EC KIESWETTER	√	√	√	x
JA LOUW	x	√	√	√
JF MALHERBE	√	√	√	√
JG RADEMEYER	√	√	√	√
EXECUTIVE DIRECTORS	23/08/2010	02/11/2010	21/02/2011	24/05/2011
JW BASSON	√	√	√	√
CG GOOSEN	√	√	√	√
B HARISUNKER	√	√	√	√
AE KARP	√	√	x	√
EL NEL	√	√	√	√
BR WEYERS	√	√	√	√

### Board meetings

The Board met four (4) times during the year to consider strategic issues, approve financial results and budgets, and to monitor the performance of the Group, executive directors and senior management. Additional meetings are held whenever deemed necessary. The reports of the chairman of each committee, as well as a number of key performance indicators, are considered.

The Chairman, in consultation with the Chief Executive Officer and Company Secretary is responsible for setting the agenda for each meeting. Board meetings are scheduled well in advance and management ensures that board members are provided with all relevant information to enable the Board to make well-informed decisions. Board documents are provided timeously to directors. Senior management are also invited to attend board meetings on rotation.

### Board structure

Shoprite Holdings has a unitary board of 11 directors, which fulfils oversight and controlling functions. The responsibilities of the Board are set out in the Board charter, evidencing a clear division between responsibilities.

The Board consists of five non-executive directors, including the Chairman of the Board, and six executive directors. Four of the non-executive directors are independent as defined in the King III Code. In view of the Chairman not being independent, the Board has appointed a lead independent director, Mr JG Rademeyer. The roles of the Chairman and the Managing Director are separate, ensuring a clear division of responsibilities.

A number of board committees assist the board in fulfilling its stated objective. The role and responsibilities of each of these committees are recorded in formal terms of reference. The Audit and Risk Committee has additional responsibilities by virtue of the Companies Act. During the course of the year, changes were made to the terms of reference to adopt the additional JSE Listing Requirements.

### Board responsibilities

The general powers of the directors are set out in the Company's Memorandum of Incorporation. In addition, the Board charter regulates how the Board and its individual members discharge their responsibilities and sets out the scope of authority, responsibility, composition and functioning of the Board. The charter is reviewed from time to time.

It is also the aim of the Board charter to ensure that all members of the Board understand their duties and responsibilities, as well as the relevant legislation, regulations and best practices that govern their conduct.

The Board is the custodian of corporate governance and ensures that the Group's business is conducted along sound corporate governance principles. It also adopts strategic plans and through the monitoring of operational performance provide management with effective leadership in line with the Company's values.

### Chairman and Chief Executive Officer

The responsibilities of the Chairman and Chief Executive Officer are clearly separate.

Dr CH Wiese is the non-executive chairman who provides guidance and leadership to the board and also ensures that the Board is efficient, focussed and operates effectively as a unit. He also acts as the facilitator at Board meetings, ensuring a flow of opinions and attempts to lead discussions to optimal outcomes.

The Chief Executive Officer, Dr JW Basson, reports to the Board and is responsible for the day-to-day business of the Group and the formulation and implementation of strategies once approved by the Board. He is assisted by various heads of operational divisions.

### Directors

All non-executive directors, excluding the Chairman, are inde-

pendent as defined in King III. Through its nominations committee, the Board annually considers and reconfirms the classification of directors as being independent. Their independence in character and judgement, and whether there are any relationships or circumstances which are likely to affect their independence, are all factors that are considered.

To uphold their independence and integrity, directors disclose all material interests as and when they arise. A list of directors' interest is tabled annually.

The non-executive directors have unrestricted access to management, all Company information, records and documents and may meet with management separately without the attendance of executive directors.

The Company has a formal board induction programme, which is managed by the Company Secretary. Directors are provided with all the necessary documentation to familiarise themselves with aspects that effect the Board. The directors may seek professional advice on any matters concerning the affairs of the Group, at the expense of the Company.

The Board, with the assistance of the Nominations Committee, considers the skills, knowledge and experience of the directors as a whole to be appropriate for their responsibilities to the Company's stakeholders.

