

# Corporate Governance Report

Good corporate governance is an integral part of the sustainability of Shoprite Holdings and its subsidiaries ("the Group"). The board of directors ("the Board") of Shoprite Holdings Limited ("Shoprite Holdings" or "the Company") promotes and supports high standards of corporate governance, integrity and ethics that will contribute towards on-going sustainability and value creation for all the Group's stakeholders.

In an environment of increasing regulation, it is the Group's objective to maintain a balance between the governance expectations of investors and other stakeholders, and the expectation to deliver increasing financial returns.

The Board is ultimately responsible for ensuring that governance standards are met and is assisted in this regard by senior management. To achieve this objective, the Group continues to enhance and align its governance structures, policies and procedures to support its operating environment and strategy.

The Board endorses the King Report on Governance for South Africa 2009 ("King III") which prescribes sound governance, best practice principles of accountability, integrity, fairness and transparency. The directors confirm that Shoprite Holdings applied the principles as set out in the latest King Code with explanations where practical and appropriate. This report sets out the key governance principles adopted by the directors in governing the Company. The full King III narrative statement can be found on the Company's website at [www.shopriteholdings.co.za](http://www.shopriteholdings.co.za). The Company has furthermore complied with all the corporate governance provisions in the JSE Listings Requirements during the reporting period.

## The board of directors

The Board currently consists of nine (9) non-executive directors and four (4) executive directors. The directors are diverse in their academic qualifications, industry knowledge and experience. This diversity enables directors to provide the Board with relevant judgement to work effectively when conducting and determining the business affairs of the Company.

Non-executive directors are required to dedicate sufficient time to the affairs of the Board and may serve on other boards provided that they continue demonstrating that such other directorships have not, or will not, impede the discharge of their duties to the Shoprite Holdings board but rather add value by bringing a broader dimension to board deliberations. The Board is satisfied that the chairman and each of the non-executive directors, in their respective roles, comply with this requirement.

The Board is collectively responsible to the shareholders of Shoprite Holdings for its performance and the Group's overall strategic direction, values and governance. It provides the leadership necessary for the Group to meet its business objectives within the framework of its internal controls. This role requires a high-performing board, with all directors contributing to the collective decision-making process.

Biographical details of all directors appear on page 26 and 27 of the Integrated Report.

## Governance framework

The Board is the custodian of corporate governance and is structured to perform this function effectively. A number of committees have been established to ensure effective oversight of significant strategic and operational matters.

1. The Audit and Risk Committee assists the Board in monitoring the integrity of the Group's financial statements and oversees integrated reporting. It also assesses the effectiveness of internal financial controls as well as the external and internal audit functions. In addition, it ensures that the Group has implemented an effective risk management process that identifies and monitors the management of the Group's key risks.
2. The Social and Ethics Committee performs the social and ethics functions required by the Companies Act 2008, as amended.
3. The Nominations Committee assists with the appointments of directors and, guided by the company secretary, ensures a transparent process to determine Board and committee composition.
4. The Remuneration Committee ensures the adoption of remuneration policies that retain and attract talent, are aligned to the Group's strategy, market-related and drives performance in the short and long term.
5. The Group's executive management are responsible for the day-to-day management of the various business operations.
6. The governance department comprising of legal, compliance and the company secretary, provides support and guidance to the committees.
7. Assurance providers provide a level of assurance on integrated reporting, including the annual financial statements and the B-BBEE scorecard.

## Board responsibilities

The detailed responsibilities of the Board are set out in a formal board charter which forms the basis of their responsibilities and duties. This charter sets out the powers of the Board and provides a clear division of the responsibilities and accountability of board members, both collectively and individually and was reviewed during the reporting period.

The general powers of the directors are set out in the Company's Memorandum of Incorporation.

The Board's principle responsibilities include:

- providing effective leadership based on an ethical foundation;
- addressing all aspects that are of strategic importance for the Group;
- ultimate responsibility for the strategic direction of the Group;
- ensuring that the Group's strategy will result in sustainable outcomes;
- risk management and IT governance;
- monitoring compliance with laws, regulations and codes of good practice; and
- ensuring that the Group is and is seen to be a responsible corporate citizen.

The Board is of the opinion that it has adhered to the terms of reference as detailed in the board charter for the financial year under review.

## Meetings of the Board

The Board meets at least four (4) times per year or more often should circumstances require. The attendance of directors at board meetings during the reporting period are recorded below.

## Attendance at board meetings

	22/08/2016	31/10/2016	09/12/2016	20/02/2017	29/05/2017
<b>Non-Executive Directors</b>					
CH Wiese	●	●	●	●	●
JF Basson	●	●	●	●	●
JJ Fouché	○	○	●	●	○
EC Kieswetter	●	●	●	●	●
JA Louw	●	●	●	●	●
ATM Mokgokong	●	●	●	●	●
JA Rock	●	●	○	●	●
<b>Executive Directors</b>					
JW Basson*	●	●	●	○	●
PC Engelbrecht**				●	●
M Bosman	●	●	●	●	●
CG Goosen*	●	●	●	●	●
B Harisunker	●	●	●	●	●
AE Karp*	●	○	●		
EL Nel	●	●	●	●	●
BR Weyers**	●	●	●	●	○

\* Appointed as non-executive vice chairman with effect from 1 January 2017

\*\* Appointed as CEO with effect from 1 January 2017

\* Resigned 1 February 2017

\*\* Retired 30 June 2017

\* Appointed as non-executive director on 21 August 2017

## Chairman and chief executive officer

The roles and duties of the non-executive chairman and the chief executive officer are separated and clearly defined.

Dr CH Wiese is the non-executive chairman who provides guidance and leadership to the Board and also ensures that the Board functions effectively, focused and as a unit.

The chairman's role includes:

- leading the Board and ensuring that it operates to the highest governance standards;
- encouraging a culture of openness and debate to foster a high performing and collegial team of directors that operate effectively;
- setting agendas for board meetings in conjunction with the chief executive officer and the company secretary that focus on the strategic direction and performance of the Group's business;
- ensuring that adequate time is available for discussion on all agenda items;
- leading the Board's and individual director performance assessments; and
- facilitating the relationship between the Board and the chief executive officer.

The chief executive officer, Mr PC Engelbrecht, reports to the Board and is responsible for the day-to-day business of the Group as well as the formulation and implementation of strategies once approved by the Board. He is assisted in this regard by members of executive and senior management that heads the various divisions and departments within the Group.

## Lead independent director

Due to the fact that the chairman is a material shareholder in Shoprite Holdings, he is not considered to be independent. Mr EC Kieswetter is the lead independent director (LID) and provides leadership and advice to the Board when the chairman has a conflict of interest without detracting from or undermining the authority of the chairman. The expertise and broad international experience of Mr Kieswetter enhanced the skills and experience profile of the Board and he continues to make a substantial contribution as LID.

## Non-executive directors

The Board consists of nine (9) non-executive directors of which six (6) are independent as defined in the King III Code. Dr CH Wiese is not independent in view of his material shareholding in Shoprite Holdings and Dr Basson and Mr CG Goosen due to their employment with the Group.

The Board considers that a diversity of skills, backgrounds, knowledge, experience and gender is required to effectively govern the Company. Non-executive directors must have a

clear understanding of the Group's overall strategy, together with knowledge about the Group and the industries in which it operates. In addition non-executive directors must be sufficiently familiar with the Group's core business to be effective contributors to the development of strategy and to monitor performance.

The Board is satisfied that its current members possess the required collective skills and experience to carry out its responsibilities of achieving the Group's objectives and to create value to shareholders over the long term.

## Board appointment

The Board regularly reviews its composition as well as the composition of board committees which are aligned with applicable legislation and regulations. In making an appointment the Board takes cognisance of the knowledge, skills, and experience of a potential candidate, as well as any other attributes considered necessary for the role.

The appointment of directors is a matter for the Board as a whole. The Board is assisted by the Nominations Committee who considers the suitability of potential directors and makes recommendations to the Board in this regard.

Directors are not appointed for a fixed term. In terms of the Memorandum of Incorporation ("MOI") of Shoprite Holdings, all non-executive directors retire by rotation at least once every three (3) years, but can make themselves available for re-election by shareholders. If eligible, available and recommended for re-election by the Nomination Committee, their names are submitted for re-election by shareholders at the annual general meeting.

The appointment of new directors is subject to confirmation by shareholders at the first annual general meeting after their appointment.

