Corporate governance report

Shoprite Holdings and its subsidiaries ("the Group") are committed to high standards of governance, ethics and integrity.

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 King IV™ Report on Governance for South Africa 2016 ("King IV™") advocates an outcomes based approach, and defines corporate governance as the exercise of ethical and effective leadership towards the achievement of:

- effective control;
- good performance;
- ethical culture; and
- legitimacy.

The application of King IV™ is on an apply and explain basis. The practices underpinning the principles in King IV™ are entrenched in the majority of the Group's internal controls, policies and procedures governing corporate conduct. The Board is satisfied that in the main, the Group has applied the principles set out in King IV™. A full King IV™ narrative schedule can be found on our website at 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 has executive and non-executive directors (including non-independent non-executive directors) who represent a broad spectrum of demographic attributes and characteristics. 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. The Board has also adopted a diversity policy that takes into consideration various categories of diversity. Since race and gender are important attributes that contribute to a balanced composition, the Board recognises the need to improve the representation of women and previously disadvantaged individuals on the Board to ensure an appropriate mix of races is represented.

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 pages 28 and 29 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.

Combined Assurance which is closely aligned with King IV™ and assurance activities across all lines of assurance as follows:

- **1st line of assurance:** Line Management;
- **2nd line of assurance:** Legal, Risk and Compliance (independent);
- **3rd line of assurance:** Internal Audit (independent);
- **4th line of assurance:** External Auditors (independent) as well as other External Assurance Providers and Regulators.

Board Responsibilities

The detailed responsibilities of the Board are set out in a formal terms of reference which forms the basis of their responsibilities and duties. This charter sets out the powers of the Board and provides a clear division of responsibilities and the accountability of board members, both collectively and individually and was reviewed and amended during the reporting period to be aligned with King IV™.

The general powers of the directors are set out in the 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. Special meetings are convened when necessary. One special Board meeting was convened during the year. The attendance of directors at Board meetings during the reporting period are recorded on the next page.

Corporate governance report (continued)

Attendance at Board Meetings

Non-Executive Directors	21 August 2017	30 October 2017	26 February 2018	28 May 2018	(Special) 22 June 2018
CH Wiese	✓	✓	✓	✓	✓
JW Basson*	✓	N/A	N/A	N/A	N/A
JF Basson	✓	✓	✓	✓	✗
JJ Fouché	✓	✓	✓	✓	✓
CG Goosen	✓	✓	✓	✓	✓
EC Kieswetter	✓	✓	✓	✓	✓
JA Louw	✓	✓	✓	✓	✗
ATM Mokgokong	✓	✓	✓	✓	✗
JA Rock	✓	✓	✗	✓	✓
Executive Directors					
PC Engelbrecht	✓	✓	✓	✓	✓
M Bosman**	✓	✓	✓	✓	✓
A De Bruyn+	N/A	N/A	N/A	N/A	N/A
B Harisunker	✓	✓	✓	✓	✓
EL Nel++	✓	✓	✓	✓	✓

* Resigned with effect from 25 October 2017
** Retired with effect from 2 July 2018
\+ Appointed with effect from 2 July 2018
\++ Retired with effect from 29 June 2018

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, focussed 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 enhance 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 eight (8) non-executive directors of which six (6) are independent as defined in the King IV™ Code. Dr CH Wiese is not independent in view of his material shareholding in Shoprite Holdings and Mr CG Goosen due to his employment with the Group within the last three years.

The Board considers that a diversity of skills, backgrounds, knowledge, experience and gender is required to effectively govern the Group. 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 full particulars of the directors of Shoprite Holdings are set out on pages 28 to 29 of this report.

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 Nominations 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 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 and sub-committee terms of references 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 as required by section 75 of the Companies Act. 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 2018. 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 the 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 2017/2018 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
- 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 Board.

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.

Directors engage with the company secretary regularly for governance and regulatory advice. All directors have unlimited access to the advice and services of the company secretary. 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 transfer secretaries and sponsors on relevant matters. As required by King IV™, the company secretary also acts as secretary to the various committees of the Board and attends all meetings.

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. Additional closed periods are enforced should Shoprite Holdings be subject to any corporate activity requiring a cautionary announcement. 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 in securities 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.

Corporate governance report (continued)

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 pages 51 to 55. 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 30 October 2017, the appointment of PricewaterhouseCoopers Inc. as the external auditors of the Group until the 2018 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 Board accepts collective responsibility for defining how ethics and ethical behaviour should be implemented in the Group and is committed to achieving high standards of ethical behaviour.