### **Board appointment**

The appointment of directors is a matter for the Board as a whole. The Board is assisted by the Nominations Committee who makes recommendations on the appointment of new executive and non-executive directors, including making recommendations on the composition of the Board generally and the balance between executive and non-executive directors.

Directors do not have a fixed term of appointment. In terms of the Company's Memorandum of Incorporation, directors retire by rotation at least once every three (3) years, but can make themselves available for re-election by shareholders. A director may not hold office for more than three (3) consecutive years before standing for re-election. Dr CH Wiese and Messrs JF Malherbe, JA Louw and BR Weyers will retire at the annual general meeting, but offer themselves for re-election.

### **GROUP COMPANY SECRETARY**

The Company Secretary is a central source of information and advice to the Board and within the Company on matters of ethics and good governance. Together with investor relations, the Company Secretary provides a communication link with investors and liaises with the Company's share registrars in all issues affecting shareholders.

All directors have unrestricted access to the advice and services of the Company Secretary, who is responsible for ensuring that the Board complies with all applicable statutes, regulations and procedures. To ensure that the Board functions effectively, all directors have full and timely access to relevant information that assists them to perform their duties effectively. Directors are entitled to seek independent professional advice at the Company's expense after consultation with the Chairman of the Board. No directors exercised this right during the year.

This office also communicates and monitors compliance, among others, with the Group's trading embargo, ensuring that no employee, executive or non-executive director is allowed to deal in the Company's securities during prohibited periods.

The Company Secretary is also the compliance officer and ensures that, in accordance with specific legislation, the proceedings and affairs of the Board and its members, the Group itself, and where appropriate, the owners of securities in the Company are properly administered.

In addition, the Company Secretary ensures compliance with the rules and Listings Requirements of the JSE Limited, as well as compliance with the statutory requirements related to the Company and its subsidiaries.

The Company Secretary acts as secretary for the committees of the Board as required by King III.

### **CORPORATE GOVERNANCE PRACTICES**

The Group's corporate governance practices are embedded in the following:

#### **Ethical and moral behaviour**

The Group is committed to promoting the highest standards of ethical behaviour among its directors, management, and employees. In accordance with this objective, and in the interest of good corporate governance, the code of conduct is subject to regular review. This code of conduct sets out the standard expected in dealings with customers, employees, competitors, suppliers, the community, and shareholders. All employees are expected to comply with the code.

All new employees receive training on the code of conduct at induction. The Group's human resources division monitors compliance with the code across the Group and ensures that complaints are followed up, and disciplinary actions taken where appropriate. Employees and other stakeholders may anonymously report instances of unlawful or unethical behaviour to the Tip-offs Anonymous hotline, which is managed by a third party service provider. Allegations are investigated by dedicated specialists.

The Group applies the same code of conduct at all subsidiaries, including within Non-RSA subsidiaries.

Any transgressions of the Group's code of conduct during the 2010/11 financial year were dealt with appropriately in terms of the code.

#### **Stakeholder communication**

The Group strives to have transparent, open and clear communication with all its material stakeholders. Communication with such stakeholders has always been an important feature of the Group's corporate governance practices. Financial and non-financial information is disseminated timeously and accurately to relevant stakeholders. Regular presentations are made by executive directors and senior management to institutional investors, analysts and the media. A corporate website (<http://www.shopriteholdings.co.za>) communicates the latest Group financial and operational data, as well as relevant historical information.

Shareholders are encouraged to attend the annual general meeting, which provides an opportunity for shareholders to raise pertinent questions and to interact with directors. A summary of the proceedings of general meetings and the outcome of voting on items of business is posted on SENS immediately following the annual general meeting.

The Board is not aware of any material requests under the Promotion of Access to Information Act that were either complied with or denied.



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## Insider trading and price sensitive information

The Shoprite Group has implemented a closed period policy to govern share trades by the Group's directors and employees. Directors and employees who may have access to price-sensitive information are precluded from dealing in Shoprite shares from one (1) week before the end of the interim and year-end financial periods until the release of the Group's interim and final results.

In terms of the policy, shares include options, financial instruments, and securities, as defined by the JSE Listings Requirements. Appropriate additional closed periods may be invoked by the Board.