## Induction of directors and on-going updates

A comprehensive induction programme has been developed for new directors to ensure that they are briefed and have the required understanding of their fiduciary and statutory duties, the Group's structure, operations and policies to enable them to fulfil their duties and responsibilities as directors. The company secretary is responsible for the administration of the Group's induction programme.

New directors are also provided with details of applicable legislation and regulations, Shoprite Holdings' MOI, relevant mandates as well as documents setting out their duties and responsibilities as directors. In addition agendas and minutes of the two most recent Board and sub-committee meetings, latest annual financial statements, Integrated Report, board charter and sub-committee mandates are

provided to inform them of current matters and risks being addressed as well as to enable them to gain a general understanding of the Group.

Directors are invited to briefing sessions or are provided with written summaries to keep them abreast of pending new legislation, regulations and best practices affecting the business.

## Conflicts of interests and directors' personal financial interests

The Group's policy in this regard is applicable to all directors and employees. Directors are required to declare their personal financial interests and those of related persons in contracts with the Group annually. A list in this regard is tabled annually and the register in which such interests are recorded is available for inspection at each annual general meeting of Shoprite Holdings.

## Board effectiveness and evaluation

The annual evaluation of the Board was performed during July 2017. Directors were required to complete a questionnaire compiled by the company secretary in conjunction with the chairman. This evaluation covered the following topics:

- the size and composition of the Board and committees focussing on the blend of skills, experience, independence and knowledge of the Group and its diversity;
- directors' induction and development;
- effectiveness of board and committee meetings;
- quality and timeliness of meeting agendas, Board and committee papers and secretarial support; and
- relationship between the Board and management, skills needed by the Board and its committees as well as stakeholder relations.

The Board is provided with the results of the board effectiveness evaluation. The overall outcome of the 2016/17 evaluation was that:

- the composition of the Board is sound and has a good mix of skills and experience;
- the agendas of the Board and the attention thereto include appropriate matters for review, monitoring and approval;
- the frequency of board meetings are sufficient to enable the Board to fulfil its responsibilities;
- the Board's review, approval, monitoring and oversight include both strategic matters and current operating performance and results;
- the Board has the appropriate committees to assist it and the committees have a clear terms of reference, appropriate leadership and composition and reported appropriately to the Board on their deliberations and decisions;
- board authority and leadership was separate from the executive leadership and authority; and

# Corporate Governance Report (continued)

- the chairman's leadership and contribution and the company secretary's role and contribution were considered to be effective.

## Company secretary

Mr PG du Preez is the company secretary of Shoprite Holdings. He is not a director of Shoprite Holdings, although he serves as a director on the boards of various Group subsidiaries. This relationship does not affect his arm's length relationship with the Shoprite Holdings Board.

In compliance with the JSE Listings Requirements, a detailed assessment was conducted by the Board to satisfy itself of the competence, qualifications and experience of the company secretary. This was performed through:

- a review of qualifications and experience: Mr du Preez holds BTech, LLB and LLM (International Trade Law) degrees with nine (9) years experience as company secretary of Shoprite Holdings;
- assessments by directors detailing all the legislative and King III requirements. This questionnaire included questions on his effectivity as gatekeeper of good corporate governance, the effectiveness of the arm's length relationship (including his advisory role) as well as how he performed his role and duties as company secretary.

The outcome of the assessment confirmed that all requirements were met, including competence, qualifications and experience.

The company secretary is appointed and removed by the Board and acts as a central source of information and advice to the Board and within the Group on matters of ethics and good corporate governance. Independent advisory services are retained by the company secretary at the request of the Board or board committees.

All directors have unlimited access to the advice and services of the company secretary, supported by the legal department. The company secretary is responsible for the duties set out in section 88 of the Companies Act and for ensuring compliance with the listings requirements of the JSE Limited. The company secretary also provides a communication link with investors and liaises with the Group's transfer secretaries and sponsors on relevant matters. As required by King III, the company secretary also acts as secretary to the various sub-committees of the Board and attends all meetings of the Board and the committees. The company secretary is also the compliance officer and ensures that the Group complies with all the required legislation and regulations applicable to its various business activities.

In compliance with the JSE Listings Requirements, the Board annually evaluates the competence, qualifications and experience of the company secretary. The evaluation process includes an assessment by each board member of the eligibility, skills, knowledge and execution by the company secretary of his duties.

## Share dealings by directors and senior executives

The Group has implemented a policy relating to share dealings by directors and senior executives who, by virtue of their positions, have comprehensive knowledge of the Group's affairs. This policy imposes closed periods to prohibit dealing in Shoprite Holdings securities before the announcement of the interim and year-end financial results or during any other period that is considered to be price-sensitive. The company secretary disseminates written notices to all directors and senior executives throughout the Group. This is in compliance with the market abuse provisions of the Financial Markets Act 19 of 2012 and the JSE Listings Requirements in respect of dealings by directors.

Dealings in Shoprite Holdings securities by 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 which governs the approvals required by these directors prior to their dealings in Shoprite Holdings securities.

During the period under review the Group complied with all Listings Requirements and disclosure requirements prescribed by the JSE.

## Accountability

### Audit and Risk Committee

A description of the responsibilities and work undertaken by the Audit and Risk Committee during this year is included in the report by the chairman of the committee on page 80. His report also deals with the Group's internal controls, governance of risk as well as the internal audit function.

### Group auditors

At the annual general meeting of Shoprite Holdings held on 31 October 2016, the appointment of PricewaterhouseCoopers Inc. as the external auditors of the Group until the 2017 annual general meeting was approved by shareholders. Further details on the external auditors are contained in the report of the chairman of the Audit and Risk Committee.

## Corporate ethics

The Group is committed to achieving high standards of ethical behaviour. All staff are expected to comply with the Group's code of ethics at all times. All new staff members are required to read, acknowledge and agree to adhere to the code of ethics as part of their induction.

The Tip-Offs anonymous hotline is independently managed by a third party service provider. Employees are encouraged to report any unethical behaviour identified, anonymously and confidentially. Although this hotline allows employees to make anonymous reports and guarantees the protection of their identity in accordance with the provisions of the Protected Disclosure Act, 2000, the Group prefers to create an open reporting environment through the various line managers. All cases are investigated by the Group Risk Manager in conjunction with internal audit and the Group legal department where required. During the 2017 financial year a total of 148 incidents of suspected unethical behaviour within the Group were reported of which 12 resulted in disciplinary action, dismissals, resignations and/or criminal charges being laid against such employees.

During the period under review the Group's code of conduct was reviewed by the Social and Ethics Committee and amended in line with best practices in this regard. The code of conduct sets out the standard expected from employees when dealing with customers, fellow employees, suppliers, competitors and other stakeholders. All employees are required to adhere to the code of conduct.

No material breaches of the Group's code of conduct were reported during the 2016/17 financial year.

## Legislative and regulatory compliance

The Shoprite Group acknowledges the importance of complying with the regulatory framework affecting its various business operations and its associated accountability to all stakeholders.

The Group conducts business in 15 countries, 14 outside of South Africa located on the African continent and the Indian Ocean Islands. In keeping with its vision and strategy, the Group subscribes to and applies all the significant principles contained in the Code of Corporate Practices and Conduct by King III.

In the Non-RSA jurisdiction where the Group operates, governance developments are monitored on an on-going basis to ensure that local regulatory requirements are complied with. The Board monitors the compliance by means of committee reports, which include information on any significant interaction with key stakeholders, including regulators.

The Group's compliance function reports under the company secretary and monitors and assesses the impact of legislation on the business. External specialists have been engaged to assist and advise the Group in this regard. Given the quantum of regulatory promulgations and amendments, legislative compliance was a key area of focus during the period under review.

During the reporting period, the compliance function focused on the following areas to support the directors, chief executive officer, management and employees to fulfil their compliance responsibilities:

■ **Identification and implementation of changes in regulatory requirements**

The Group operates in a dynamic and continuously evolving regulatory and supervisory environment. A regulatory universe is compiled annually for the Group with the assistance of a specialist service provider that identifies and reviews all current, proposed and impending legislation and the potential impact on the Group's various business units. Response to such legislation is addressed through the most efficient and effective channel. Compliance resources and programs are introduced by utilising a risk-based approach whereafter on-going compliance is monitored and tested through various means. Compliance reports are presented to the Audit and Risk Committee.