All employees are expected to comply with the Group's code of ethics at all times. 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. New employees 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 2018 financial year a total of 129 incidents of suspected unethical behaviour within the Group were reported of which 18 resulted in disciplinary action, dismissals, resignations and/or criminal charges being laid against such employees.

No material breaches of the Group's code of conduct were reported during the 2017/18 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 IV™.

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 resorts 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 focussed 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 utilises 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 Capital, as stipulated in the JSE Listings Requirements. It is the opinion of Shoprite Holdings that Nedbank Capital 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 1 July 2018.

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.

Audit and Risk Committee report

Introduction

The Audit and Risk Committee ("the Audit Committee") is established as an independent statutory committee in terms of section 94(2) of the Companies Act 71 of 2008, as amended ("the Companies Act") and oversees audit and risk matters for all of the South African subsidiaries of Shoprite Holdings, as permitted by section 94(2)(a) of the Companies Act.

The Audit Committee's terms of reference is formalised in a charter informed by the Companies Act and King IV™ which have been approved by the Board. The charter is reviewed on an annual basis.

During the period under review, the Audit Committee conducted its affairs in accordance with the charter and has discharged its responsibilities as required.

Audit Committee members, meeting attendance and assessment

Membership

The Audit Committee consists of four (4) independent non-executive directors elected by the shareholders of Shoprite Holdings on recommendation by the Board and is chaired by Mr JF Basson who is a chartered accountant. All the Audit Committee members are suitably skilled and experienced.

Audit Committee membership is restricted to independent non-executive directors. The financial director, internal and external auditors attended the Audit Committee meetings by invitation whilst the company secretary acted as secretary to the Audit Committee meetings. Other members of senior management responsible for finance and risk and information and technology also attended as required.

Meetings

Audit Committee meetings are held at least four (4) times a year as required by the charter. During the period under review, the Committee met five (5) times. In addition, a special Audit Committee meeting was held on 17 August 2018 to approve the 2017/18 annual financial statements of the Company.

The attendance of the Committee members is recorded below:

Committee member	14 August 2017	(Special) 18 August 2017	27 October 2017	16 February 2018	17 May 2018
JF Basson (Chairman)	✔	✔	✔	✔	✔
JA Louw	✔	✖	✔	✔	✔
JJ Fouché	✔	✔	✔	✔	✔
JA Rock	✔	✔	✔	✖	✔

The Audit Committee agendas provide for separate meetings between the Audit Committee members, internal and external auditors and management.

Audit Committee evaluation

As part of the annual self-evaluation, the performance of the Audit Committee and its members were assessed and found to be satisfactory. In addition, members were assessed in terms of the independence requirements of King IV™ and the Companies Act. All members of the Audit Committee continue to meet the independence requirements.

Responsibilities and functions

The responsibilities and functions of the Audit Committee are set out in the charter. The following is a summary of the responsibilities of the Audit Committee and how the committee carried out its functions.

Internal control framework

Internal Financial Controls

During the period under review, the Audit Committee reviewed the reports on the design, implementation and effectiveness of the Group's systems of internal financial controls. No material breakdowns in the internal and financial controls came to the attention of management of the Group that required reporting.

Assurance on compliance with systems of internal control and their effectiveness is obtained through regular management reviews, assurance from internal audit and testing of certain aspects of the internal financial control systems by the external auditors during the course of their statutory audit.

Finance function

Mr M Bosman retired as financial director and Mr A De Bruyn was appointed as his successor, both with effect from 2 July 2018. The Audit Committee, through a formal process, has satisfied itself that both Messrs Bosman and De Bruyn have the appropriate expertise and experience to act in this capacity. Mr de Bruyn's curriculum vitae appears on page 29 of the Integrated Report.

A written report on the manpower, roles and responsibilities, qualifications and experience of senior members of the Group Finance department was also considered. Based on this assessment, the Audit Committee is satisfied that the Group finance function has the required expertise and adequacy of resources to perform the Group financial function.

The Audit Committee is further satisfied that Shoprite Holdings has established appropriate financial reporting procedures and that these procedures are operating.

Risk governance

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.

Shoprite has, over the years, managed its risks in terms of the applicable enterprise risk management fundamentals by establishing the context in terms of its internal and external environments, developing its risk profile/landscape, which includes its risk taxonomy in relation to its organisational structure, risk categories, processes and controls, setting its strategy, objectives and risk appetite and tolerance levels and implementing a Group risk register.