In terms of the policy, the Company Secretary regularly disseminates written notices to all directors and members of senior management throughout the Group, highlighting the provisions of the JSE Listings Requirements and the Securities Services Act, and informing them that dealing in Shoprite Holdings shares during certain restricted periods may not be undertaken.

Dealings in securities of the Company by the Directors and alternate directors of Shoprite Holdings and its main trading subsidiary are disclosed as required by the JSE Listings Requirements. The Board has also implemented a formal approval framework that requires directors and alternate directors to obtain written approval to deal in Company securities from the Chairman or a senior director. The Chairman is required to obtain written clearance from the lead independent director, and the CEO from the chairman.

It is mandatory for directors to notify the Company Secretary of any dealings in the Company's securities. This information is then disclosed on SENS within 48 hours of the trade being affected.

## INTERNAL ACCOUNTABILITY

The Group's assets are insured against loss with cover being taken out above predetermined levels of self insurance. In the event of disaster recovery circumstances, detailed business continuity plans will ensure that the Group's business will continue with the minimum amount of disruption.

## Legislative and regulatory compliance

Regulatory compliance is of importance due to the frequent amendments to the regulatory framework in South Africa.

The compliance function reports under the Company Secretary, who is responsible for the general monitoring of regulatory requirements and is also involved in implementing the requirements of recently enacted legislation.

The most significant codes and legislation that have impacted the Group during the reporting period are:

- King III;
- The Companies Act 71 of 2008 (as amended);
- The Consumer Protection Act;
- The Foodstuffs, Cosmetics and Disinfectants Act;
- The Standards Act; and
- The Regulation of Interception of Communications Act (RICA).

A comprehensive review of the Consumer Protection Act was conducted and the Group's employees have been trained to ensure that they understand and are in a position to implement the new requirements.

The Group has also conducted a review of the requirements of the Companies Act and has implemented various measures to ensure compliance with the Act.

The Board monitors compliance by means of committee reports, which include information on any significant interaction with key stakeholders, including regulators, and through the activities of its Audit & Risk Committee.

## Anti-competitive conduct

The Group does not engage in practices that could prevent others from competing with it or that could adversely impact customers.

External legal advisors were engaged to advise the directors and management of the contents of issues arising from the Competition Act. These advisors are currently developing a competition compliance framework and programme for the Group.

During the reporting period, the Competition Commission ("the Commission") referred a complaint of alleged anti-competitive behaviour against Computicket (Pty) Ltd to the Competition Tribunal for hearing. The Commission's investigation into the alleged anti-competitive behaviour against various food retailers is ongoing.

## Political donations and affiliations

Whilst the Group supports the democracy in South Africa, it does not make donations to individual political parties.

## APPLY OR EXPLAIN PRINCIPLES OF KING III

JSE-listed companies are required to report and disclose the application of the King III principles. The principles that have not been applied are therefore explained below:

- Principle 2.16 recommends that the Chairman of the Board should be independent. The Board has considered this issue and is of the view that Dr CH Wiese's skills, knowledge and experience allows him to make a significant contribution to the functioning and effectiveness of the Board. A lead independent director was, however, appointed.
- Principle 2.18 requires that the Board should comprise a balance of power with a majority of non-executive directors, and that the majority of non-executive directors should be independent. The Board is in the process of restructuring and will aim to comply with this principle by 30 June 2012.
- Principle 2.22: The evaluation of the Board, its committees, and individual directors should be performed every year. The Group does not comply with this principle, but will implement the necessary measures to ensure compliance.

# Audit and Risk Committee Report

## INTRODUCTION

We are pleased to present our report to shareholders for the financial year ended 30 June 2011. The Audit and Risk Committee (“the Audit Committee”) is an independent statutory committee appointed by the Board of directors, who delegates duties and responsibilities to the Audit Committee.

During the reporting period, the Audit Committee made changes to certain of its governance policies in order to comply with the principles stipulated by the King Code of Governance Principles (“King III”).

The Audit Committee’s terms of reference is formalised in a charter approved by the Board of directors. During the period under review, the Audit Committee conducted its affairs in accordance with the charter, and has discharged its responsibilities as required by the charter, the Companies Act 71 of 2008 (as amended) (“the Companies Act”), and the substantial requirements of King III. Instances where King III requirements have not been applied are explained in this report.