■ **Regulatory frameworks**

Frameworks are updated on a regular basis whilst controls are monitored continuously using a risk-based approach. Any non-compliance is reported using the governance processes.

■ **General guidance and support to business**

Management and business operations are assisted with the implementation of appropriate controls to comply with relevant regulatory obligations. Incidents of non-compliance are also managed.

■ **Compliance monitoring**

Compliance risks were monitored and tracked by regulators, management, internal audit and group compliance. Management monitors compliance as part of the day-to-day operations. Group compliance utilizes a risk-based methodology for monitoring.

Legal compliance reports are presented to the Audit and Risk and Social and Ethics Committees on an on-going basis.

The Group's tax management framework, approved by the Board, is aligned with the Group's business strategy and risk management objectives. It seeks to achieve tax efficiency across the Group, in compliance with the applicable laws in all jurisdictions in which it operates.

Pending legislation or legislation recently enacted that may have a potentially material impact on the Group includes:

- Protection of Personal Information Act;
- Labour and Employment legislation; and
- Various regulations relating to food and product safety.

Shoprite Holdings fully understands the role and responsibilities of its sponsor, Nedbank Corporate and Investment Banking (CIB), as stipulated in the JSE Listings Requirements. It is the opinion of Shoprite Holdings that Nedbank CIB has discharged its responsibilities in this regard with due care during the period under review.

No significant financial penalties of regulatory censure were imposed on the Group or any of its subsidiaries during the financial year to 2 July 2017.

■ **Investor and stakeholder relations**

The Group's relevance to the markets and societies in which it operates, depends on meaningful engagement with all stakeholders. Its stakeholder management approach involves the optimal application of resources to build and maintain good relationships with stakeholders. This assists the Group to

understand the expectations of its stakeholders, minimise reputational risk and form strong partnerships which ultimately underpins the sustainability of the Group.

The Group appreciates the importance of dissemination of accurate information to all its stakeholders. Financial and non-financial information is disseminated timeously and accurately to all stakeholders.

Regular, pertinent communication with shareholders assists the Group to improve shareholder relationships. The chief executive officer and financial director are designated investor spokespersons and meet with fund managers and analysts on a regular basis. Investor activities include the presentation of interim and annual results, participation in investor conferences and the issuing of regular operational updates. A corporate website also communicates all the latest financial and non-financial data to all stakeholders. Shareholders are also encouraged to attend the annual general meeting of Shoprite Holdings which provides an opportunity for shareholders to raise pertinent questions and to interact with directors. Committee chairpersons also attend the annual general meetings to respond to shareholders' questions.

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

■ **Competitive conduct**

The Group operates in the retail sector which is a highly competitive industry. It is therefore highly protective of all its intellectual property and know-how. Interaction with other retailers is generally restricted to forums in which co-operation at industry level is required for purposes of making representation to government. The Group is a member of the Consumer Goods Council of South Africa.

■ **Political party support**

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

# Nominations Committee Report

## Composition, current members and attendance

The Nominations Committee consists of four (4) non-executive directors of which three (3) are independent.

The following directors served on the Nominations Committee during the 2017 financial year:

- Dr CH Wiese: Non-executive Chairman
- Mr JA Louw: Independent non-executive director;
- Mr EC Kieswetter: Independent non-executive director; and
- Dr ATM Mokgokong: Independent non-executive director.

The Nominations Committee had two (2) meetings during the period under review. Details of attendance at the meetings are set out below:

Director	22 Aug 2016	20 Feb 2017
CH Wiese	●	●
JA Louw	●	●
EC Kieswetter	●	●
ATM Mokgokong	●	●

## Responsibilities

The Nominations Committee is responsible for:

- identifying candidates and making recommendations to the Board on non-executive and executive director appointments as well as the Board's composition as a whole;
- reviewing and making recommendations on the Board's structure, size and balance between executive and non-executive directors;
- oversee the formal induction programme for new directors;
- ensuring the development of succession plans for the Board, CEO and senior management; and
- assessing the effectiveness of the Board and its committees.

## Key activities in 2017

During the reporting period the Nominations Committee:

- reviewed the composition of the Board and sub-committees;
- recommended directors' annual appointment and re-election at the AGM;
- reviewed and approved its formal terms of reference;
- adopted a policy to promote gender diversity at board level; and
- complied with its terms of reference.

## Annual general meeting 2017

As required by the Memorandum of Incorporation of Shoprite Holdings (MOI), at least one-third of the non-executive directors will retire by rotation at the forthcoming annual general meeting. Dr CH Wiese, Messrs EC Kieswetter and JA Louw will retire in terms of this provision but have offered themselves for re-election.

Mr CG Goosen was appointed as a non-executive director with effect from 21 August 2017 but retires in terms of Article 13.2 of the MOI at the annual general meeting on 30 October 2017. Being eligible for election, Mr Goosen has offered himself for re-election.

The Nominations Committee annually reviews the independence of non-executive directors that retire, based on whether the director:

- was employed in an executive capacity within the Group in the previous three (3) years;
- served on the Board for a period of longer than nine (9) years. In this instance the Nominations Committee considers if the director's independence, judgement and contribution to the Board deliberations could be compromised, or appear to be compromised, by this length of services;
- is a representative of a major shareholder;
- is independent in character and judgement and whether there are any circumstances which may or is likely to affect the director's judgement; and
- is a shareholder in Shoprite Holdings and that his shareholding represents a material part of the director's personal wealth.

Having considered the circumstances of the non-executive directors, the Nominations Committee is of the view that Messrs Kieswetter and Louw can be considered as independent.

## Promotion of gender diversity at board level

The Nominations Committee has established a board diversity policy to ensure gender diversity at board level. In reviewing the composition of the Board, the Nominations Committee will consider gender diversity to effectively discharge its duties and responsibilities. In this regard the Nominations Committee will discuss and agree on an annual basis the objectives for achieving gender diversity at board level and duly recommend such objectives to the Board.

As at the date of this report, women made up 8% of the Board. The aim is to ensure that at least 15%-20% of the Board will consist of women.

The Nominations Committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference during the period under review.

**CH Wiese**  
Chairman

# Social and Ethics Committee Report

As a statutory committee constituted by the board of Shoprite Holdings the Social and Ethics Committee (“the Committee”) fulfils its duties in terms of section 72(4) of the Companies Act (read together with Regulation 43 of the Companies Regulations, 2011). The Committee additionally fulfils the role of a Group committee and therefore no other Shoprite Holdings subsidiaries have established social and ethics committees.

A formal term of reference has been adopted and guides the Committee to perform its oversight role to ensure that the Group as a responsible corporate citizen, conducts its business in a sustainable manner with an ethical corporate culture at its core. The Committee remains committed to developing and reviewing policies, governance structures and practices to guide the Group’s approach to emerging social and ethics challenges in line with its terms of reference. This charter was reviewed during the period under review.

## Responsibilities

The Committee is responsible for:

- monitoring activities with regard to legislation, other legal requirements and codes of best practice;
- drawing relevant social and ethics matters to the attention of the Board; and
- reporting to shareholders at the annual general meeting.

The Committee focuses in particular on the Group’s strategy and performance in respect of:

- social and economic development;
- the promotion of equality and the prevention of unfair discrimination;
- the Group’s ethics and the prevention of fraud, bribery and corrupt practices;
- the deterrence of human rights violations;

- the contribution to the development of communities in which the Group’s activities are predominantly conducted;
- consumer relationships which includes advertising, public relations and compliance to consumer protection laws;
- the environment, health and public safety, and the impact of activities and products and services; and
- labour and employment.

## Membership and meeting attendance

The following members served on the Committee during the 2016/17 financial year:

- Mr JA Louw: Independent non-executive director and chairman;
- Mr BR Weyers: Executive director;
- Mr M Bosman: Executive financial director; and
- Mr C Burger: General Manager Human Resources.

The Committee meets at least twice a year. Other attendees include subject-matter experts on each of the areas within the mandate of the Committee. The details of attendance of members during the reporting period are set out below:

Member	4 Aug 2016	16 Feb 2017
JA Louw	●	●
BR Weyers*	●	●
M Bosman	●	●
C Burger	●	●

\*Retired with effect from 30 June 2017

The fees of non-executive members during 2016/2017 are disclosed in the notice of the annual general meeting.