In order to mature Governance Risk and Compliance ("GRC") in the Group the business has embarked on this journey through the appointment of a dedicated Group risk and compliance manager during 2017/18.

The risk forum (a management committee consisting of senior managers from all business units and chaired by the financial director) met four (4) times during the reporting period. During these meetings significant risks affecting the Group were considered and discussed to ensure that executive management is aware of the risks affecting the Group and their business units. Minutes of these meetings are submitted to the Audit Committee for consideration.

Audit and Risk Committee report (continued)

Shoprite's Risk Governance policy and framework provides guidance to implement a consistent, efficient, and economical approach to identify, evaluate and respond to key risks that may impact its business objectives. The framework is based on the principles embodied in the Enterprise Risk Management Framework published by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission, the International Guideline on Risk Management ("ISO31000") and the King Code on Corporate Governance Principles ("King IV™"). Risk Governance also forms an integral part of strategy and objective setting.

The principles outlined support the establishment of the Group's Risk Governance framework and ensure that risk management is embedded into day-to-day management activities.

The Shoprite Group's Risk Landscape includes 48 risk category descriptions which remains key focus areas on an ongoing basis and is driven from its five strategic drivers namely:

- revenue growth;
- cost efficient and resilient operations;
- customer service excellence;
- optimise people engagement; and
- corporate governance and sustainability,

and linked to the four main risk categories: strategic, operational, financial and compliance.

The following key risks remain high priority for Shoprite for the reporting period namely:

- reputational risk and brand deterioration;
- interruption in supply chain;
- loss of DC facilities due to fire risk;
- food safety;
- injury to employees, contractors, customers and other third parties;
- deterioration of trade union relationships as well as the risk of third party supplier employee strike actions;
- cyber risk;
- internal fraud; and
- regulatory risk.

These risks are closely managed and monitored by the business on a daily basis. In some instances even though the most effective controls have been implemented, these risks remain high.

Shoprite has a low risk appetite and zero tolerance for non-compliance to Health and Safety regulatory requirements. A dedicated Group health and safety manager has been appointed to drive health and safety risk management in the Group, which risk is closely managed and monitored.

The Group risk and compliance manager annually reviews, in conjunction with each business unit, the business unit specific risks as well as related controls, to determine the relevant residual risk. Critical and high residual risks are reported on a quarterly basis to ensure adequate management and transparency. Shoprite's combined assurance model is utilised to monitor the effectiveness of risk management and its internal control systems report utilised to track material defects in line with agreed deadlines to adjust, implement and test new control measures.

An internal operational risk loss database will be utilised going forward to enable the quantification of losses at a granular level in real time. This will highlight internal control failures other than those identified through internal and external planned audits.

Focus will continue and be enhanced in respect of losses due to fraud, whether internal by employees or external by any trade or expense vendor, as Shoprite has a low risk appetite and zero tolerance in this regard.

Shoprite's approach to risk governance remains consistent and within its current risk appetite and tolerance levels, with limited risks where the risk appetite is high. When identifying new or additional opportunities the same approach will be followed in terms of risk assessment and rating, whereby the relevant risk appetite and tolerance levels will be agreed and set.

Compliance governance

Compliance Governance, as an integral part of Corporate Governance, is embedded throughout the Group. Each business unit manages and mitigates its own specific regulatory compliance risks on a daily basis, with oversight from Legal, Risk and Compliance, as second line of assurance.

Each business unit has its own unique regulatory universe, which have been categorised and risk assessed, rated in terms of critical, high, medium and low likelihood and compliance risk impact to the business.

The constantly changing regulatory landscape is carefully monitored to ensure that key regulatory changes and any other significant compliance matters are escalated to the relevant management and executive teams. If required, and after consultation, the risk and compliance manager engages South African Regulators through the Industry Body, Consumer Goods Council South Africa ("CGCSA"), in an attempt to influence legal and regulatory reform and requirements.

Compliance monitoring is conducted to ensure that adequate assurance is provided to the Board. It is very similar in nature to that of auditing, with the main difference that compliance monitoring relates specifically to legislation and other regulatory requirements as well as related internal policies, processes and procedures. This monitoring is conducted through various assurance providers, namely:

- **1st line of assurance:** Line Management;
- **2nd line of assurance:** Legal, Risk and Compliance (independent);
- **3rd line of assurance:** Internal Audit (independent);
- **4th line of assurance:** External Auditors (independent); Other External Assurance Providers; and Regulators.