## AUDIT COMMITTEE MEMBERS, MEETING ATTENDANCE AND ASSESSMENT

The Audit Committee meets at least four (4) times a year as required by the charter. To ensure compliance with the requirements of the Companies Act, the Board appointed a third member, Mr JA Louw, to the Audit Committee with effect from 24 May 2011.

NON-EXECUTIVE DIRECTORS	16/08/2010	01/11/2010	18/02/2011	23/05/2011
JG RADEMEYER	✓	✓	✓	✓
JF MALHERBE	✓	✓	✓	✓

Internal and external auditors attended the Audit Committee meetings. Certain executive directors and members of senior management attended the above meetings by invitation.

Audit Committee agendas provide for confidential meetings between the Audit Committee members and internal and external auditors.

## ROLES AND RESPONSIBILITIES

During the period under review, the Audit Committee fulfilled the statutory duties as required by the Companies Act, and recommended in King III, as well as various additional responsibilities assigned to it by the Board of directors.

### External auditor appointment and independence

The Audit Committee has satisfied itself that the external auditor, PricewaterhouseCoopers Inc (PwC), conducted its duties independently and that no limitations were imposed by management on PwC whilst performing their duties during the review period.

The Audit Committee, in consultation with the Group’s executive management, agreed to the terms of the PwC engagement letter, audit plan and budgeted audit fees in respect of the 2011 financial year.

A formal framework governs the process through which PwC renders non-audit services. The Audit Committee approved the terms of a master service agreement for the provision of non-audit services by PwC, as well as the nature and extent of non-audit services that may be provided in terms of a pre-approval policy.

The Audit Committee nominates PwC for re-election at the annual general meeting (AGM) of Shoprite Holdings, and Mr A Wentzel as the designated partner to perform the functions of external auditor until the 2012 AGM. The Audit Committee has satisfied itself that both PwC and Mr Wentzel are accredited with the JSE Limited as required.

### Financial statements and accounting practices

During the reporting period, the Audit Committee reviewed the interim and annual financial reports of the Group and recommended the acceptance and approval thereof to the Board of directors.

During the review of the financial reports, the Audit Committee considered:

- the accounting policies and financial statements, in order to ensure compliance with International Financial Reporting Standards and the relevant requirements of the Companies Act; and
- the audit report issued by the external auditors.

### Internal controls

An internal audit was performed to assess the effectiveness of the Group’s system of internal controls and risk management procedures. This assessment formed the basis for the Audit Committee’s recommendation in this regard to the Board.

The management and the internal and external auditors have agreed on a combined assurance model to enable these parties to report to the Audit Committee on the efficacy of the Group’s internal financial controls and that no material breakdowns occurred in this regard.

During the period under review, no material breakdowns in the internal controls of the Group were reported.

### Integrated and sustainability reporting

The Audit Committee has considered the sustainability information that forms part of the Group’s Integrated Report and has assessed its consistency with operational and other information known to the Audit Committee members, as well as its consistency with the Group’s annual financial statements.

The Audit Committee is satisfied that the above is consistent with the Group financial results. As such the Audit Committee has recommended that the Group’s Integrated Report be approved by the Board of directors.

### Going concern

The Audit Committee has reviewed a documented assessment, including key assumptions, prepared by management on the going concern status of the Group. The Board’s statement on the going concern status of the Group, as supported by the Audit Committee, is contained in the directors’ report.

### Governance of risk

Whilst the Board is ultimately responsible for the maintenance of an effective risk management process, the Audit Committee assisted the Board in assessing the adequacy of the risk management process.

Under the supervision of the Audit Committee, the risk forum (a management committee consisting of senior managers from all business units) reviewed and updated the enterprise-wide risk management (EWRM) plan during the reporting period. This EWRM plan was implemented in all business units to ensure that senior management understands the risks attached to their respective



## Audit and Risk Committee Report (continued)

business units and the controls necessary to mitigate these risks.

The Audit Committee is satisfied that, during the course of the 2011 financial year, management revisited all risks by means of an enterprise-wide risk assessment. The resultant top 20 risks that now form part of individual EWRM's were adequately addressed by the Group's various business units.