## Key activities in 2017

The Committee received and considered the following reports by management during the period under review:

- the Group’s compliance with the principles of the UN Global Compact Principles and the OECD Guidelines;
- skills and other development programmes aimed at the educational development of employees;
- corporate social investment programmes, including details of charitable giving;
- employment equity plans for the Group;
- labour practices and policies;
- compliance with the Group’s code of conduct and ethics management and performance;
- performance in respect of Black Economic Empowerment as measured against the Department of Trade and Industry’s Amended Broad-Based Black Economic Empowerment scorecard;
- confirmation that the Group adheres to South African legislation aligned to compliance with the International Labour Protocol on decent work and working conditions;
- anti-corruption trends, legislation and information; and
- environmental, health and safety performance.

No substantive non-compliance with legislation and regulations relevant to the areas within the Committee’s mandate has been brought to its attention during the period under review. The Committee also has no reason to believe that any such non-compliance has occurred and is satisfied that it has considered and discharged its responsibilities for the financial year under review in line with its terms of reference, King III and the Companies Act.

**JA Louw**  
Chairman

# Remuneration Report

## Glossary

AGM	annual general meeting
CEO	chief executive officer
ESP	executive share plan
FY	financial year
Group	Shoprite Holdings Ltd and all its subsidiaries
HEPS	headline earnings per share
JSE	Johannesburg Stock Exchange
King IV	the 2016 King IV Report on Corporate Governance
LTI	long-term incentive
LTIB	long-term incentive bonus
MOI	memorandum of incorporation
NED	non-executive director
SENS	Stock Exchange News Service
Shoprite	Shoprite Holdings Ltd
STI	short-term incentive
TGP	total guaranteed pay
VAT	value added tax
VOB	virtual option bonus

## Part 1

### A letter from the chairperson of the remuneration committee

#### Dear Shareholders

I present to you our enhanced remuneration report for the 2017 financial year on behalf of the Remuneration Committee and Shoprite's board of directors ("the Board"). The 2016 King IV Report on Corporate Governance ("King IV") was released on 1 November 2016 and its full effect will be applicable as from our 2018 financial year. We have, however, taken a proactive stance in aligning our remuneration policy and report to King IV to the extent it supports our business strategy. The report is aligned to the amended Johannesburg Stock Exchange ("JSE") Listings Requirements. In addition we have also reviewed the remuneration design and the link to performance. Our forward-looking policy changes are detailed in this report.

#### Context

We are experiencing a technical recession in an unsettled economy with a weakening currency and downgrades by international rating agencies. Consumer spending has noticeably decreased to the detriment of all businesses. However, Shoprite has outperformed the retail industry in terms of growth and shareholder return. One of our key measures of success is trading profit which increased by 11.6%. More

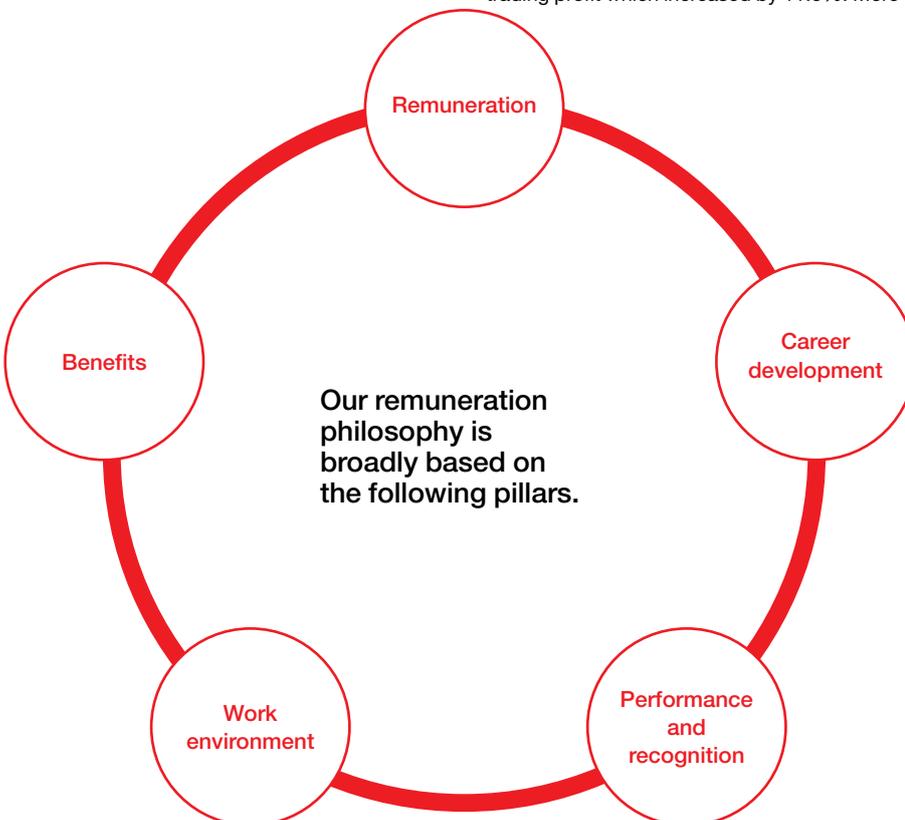
information on our annual financial performance is contained in the Chief Executive Officer's ("CEOs") report on page 30 of the Integrated Report.

The Group continuously strives to make an impact across the social, economic and environmental context through its corporate social investment initiatives, including training for its junior staff. More detail is set out on pages 41 – 55 of the Integrated Report. In realising its long-term strategic objectives, the Group actively aims at increasing its market share which will inevitably result in job creation in South Africa and the greater African continent. The Remuneration Committee is confident that Shoprite's remuneration policy and practices, as approved and set by the Board, are aligned to the Company's overall business strategy and that the remuneration policy achieved its objectives in the 2017 financial year.

Our remuneration philosophy is further detailed in part 2 of this report. The Remuneration Committee made several decisions (in consultation with the wider Board), during the 2017 financial year which are in line with this remuneration philosophy.

#### Activities of the Remuneration Committee

- The 2018 financial year increases in guaranteed pay for executives, management and other employees were approved;
- The NED fees for the forthcoming year were considered and recommended to shareholders for approval at the 2017 AGM;
- The STI on-target bonus pool was approved (in principle) for payment after 2017 year-end (subject to on-target trading profit budget being met);
- The Remuneration Committee reviewed best market practice pertaining to LTI (according to market benchmark quanta) for purposes of making LTI awards going forward;
- For future LTI awards the Remuneration Committee will review the trading profit targets set and achieved for the financial year preceding award date, if targets are met employees will receive long-term awards based on the financial performance ("performance on the way in"), subject to employment conditions and equal vesting over a 3, 4 and 5 year period. All employees eligible for LTI will be governed by the same design principles. However, executive directors of Shoprite and Shoprite Checkers (Pty) Ltd will be awarded the LTI value in Shoprite shares only, whereas other participants can receive either deferred cash or shares;
- The pay mix for the new CEO was determined and approved; and
- The remuneration report for publication in the 2017 Integrated Report was reviewed to address King IV principles on remuneration and the JSE Listings Requirements.



#### Forward-looking actions

The Remuneration Committee is committed to continued improvement and forward-looking remuneration principles which include:

Considerations	Forward-looking change	Rationale
Non-binding advisory shareholder voting process	From the annual general meeting (“AGM”) (30 October 2017) onwards, we will put our remuneration policy (part 2) as well as the implementation report (part 3) contained in the remuneration report to two separate non-binding advisory votes.	Best practice, and alignment with King IV and the JSE Listings Requirements.
Remuneration policy framework	The remuneration policy and framework were reviewed against market best practice and governance principles. King IV principles such as fair and responsible remuneration across the organisation; the positive outcomes of the variable pay performance conditions; and our shareholder engagement mechanisms were reviewed.	Shoprite subscribes to the principles of good corporate governance.
Fair and responsible remuneration	The Remuneration Committee will consider the principle of fair and responsible remuneration as an agenda point for their FY2018 meetings and investigate methods to practically apply the same in the Company.	Best practice and alignment with King IV.
Remuneration structuring of the CEO	In determining the remuneration package for the CEO we considered market benchmarks. Full details of his remuneration arrangement is detailed in this remuneration report.	Shoprite keeps abreast of market benchmarks and is dedicated to the principle of fair and responsible remuneration.
LTI award policy	Shoprite has not been making regular annual LTI awards to senior executives. To simplify the LTI design all participants’ LTI awards will be governed by the same principles (see part 2). The quantum of LTI awards will be based on employees’ role and line of sight and will only be made if trading profit targets were met the preceding year (“performance on the way in”). The vesting period of LTI awards will be 3, 4 and 5 years after award date (with only the first award having a shorter vesting period for critical retention purposes).	In a volatile retail environment setting 3 or 5 year prospective performance conditions is challenging. Therefore, Shoprite will test performance “on the way in” for LTI awards and will set longer vesting periods (up to 5 years) to align LTI participants’ interests with shareholders’.