Due to limited resources, the 2nd line of assurance utilises the services of Internal Audit in certain instances, whereby the two lines of assurance collaborate to ensure that priority regulatory categories are incorporated into the internal audit plan.

Compliance monitoring takes on different forms, from substantive monitoring to management self-assessments. The business is assessed to verify its compliance and to measure the effectiveness and adequacy of the implemented controls, to mitigate regulatory compliance risk. Significant findings are reported to the Audit Committee. The Audit Committee is enabled to form its own opinion on the effectiveness and adequacy of compliance management control measures in the business through reports received from various lines of assurance on compliance monitoring; regulatory updates; material consumer complaints and regulatory inspections, fines and breaches (if any).

Collectively the above assurance providers, provides combined assurance to the Board in respect of all activities monitored.

Training and awareness of key legislation is important for the business. Specific training initiatives are prioritised to ensure that management and employees are aware of regulatory requirements, affecting their business units.

The following regulatory areas were identified as key for the reporting period:

- consumer protection;
- food safety;
- health & safety;
- labour and employment equity;
- B-BBEE;
- Protection of Personal Information ("POPI");
- competition;
- environmental; and
- tax.

These regulatory compliance risks are closely managed and monitored by the various assurance providers, as well as in combination, on a daily basis to ensure effective controls are in place and maintained.

The Group risk and compliance manager annually reviews, in conjunction with each business unit, the business unit specific regulatory risks as well as related controls to determine the relevant residual risk. Critical and high residual regulatory risks are reported on a quarterly basis to ensure adequate management and transparency. Shoprite's combined assurance model is utilised to monitor the effectiveness of compliance risk management and is an internal control systems report utilised to track material defects in line with agreed deadlines to adjust, implement and test new control measures.

Planned future focus areas are: health and safety, food safety, anti-bribery and corruption, competition, environmental, POPI and tax.

There were no material or repeated regulatory penalties, sanctions or fines for contraventions of, or non-compliance with, statutory obligations, whether imposed on the Group or on board members.

There were no material monitoring and compliance inspections by environmental regulators, findings of non-compliance with environmental laws, or criminal sanctions and prosecutions for such non-compliance.

Information Technology (IT) governance

The Board Charter and Audit Committee Charter define the Board's and Audit Committee's responsibility for the governance of IT, as well as reporting lines and reporting requirements. The IT Charter defines the Board's responsibility for ensuring the responsible use of IT. Within the Charter:

- the Board accepts its accountability for the overall governance of IT;
- authority is delegated for managing the use of IT (including the setting of Group-wide minimum standards) and the mandates provided for IT decision-making; and
- certain frameworks are endorsed for the establishment of controls aimed at mitigating the risks associated with IT.

Frameworks of control (including minimum standards, policies, procedures and rules) govern specific areas of risk.

IT Governance is implemented and operationalised through various control processes, gates, bodies and reporting. These include the Project Approval Committee, Project Steering Committees, Architecture Committee, Change Approval Board, supplier selection process, contracting processes and procurement processes, disaster recovery trials and IT financial analysis reports.

IT risks are identified and managed through the IT Risk Register and related Action Tracker. The approach adheres to the Group ERM Policy.

IT reporting is provided to the Group Risk Forum, the Audit and Risk Committee and to the Board.

During the financial year, the Audit Committee reviewed the implementation of all relevant IT governance mandates, policies, processes and control frameworks. Furthermore, the Audit Committee also provides assurance to the Board on all IT related matters, including significant IT investments, by engaging both internal and external assurance providers. This assurance forms part of the Group's combined assurance framework.

In addition, the Audit Committee focussed on the following key areas during the reporting period:

- **SAP IS Retail system implementation**
  The major IT system change during the reporting period was the preparation for and implementation of the SAP IS Retail system. Implementation started in August 2017 and is ongoing with the target date for completion by January 2019. The Audit Committee was informed about the progress of the implementation of the project, the implementation risks and how the risks were managed on a continuous basis. The Audit Committee also monitored the cost of the project against the original budget.

- **Information security**
  The Group recognises the significant threat that cybersecurity presents and how successful cybersecurity attacks can cause significant damage to a Group's business and reputation. As a result, an independent expert review was undertaken to assess the effectiveness of the Group's current IT security measures.