### Internal audit

The Audit Committee is responsible for ensuring that the Group's internal audit function is independent and has the necessary resources, standing and authority within the Group to enable it to discharge its responsibilities effectively. Furthermore, the Audit Committee oversees cooperation between the internal and external auditors, and serves as a link between the Board of directors and these functions.

The internal audit function reports centrally and is responsible for reviewing and providing assurance on the adequacy of the internal control environment across all of significant areas of the Group's operations. The internal audit manager is responsible for reporting the progress and findings of internal audit's work conducted against the Group's approved audit plan to the Audit Committee on a quarterly basis.

The internal audit manager has direct access to the Audit Committee, primarily through the Chairman.

The Audit Committee is satisfied that Group internal audit has complied with the required legal, regulatory and other responsibilities as stipulated in their charter during the period under review.

### Governance of information technology

As part of the Group's IT governance framework a formal IT governance charter and policies were formulated and implemented. The charter and policies outline the decision making rights and accountability framework for IT governance within the Group.

### EVALUATION OF THE EXPERTISE AND EXPERIENCE OF THE FINANCIAL DIRECTOR AND FINANCE FUNCTION

The Audit Committee has satisfied itself that the financial director, Mr CG Goosen, has the appropriate expertise and experience to act in this capacity.

The Audit Committee is also satisfied that the Group finance function has the required expertise and adequacy of resources to perform the Group financial function.

### JG Rademeyer

*Chairman*

26 August 2011

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## Nominations Committee Report

Meetings of the Nominations Committee are held as the committee deems appropriate; however the committee meets at least once a year.

The main purpose of the committee is to assist the Board to ensure that appointments of directors are made in terms of a formal and transparent procedure.

The Nominations Committee currently consists of two (2) non-executive directors, of which one is independent.

The following directors served on the Nominations Committee, a sub-committee of the Board:

Dr CH Wiese – Chairman (non-executive); and  
Mr JA Louw – Independent non-executive director.

Details of attendance of meetings by the members of the Nominations Committee are set out herein:

DIRECTOR	24/05/2011
CH WIESE	√
JA LOUW	√

The committee's terms of reference have been reviewed and updated during the year.

One third of the directors will retire by rotation at the forthcoming annual general meeting. Dr CH Wiese and Messrs JF Malherbe, JA Louw and BR Weyers are due to retire by rotation at the next annual general meeting and, being eligible, offer themselves for re-election. Their re-election as directors is recommended to shareholders.

The Nominations Committee is satisfied that it has carried out its responsibilities for the financial year in compliance with its terms of reference.

# Remuneration Committee Report

The Remuneration Committee is a sub-committee of the Board and comprises of two non-executive directors. The following directors served as members of the committee during the reporting period:

- Dr CH Wiese: non-executive chairman
- Mr JA Louw: independent non-executive director

The Chief Executive Officer and the Deputy Managing Director attend the meetings of the committee by invitation to advise on remuneration and other related matters.

The committee functions in terms of a charter formally approved by the Board and its main responsibilities can be summarized as follows:

- consideration and approval of the remuneration of executives and other members of management;
- to approve any changes in the structure of short or long-term incentive schemes of the Group; and
- to make recommendation to the Board on the remuneration to be paid to non-executive directors.

The committee is chaired by a non-executive director and meets as deems appropriate, but at least once a year. Further meetings may be convened by the chairperson or any other member of the committee.

The committee is satisfied that it has discharged its responsibilities

for the period under the review in compliance with its terms of reference.

## REMUNERATION COMMITTEE MEETING ATTENDANCE

Details of attendance of meetings by the members of the committee are set out below:

DIRECTOR	05/07/2011
CH WIESE	√
JA LOUW	x

## NON-EXECUTIVE DIRECTORS' FEES

Non-executive directors receive fees for their services on the Board and Board committees.

Fees for non-executive directors are recommended by the committee to the Board. The Board recommends these fees to shareholders for approval at the annual general meeting. These fees reward the directors fairly for the time, expertise and service provided to the Board based on an annual benchmarking of non-executive directors fees.

No incentives were awarded to non-executive directors during the reporting period.