# Remuneration Report (continued)

## Announcements

We bid farewell to Dr JW Basson who retired as CEO at the end of December 2016, but remains in the employment of the Group until 30 September 2017. He had a remarkable career of 39 years with the Group and we will remain thankful for the immeasurable contributions he made and his leadership of the Group throughout. He played an integral part in growing the business from a small eight-store chain with a value of R1 million to a globally respected retailer with a market capitalisation of more than R98 billion, currently employing over 140 000 employees.

Dr Basson is an indirect shareholder through Bassgro Proprietary Limited ("Bassgro"). In terms of a contractual agreement with Shoprite, Dr Basson has a put option for all Shoprite shares directly or indirectly held by him whilst still in the employment of Shoprite. This put option was exercised by him on 2 May 2017. The shareholder circular published on 7 August 2017 contains the detailed information (and fairness opinion) regarding such put option and the repurchase of shares. Shareholders are required to approve this transaction at the General Meeting on 5 September 2017. Further information is disclosed in the 2017 annual financial statements.

We welcome PC Engelbrecht as the new CEO of the Group, from 1 January 2017. He formerly acted as the chief operating officer and alternate director of the Group. He has been with Shoprite for 20 years and we are confident that Shoprite will reach new heights under his leadership. His executive service contract and remuneration arrangements differ from that of the previous CEO, as further explained in this remuneration report.

We also said goodbye to Mr BR Weyers and Mr AE Karp. Mr BR Weyers retired as director with effect from 30 June 2017. Mr AE Karp retired as director and terminated employment for medical reasons with effect from 1 February 2017. We thank them both for their valued contribution to the Group during their respective tenures.

Mr CG Goosen was appointed as a non-executive director with effect from 21 August 2017 and retires at the AGM on 30 October 2017 (in line with the Group's MOI), but has offered himself for re-election.

## Shareholder engagement and voting

At the AGM held on 31 October 2016, our remuneration policy received a vote of 70.29% in its favour. We engaged with shareholders and took note of their comments and/or concerns. The outcomes are set out in the table below.

## Shareholder feedback

The guaranteed remuneration of the previous CEO is above market and has no element of variable remuneration (linked to company financial performance).

Although no long-term incentive awards have been made for the past 3 years, the long-term incentive awards which were made historically did not have financial performance conditions attached for vesting (continued employment only).

## Response from the Remuneration Committee

The total remuneration design of the current CEO was informed by a market analysis and contains a considerable emphasis on variable remuneration linked to financial performance.

LTI awards will be made based on the achievement of financial performance targets set (based on trading profit) for the financial year preceding award date. Therefore, performance is tested on the "way in" and the vesting periods of awards thereafter (up to 5 years) provide natural alignment between management and shareholders.

In accordance with King IV and the amendments to the JSE Listings Requirements, we will put our remuneration policy and our implementation report to shareholders for two separate non-binding advisory votes at the 2017 AGM to be held on 30 October 2017. We look forward to engaging with you and receiving your support on the remuneration policy and the implementation report at the AGM.

**JA Louw**

Chairperson of the Remuneration Committee

## Part 2 The remuneration policy

### Remuneration governance

In line with King IV, the Remuneration Committee is appointed by the Board and has delegated authority, in accordance with its terms of reference. The terms of reference are reviewed by the Board annually and no material changes were made during the reporting period.

The Remuneration Committee is established to consider Shoprite's remuneration policy and the implementation thereof (where appropriate in consultation with the Board).

In line with best practice, the majority of the Remuneration Committee members are independent NEDs. The Remuneration Committee members for the year under review, including their status and meeting attendances, are listed below:

Member	Designation/Status	20 February 2017	19 June 2017
JA Louw	Chairperson/Independent NED	●	●
EC Kieswetter	Member/Independent NED	●	●
CH Wiese	Member/NED	●	●

The Remuneration Committee met twice during the 2017 financial year. The following persons in addition to the Remuneration Committee members were invited to attend and give input at meetings in the FY2017:

- the Company Secretary;
- the Head of Human Resources; and
- the CEO.

Invitees to the Remuneration Committee meetings are not present and do not vote when their own remuneration is discussed and considered. Similarly, the Remuneration Committee members do not decide on their own remuneration.

The responsibilities of the Remuneration Committee include, but are not limited to:

1. Assisting the Board in establishing a remuneration policy for executive directors and management that will promote the achievement of the Group's strategic objectives and encourage individual performance;
2. Ensuring that the components of remuneration meet the Group's needs and strategic objectives;
3. Reviewing the components of remuneration to ensure continued contribution to shareholder value;
4. Determining any on-target and stretch performance criteria necessary to measure the performance of executive directors in discharging their functions and responsibilities;
5. Reviewing and recommending to the Board the relevant criteria necessary to measure the performance of executives, which plays a pivotal role in determining their remuneration;

6. Considering recommendations from management (based on external benchmarks and independent NED fees surveys) on the remuneration of the chairman and NEDs, whose remuneration is subject to shareholder approval;
7. Reviewing the outcomes of the remuneration policy post-implementation to determine if the objectives were achieved;
8. Reviewing and approving the remuneration policy as contained in the Remuneration Report, which in turn forms part of the Group's Integrated Report;
9. Overseeing the preparation of the Remuneration Report (as contained in the Group's Integrated Report) to ensure that it is clear, concise and transparent;
10. Ensuring that the Remuneration Report (or specific parts thereof) is put to non-binding advisory vote/s by shareholders and engaging with shareholders and other stakeholders on the Group's remuneration philosophy;
11. Ensuring that consideration is given to executive succession planning in the Group; and
12. Ensuring compliance with applicable laws and codes applicable to executive remuneration.

In doing its duty, the Remuneration Committee may appoint independent advisors in order to gain insight into market practice, and for assistance with matters and decisions relating to remuneration.

# Remuneration Report (continued)

## Remuneration policy and philosophy

The remuneration policy is aligned to Shoprite's approach of rewarding employees and management fairly and competitively, structuring remuneration packages in a manner commensurate with each employee's capabilities, skills, responsibilities and level of performance. The following non-exhaustive principles apply:

- Awarding remuneration that is fair and just on an organisation-wide basis (for general staff as well as for management);
- Retaining the services of key talent and critical skills necessary to realise the Group's strategic objectives over the long term;
- Attracting the key talent and skills required by the Group;
- Ensuring that remuneration structures are consistent with the Group's long-term value creation for shareholders;
- Remuneration that is sustainable in the long term and does not encourage excessive risk taking by key decision makers;
- Key performance areas for executives which support an integrated approach, taking into account financial metrics, sustainability, risk management, governance and other strategic objectives; and
- Recognising and encouraging exceptional performance, both on an individual level as well as on a Group level.

Shoprite aims to provide a level of remuneration that will attract, develop, retain and motivate its employees (from general staff level to executive level) to live the Company's values and execute its strategy in a highly competitive retail environment. In keeping with a global and competitive retail industry, particularly at executive level, Shoprite's remuneration policy encourages sustainable performance, employee motivation and retention.

The executive remuneration policy is underpinned by the principle of creating and sustaining a strong link between reward and performance, placing a significant portion of the remuneration "at risk" measured at Group and operational/business unit level. The "at risk" or variable pay include STI and LTI which align the interests of executives and shareholders.

At the general staff and junior employee levels, the Remuneration Committee aims to encourage the right behaviours and satisfy the different needs of employees at these levels.

The Remuneration Committee is guided by the following parameters:

- Internal equity;
- External competitiveness;
- Annual remuneration adjustments;
- Affordability;
- Reward for performance;
- Benefits;
- Reward for skills;
- Making employees aware of the Group employee value proposition (EVP) which contains monetary and non-monetary aspects;
- Free from discriminatory practices; and
- Sound reward management governance.

## Benchmarking and position in the market

Executive positions are periodically evaluated. TGP (which includes guaranteed pay and benefits) in the Group is generally positioned at the market median, however may exceed the market median in the case of exceptional and/or critical/scarcé skills.

The Group believes that its remuneration policy plays an essential role in realising its business strategy; therefore, remuneration levels should be highly competitive in the challenging markets in which the Group operates.

## The remuneration arrangement of the CEO

### The previous CEO, Dr JW Basson

The previous CEO's remuneration arrangement was governed by an employment agreement entered into with the Board during 2003 (as reported in prior remuneration reports).

Dr Basson gave notice of his retirement on 30 September 2016, and stepped down as CEO with effect from 31 December 2016. He has an agreed notice period with Shoprite of 12 months and will therefore receive his guaranteed remuneration until 30 September 2017.

From 1 January 2017, Pieter Engelbrecht assumed the role of CEO and accepted all the day-to-day responsibilities associated with this role.

### The current CEO, PC Engelbrecht

The new CEO's remuneration design differs from that of the previous CEO. In determining the CEO remuneration design market benchmarks of similar sized retail companies were taken into account to set total guaranteed pay ("TGP").

The variable components of the CEO's remuneration package are as follows:

- **STI:** A cash bonus of up to a third of his annual TGP for on-target performance, with an appropriate bonus cap in the event of out-performance (limited to 40% of his annual TGP).
- **LTI:** Annual award of shares in terms of the VOB (100% of his TGP) based on whether performance targets set for the preceding financial year were achieved.

Further detail regarding the CEO's remuneration components are contained in the implementation report (part 3).

## Remuneration framework

The different components of remuneration, their objectives and their link to the business strategy are summarised in the table below.

Component	Nature	Objective	Link to business strategy	Policy
TGP	Fixed	TGP must reflect scope and nature of role, job content, performance and experience; and include basic employee benefits.	TGP ensures competitiveness and rewards individuals fairly based on similar positions in the market. Benefits recognise employees' need for a holistic TGP package which includes retirement benefits and insured benefits.	TGP generally positioned at the median; exceptions are made where necessary to retain key and critical skills.  The Group contributes between 7.5% – 15% towards retirement benefits.  TGP includes risk and insurance benefits.
STI	Variable cash	Rewards and motivates the achievement of Group and operational performance over a 12 month period.	Rewards employees for contributing to growth in sustainable short term trading profit.	Depends on trading profit. Bonus pool accrual is capped at 150%. If actual profit falls below 70% of Group trading profit target, a modest bonus may be paid.
Long term VOB (previously reported as VOP) and LTIB (previously reported as DBP)	Deferred cash or equity	Both plans have the same design principles/policy.  VOB: Incentive and retention plan for the longer term. Where predetermined targets (for the preceding year) are achieved employees receive a % of TGP either in deferred cash or shares (most senior employees).  LTIB: Retention plan whereby a % of STI is matched by Shoprite either in deferred cash or shares.	Increased shareholder value through trading profit metric which needs to be achieved.  Longer term retention of all levels of management employees to deliver the Shoprite business strategy.	In both instances trading profit targets need to be achieved to warrant participation. For the VOB a % of TGP is awarded and for the LTIB a % of STI is awarded as a long-term bonus. Both VOB and LTIB are deferred either in cash or in shares.  For the most senior employees only deferral in shares is used.  VOB and LTIB benefits vest in equal tranches in years 3, 4 and 5 after award date with "performance measured on the way in" and subject to continued employment for vesting.  As Shoprite has not been making regular annual awards of share instruments to its most senior employees, only the September 2017 VOB award for such senior employees will vest in years 1, 2 and 3 after award date (equal tranches). All awards thereafter will be subject to the normal policy on vesting.  All shares awarded in terms of the VOB and LTIB are purchased in the market for delivery and does not result in shareholders dilution.
Long term ESP (not currently being used)	Equity	Provides for a number of share instruments which can be awarded to employees in terms of a shareholder approved plan. This includes performance shares, co-investment shares and retention shares.	Direct shareholding by management to create alignment with shareholders.  This alignment is created through the shares awarded to senior management in terms of the VOB detailed in this table.	Performance shares require the meeting of prospective performance conditions for vesting. Co-investment shares require a direct investment by employees to qualify for matching co-investment shares. Both of these also require continued employment for vesting, whereas retention/restricted shares only require continued employment as a vesting condition.

# Remuneration Report (continued)

## Changes during the 2017 financial year

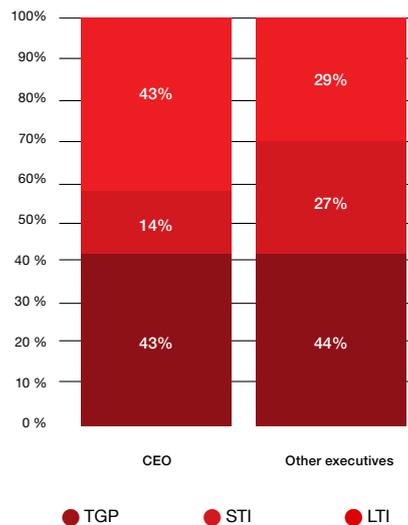
See detail in this regard as reported in part 1 relating to the Group's forward-looking remuneration changes. The key elements being:

1. A uniform approach across the Group to incentivise and motivate employees in the long term (3 – 5 years). To achieve uniform treatment we collapsed the VOB and LTIB principles into one long-term incentive approach. The ESP is currently not being used and the most senior employees (including the CEO) will be receiving long-term awards in terms of the VOB (in the form of shares). Participation in the VOB and the LTIB is based on trading profit targets being achieved and the vesting periods and settlement mechanisms are the same for both plans. Going forward, annual awards of long-term incentives will be made (subject to the meeting of trading profit targets); and
2. Alignment of the CEO's total remuneration design to market benchmarks.

## Pay mix

The Remuneration Committee has considered, as a forward-looking policy, the pay mix of the CEO and other executives as would be applicable for the 2018 financial year. The illustration indicates that a greater weighting is placed on variable pay, and more specifically LTIs.

## Forward-looking policy pay mix (on target)



## Guaranteed pay and benefits

Shoprite offers its employees a TGP structure as summarised in the remuneration framework of this report.

## Annual reviews and increases

Annual increases are awarded based on employees' TGP value. Annual increases in the TGP are determined with reference to:

- the scope and nature of an employee's role;
- market benchmarks;
- personal performance and competence;
- affordability;
- company performance and specifically sales growth; and
- actual and projected CPI figures.

Proposed increases to TGP are reviewed by the CEO of the Group and his recommendations are included in a formal proposal to the Remuneration Committee for approval. The average annual increase in TGP levels for executives is reviewed and approved by the Remuneration Committee in terms of their mandate.

Collective bargaining agreements typically exclude performance based increases and uniform increases are normally granted which are based on the specific agreements reached between the Group and the bargaining units for predetermined periods of time.

## Variable pay

Variable pay refers to STI and LTI, which are linked to Company and/or individual performance, and support the achievement of Shoprite's strategic objectives.

## STI

The annual STI is designed to recognise the achievement of a combination of Group and operational/business unit objectives. Executives and management participate in the STI which operates over a 12 month period (i.e. financial year). This is a self-funding scheme as the bonus pool is determined based on a trading profit target. The value of the on-target bonus earning potential (i.e. bonus pool) for the plan is included in the annual budget and is provided for in the financial statements.

The quantum of the bonus pool is determined at Group level, but is moderated by the financial performance of each operational/business unit within the Group. Therefore, on Group level, where between 70% and 100% of trading profit target is achieved and the operational/business unit achieves the same or a larger percentage of its trading profit budget, the operational/business units' bonus pool will be the actual percentage of trading profit budget achieved. However, where the operational/business unit performance does not match or exceed Group performance, participants may earn a portion of their on-target bonus based on the bespoke performance criteria applicable to each

operational/business unit, pre-determined at the beginning of the financial year. This ensures that each participant is measured against his specific area of responsibility.

Various weightings are also included in the criteria to encourage participants to maximise their role and functionality, and the criteria may include:

- market share growth;
- sales;
- controllable expenses;
- debtors' management;
- shrinkage;
- strategic transformation targets (B-BBEE);
- cost savings; and
- stock days, etc.

Due to the diversified nature of the Group, 19 operational/business units exist. Employees from all of these operational/business units participate in the STI plan. Employees falling under branch management have a choice to receive their bonus on a quarterly basis, in which case the bespoke performance criteria are measured against the quarterly results. If the employee elects to receive the bonus at the end of the fourth quarter, the results over all four quarters are considered. In the event that an annual bonus would exceed the sum of the four quarterly bonuses, the annual bonus will be paid to the employee, and vice versa.

No incentive bonus will be payable if none of the bespoke performance criteria are met. The plan also makes provision for stretch targets above the trading profit target. Where more than 70% of target is achieved on a Group level and this performance is matched or exceeded on an operational/business unit level, participants can earn up to 150% of their on-target incentive. However, where the current year trading profit does not exceed the previous year trading profit, the bonus pool is limited to 100% of the trading profit target. The annual bonus pool is therefore capped at 150% of trading profit target in instances of financial outperformance.

Executive directors who have line of sight in terms of operational/business units have exposure to both Group performance and operational/business unit performance in the determination of their bonuses. Executive directors with line of sight to Group performance (like the Financial Director, CEO, Marketing Director and the Deputy Managing Director) will have exposure to Group performance in the determination of their bonuses.

### On-target earning potential for STI

STIs are based on a percentage of an employee's TGP. The on-target and stretch earning potentials of the CEO, CFO and other executives as a percentage of guaranteed remuneration are set out in the table below.

Position	On-target (as a % of TGP)	Stretch (as a % of TGP)
CEO	33.3%	40.0%
CFO	62.8%	94.2%
Executives (on average)	61.8%	92.8%

The CEO has a modest STI earning potential as part of his pay mix (see "Pay mix" above), however the Shoprite policy is to place greater emphasis on LTI through annual VOB awards, creating long term alignment with shareholders.

### LTI

#### Performance alignment

Trading profit is the key metric of success which Shoprite measures itself against. In a volatile retail environment setting 3 to 5 year prospective performance conditions is challenging. Therefore, Shoprite will test performance "on the way in" for all LTI awards based on prior financial year trading profit achieved against budget set.

Currently LTIs are offered through participation in VOB and LTIB. The salient features are summarised below (read in conjunction with the "remuneration framework" above).

### VOB

The VOB is aimed at providing employees with an incentive to advance the interests of the Group over the long term. The strategic intent of the plan includes the retention of key employees, providing employees with an opportunity to earn variable remuneration, based on performance, and to create alignment with shareholders' interests.

In terms of this plan, an incentive amount is allocated to participants based on their TGP. Shoprite will test performance "on the way in" based on the prior financial year's trading profit achieved against budget set.

The award levels is informed by market benchmarks and vary from 100% of TGP (CEO) to 70%, 50%, 35% and 25% of TGP depending on the employment level.

VOB benefits can be delivered in terms of deferred cash or restricted shares. The most senior employees only receive restricted shares to ensure they are invested in equity. VOB benefits vest 3, 4 and 5 years after award date (equal tranches).

As a once-off arrangement for retention purposes (as Shoprite has not been making annual LTI awards to its most senior employees) the September 2017 award of VOB for certain critical talent will vest in years 1, 2 and 3 after award date.

### LTIB

The LTIB design principles are the same as the VOB, the only difference being that the benefit amount per employee is determined based on a % of STI earned for the preceding year. Both plans are subject to trading profit targets being achieved and have the same vesting periods and settlement mechanisms.

### Manner of settlement for VOB and LTIB

Employees may receive settlement of their unvested VOB and LTIB benefits in restricted shares where it is practical and allowed in terms of the local legislation of the employees' country of employment. Such shares are bought in the market (outside of the ESP rules) and therefore does not result in any dilution for shareholders.

The settlement of the VOB and LTIB benefits in restricted shares provides employees with an opportunity to own Shoprite shares which fosters a culture of ownership and alignment with shareholders. It further entitles employees to the dividend and voting rights on the restricted shares for the duration of the vesting period. Restricted shares will be forfeited should the employee terminate employment prior to the vesting dates (except for certain "good leaver" provisions).

In the event that employees elect not to settle their VOB and LTIB benefits in restricted shares, their benefits will be paid in cash on the vesting date or payment date as defined by the policy document of these plans.

### ESP

This plan is approved by shareholders, but is currently not being used. This is as Shoprite has adopted a uniform approach for all employees in relation to LTI through the VOB and LTIB.

### Design

Three types of shares can be awarded in future. For detail in this regard refer to the "remuneration framework" earlier in this report.

### ESP vesting during the year under review

The 2014 ESP award vested on 15 June 2017. Detail regarding vesting of executive directors' ESP shares is disclosed in the implementation report (part 3 of this remuneration report). This vesting included co-investment as well as retention shares.

### Maturity of convertible bonds

Certain executive directors invested in Shoprite Investments Ltd convertible bonds (linked to the matching co-investment shares). These convertible bonds matured (for all holders thereof) in April 2017 and converted into Shoprite ordinary shares.

### Interest bearing loans

Shoprite Investments Ltd granted or extended interest bearing loans to certain executives.

### Dilution limit

In terms of the ESP rules an overall limit of approximately 3% (three percent) of the issued shares of Shoprite has been imposed when shares are allocated and issued in terms of the plan. An individual limit of approximately 0.5% (half a percent) has been imposed. If shares are purchased in the open market for settlement of allocations in terms of the ESP (or any other LTI), the limits will not be impacted.

Shoprite takes care not to destroy shareholder value by unnecessarily issuing shares to settle LTI awards.

There was no fresh issue of shares, and no LTIs were awarded, in the 2015, 2016 and 2017 financial years.

The settlement of the VOB and LTIB (where shares are settled) will be in terms of a market purchase of shares.

### Executive director service contracts

Executive directors and executives of the Group do not have bespoke executive contracts, but are employed in terms of the Group's standard contract of employment. The notice period for termination of service is one calendar month, except for the CEO who has a notice period for termination of service of six months. Normal retirement age ranges between 60 and 65 years, unless the executive is requested by the Board to extend this term.

# Remuneration Report (continued)

Executive directors and executives do not have any contractual arrangements or benefits associated with the termination of their employment that would entitle them to “golden handshakes”, large once-off severance payments or paid restraints of trade.

No executive directors or executives of the Group have any contractual agreement with Shoprite in relation to vested shares such as put options or other buy-back arrangements.

Certain executives are subject to a restraint of trade for two years after the 2017 ESP vesting date as they were recognised as instrumental in carrying out the Group’s business strategy. However, these restraint of trade agreements are not paid restraints, but contractual restraints.

Messrs E Nel and B Harisunker are employed by the Group by way of term contracts up to 30 June 2018 and 31 December 2017 respectively.

## Non-executive directors

### Independent non-executive directors

Independent NEDs do not have any employment contracts and do not receive any benefits associated with permanent employment. The Board, on recommendation by management, has decided that independent NEDs should not be remunerated by means of a base fee and attendance fee in respect of their Board and committee obligations. This is as NEDs are required to prepare for all meetings and feedback and inputs are required by the Board, even though the meeting may not actually be attended by the NED. The fee structure is therefore calculated on a retainer basis, which is also more comparable for benchmarking in the market against other companies’ NED fees and is supported by King IV principles.

The fee structure is reviewed annually and benchmarks for NED fees for companies of similar size and comparable industries are considered when setting the proposed NED fees for the following financial year.

Prior to payment, the fee structure is subject to approval by shareholders at the Group’s AGM. Therefore, all NED fees are only paid after the AGM for the preceding 12 (twelve) months.

Travelling and accommodation expenses actually incurred by directors to attend meetings are paid by the Group.

### Non-independent non-executive directors

Shoprite has three non-independent NEDs namely:

- Dr CH Wiese, whose fees are paid by the Group to Chaircorp (Pty) Ltd, a management company of which Dr Wiese is an employee; and
- Dr JW Basson was appointed as non-executive vice-chairman with effect from 1 January 2017.
- Mr CG Goosen was appointed as a non-executive director with effect from 21 August 2017 and retires at the 2017 AGM (in line with the Group’s MOI), but has offered himself for re-election at the 2017 AGM.

### Non-executive directors

The table below sets out the proposed fees (excluding VAT) payable to NEDs from 1 November 2016 to 30 October 2017. These fees will be tabled to shareholders for approval by a special resolution at the 2017 AGM in line with the Companies Act, No 71 of 2008. NED fees will only be paid after the 2017 AGM.

	2017	2016	Increase %
<b>The Board</b>			
Chairperson	R397 000	R367 500	8.0%
Lead independent director	R245 000	R227 000	7.9%
NED	R234 000	R216 000	8.3%
<b>The audit and risk committee</b>			
Chairperson	R279 000	R258 000	8.1%
Member	R141 000	R130 000	8.5%
<b>The remuneration committee</b>			
Chairperson	R72 500	R67 000	8.2%
Member	R43 500	R40 500	7.4%
<b>The nomination committee</b>			
Chairperson	R72 500	R67 000	8.2%
Member	R43 500	R40 500	7.4%
<b>The social and ethics committee</b>			
Chairperson	R94 500	R87 500	8.0%

### Shareholder engagement and voting procedures

In line with best practice, King IV and the JSE Listings Requirements, Shoprite will table its remuneration policy together with the implementation report for two separate non-binding advisory votes by shareholders from the 2017 AGM onwards. In the event of 25% or more of the shareholders voting against either or both the remuneration policy and implementation report, the Remuneration Committee will take the necessary steps to engage with shareholders so as to ascertain the reasons for their dissenting votes and address their legitimate concerns. The Remuneration Committee will:

- Extend an invitation to dissenting shareholders in the Stock Exchange News Service (“SENS”) announcement with the results of the AGM, for them to engage with the Remuneration Committee regarding their reasons for voting against the relevant resolution; and

- The invitation will reveal the manner and timing of engagement, which may include (but is not limited to) communication via email, telephone calls, meetings and roadshows.

The Remuneration Committee will ascertain the reasons for dissenting votes, respond and provide constructive feedback to shareholders’ questions, queries and legitimate concerns. After consideration of the results of shareholder engagement, the Remuneration Committee reserves the right to amend components of the remuneration policy to further align it to market practice and/or shareholder value creation.

### Part 3

#### The implementation report of the remuneration policy

The implementation report contains the detailed information and figures pertaining to the application of the remuneration policy in relation to the relevant prescribed officers. Shoprite views its executive and alternate directors as prescribed officers as defined in terms of the Companies Act.

The Remuneration Committee and the Board is satisfied with the application and implementation of the remuneration policy during the 2017 financial year and believe that the disclosure in this implementation report reflects Shoprite's commitment towards enhanced reporting.

#### Company performance versus average growth in executive remuneration

In the table below, company performance measures are compared against the average TGP increase percentages for executives over the past three years. The financial performance for the 2017 financial year is contextualised in the CEO's report on page 30 of the Integrated Report.

	2017	2016	2015
Average increase in executive guaranteed pay levels	+7.9%	+7.0%	+7.2%
Growth in basic headline earnings per share	+13.1%	+17.0%	+10.8%
Trading profit	+11.6%	+15.0%	+10.7%
Turnover	+8.4%	+14.4%	+11.2%
Dividend per share	+11.5%	+17.1%	+10.3%
Earnings before interest, tax, depreciation and amortisation	+6.8%	+16.2%	+8.9%

In keeping with the principle of fair and responsible remuneration, Shoprite has carefully considered the increases applicable across the organisation prior to its approval. During the 2017 financial year, Shoprite approved an overall guaranteed pay increase for all employees in line with the CPI of the various territories in which the Group operates.

#### STI outcomes

The table below sets out the STI of prescribed officers in the 2017 financial year (based on the achievement of the performance conditions, i.e. trading profit).

Executive/Alternate Directors	FY2017 actual STI (expressed as R'000)	Actual 2017 STI (as % of guaranteed package)	On-target STI earning potential (as % of guaranteed package)	Maximum STI earning potential (as % of guaranteed package)	Margin by which the Group's performance exceeded the targeted trading profit
PC Engelbrecht	4 324				11.6% actual trading profit growth versus trading profit growth target of 10.1%
M Bosman	2 216	72%	66%	94%	
B Harisunker	1 572	47%	51%	76%	
EL Nel	2 185	63%	59%	88%	
JAL Basson	2 360	95%	70%	105%	
CG Goosen	293				
AE Karp	933				

**Note:** PC Engelbrecht's actual (as % of TGP) versus his on-target STI (as % of TGP) are not reflected in the table above as he received a pro-rated STI payment for his performance in his previous position as chief operating officer and a pro-rated STI payment for his performance as CEO. Similarly, for CG Goosen and AE Karp who had flexible work arrangements or retired from employment part-way through the 2017 financial year, this information is not shown.

# Remuneration Report (continued)

## Dilution of share capital

In 2014, 0.4% (zero point four percent) of the total issued share capital comprised a fresh issue in terms of the ESP for awards to executives (made in the 2014 financial year). This fresh issue comprised 2,292,500 shares of the 15,000,000 shares approved by shareholders as overall limit for the ESP. No further fresh issue of shares were made since.

## Remuneration paid to executive and alternate directors

The table below reflects the comparison of remuneration paid (expressed as R'000) to executive and alternate directors in the 2016 and 2017 financial years respectively.

Executive/Alternate Directors	Remuneration	Benefits	STI	LTI**	Other	Total	
2017	PC Engelbrecht <sup>1</sup>	9 713	685	4 324	16 006	527	31 255
	CG Goosen	206	194	293	—	803	1 496
	M Bosman <sup>2</sup>	2 601	487	2 216	10 004	259	15 567
	B Harisunker	3 339	—	1 572	—	2 418	7 329
	EL Nel <sup>***</sup>	3 452	—	2 185	—	301	5 938
	JW Basson*	49 656	64	—	—	394	50 114
	JAL Basson <sup>3</sup>	2 189	300	2 360	8 003	332	13 184
	AE Karp <sup>4</sup>	1 178	275	933	12 004	79	14 469
	BR Weyers	—	—	—	—	162	162
	<b>Total</b>	<b>72 334</b>	<b>2 005</b>	<b>13 883</b>	<b>46 017</b>	<b>5 275</b>	<b>139 514</b>
2016	PC Engelbrecht	4 096	755	2 997	—	274	8 122
	CG Goosen	1 142	213	602	—	28	1 985
	M Bosman	2 354	539	2 063	—	195	5 151
	B Harisunker	3 199	—	1 617	—	363	5 179
	EL Nel	3 249	—	2 134	—	299	5 682
	JW Basson	49 656	58	50 000	—	386	100 100
	JAL Basson	1 878	321	1 394	—	200	3 793
	AE Karp	4 101	857	1 444	—	227	6 629
	BR Weyers	656	—	383	—	—	1 039
	<b>Total</b>	<b>70 331</b>	<b>2 743</b>	<b>62 634</b>	<b>—</b>	<b>1 972</b>	<b>137 680</b>

<sup>1</sup> Based on 80 000 LTI instruments which vested

<sup>2</sup> Based on 50 000 LTI instruments which vested

<sup>3</sup> Based on 40 000 LTI instruments which vested

<sup>4</sup> Based on 60 000 LTI instruments which vested

\* Dr Basson gave notice of his retirement on 30 September 2016 and has an agreed notice period with the Group of 12 months. He therefore receives guaranteed pay until 30 September 2017.

\*\* The vesting of LTIs awarded in terms of the ESP rules (co-investment and restricted shares) occurred on 15 June 2017 at VWAP of R200.07 per share.

\*\*\* Mr Nel was awarded a once-off retention cash amount of R11 million with effect from 1 July 2017 with a vesting date of 30 June 2018. Vesting is subject to continued employment and will only vest if he is in employment of the Group at vesting date.

## NED fees

The table below sets out the NED fees (approved at the 2016 AGM by shareholders) for the 12 month period from 1 November 2015 – 31 October 2016 and paid after the 2016 AGM.

Role	2016
<b>The Board</b>	
Chairperson	R367 500
Lead independent director	R227 000
NED	R216 000
<b>The audit and risk committee</b>	
Chairperson	R258 000
Member	R130 000
<b>The remuneration committee</b>	
Chairperson	R67 000
Member	R40 500
<b>The nomination committee</b>	
Chairperson	R67 000
Member	R40 500
<b>The social and ethics committee</b>	
Chairperson	R87 500

## Non-binding shareholder voting

The table below provides an historic view of the shareholders positive voting pattern of the last three AGMs held in years 2014, 2015 and 2016.

Remuneration policy	% For	% Against	% Abstained
31 October 2016	70.29	29.71	—
19 October 2015	71.09	28.91	—
27 October 2014	68.89	31.11	—