  Following the review, management embarked on a process of developing an Information Security Management System ("ISMS") as part of the process to improve the management of Cyber and other Security risks identified and to ensure the confidentiality, integrity and availability of information to the Group.

- **Business recovery**
  The Audit Committee received and reviewed reports on the status of the Group's Business Recovery plans regularly.

Combined assurance

Combined assurance model

Shoprite has adopted a combined assurance approach which is closely aligned with King IV™. The Board delegated the responsibility of oversight to the Audit Committee which is required to ensure that implementation of the combined assurance model results in, fully integrated (combining, co-ordinating and aligning) assurance activities across all lines of assurance, which include:

- line functions that own and manage risk and opportunity;
- specialist functions that facilitate and oversee enterprise risk management and compliance;
- internal assurance providers i.e. internal auditors, internal forensic fraud examiners and auditors, safety and process assessors, and statutory actuaries;
- independent external assurance service providers such as external auditors;
- other external assurance providers such as sustainability and environmental auditors, external actuaries, and external forensic fraud examiners and auditors; and
- regulators.

The risk and compliance manager, in conjunction with the internal audit manager, is continually striving to enhance the combined assurance model.

Internal Audit

The Audit Committee is responsible to ensure 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, it oversees cooperation between the internal and external auditors, and serves as a link between the Board and these functions.

Internal audit activities, all of which are risk based, are performed by a team of appropriately qualified and experienced employees who are led by the internal audit manager. The internal audit department is responsible for reviewing and providing assurance on the adequacy of the internal control environment across all of the significant areas of the Group's operations. Internal audit's activities are measured against an approved internal audit plan and the internal audit manager tables a progress report in this regard to the Audit Committee at each meeting.

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

Audit and Risk Committee report (continued)

During the reporting period a formal independent quality review was performed of the Internal Audit function. The review highlighted certain areas for improvement of the effectiveness of the Internal Audit function. The internal audit manager is in the process of formalising plans to address aspects highlighted by the review and aligning the internal audit plan with the Combined Assurance model.

External Audit

The Audit Committee evaluates the performance of the external auditor, PricewaterhouseCoopers (PwC), against specified criteria that include delivering value to shareholders and the Group, and also assesses the effectiveness of the external audit process by:

- considering the external audit plan, in particular to get assurance that it addresses changes in circumstances from the prior year;
- reviewing the terms of engagement of the external auditor;
- monitoring the completion of the audit;
- meeting with the audit partners; and
- overseeing (and approving where relevant) non-audit services.

The Audit Committee has requested from and consulted with PwC, as necessary, to obtain on an annual basis:

- all necessary decision letters, findings, reports and proposed remedial action on the audit firm and/or individual auditor;
- summaries and descriptions of monitoring procedures and conclusions drawn; and
- outcomes and summaries of any legal and disciplinary proceedings instituted in the past seven years by any legislation or professional body, in terms of paragraph 22.15(h) of the JSE Listings Requirements.

In consultation with the Group's executive management, the Audit Committee agreed to the terms of the PwC audit engagement letter, audit plan and budgeted audit fees in respect of the 2017/18 financial year.

The Audit Committee is satisfied with the quality of the external audit.

A formal framework governs the process through which PwC renders non-assurance services to ensure that the audit independence is not compromised. The Audit Committee approved the terms of a master service agreement for the provision of such services by PwC as well as the nature and extent of non-assurance services that may be provided in terms of a pre-approval policy.

A breakdown of audit, audit-related and non-audit fees paid to PwC in the 2017/18 financial year is summarised as follows:

Description	Amount
Audit services	R34 363 085
Audit related services	R3 790 000
Total audit and audit related services	**R38 153 085**
Tax advisory and compliance services	R4 497 000
Other non-audit services	R5 004 000
Total non-audit services	**R9 501 000**
Total	**R47 654 085**

The Audit Committee annually assesses the independence of the external auditor. The following aspects were considered as part of the assessment of the independence of PwC:

- the fact that PwC does not receive any remuneration or benefits from the Group other than the fees for services as external auditors and permitted non-audit services;
- the quantum and nature of non-audit services performed;
- the existence of an audit partner rotation process which is in place in accordance with legal and regulatory requirements. Mr MC Hamman acted as the designated audit partner for the year under review;
- the nature of the aspects reported on to the Audit Committee by PwC;
- the quality of the discussions with PwC regarding audit, accounting and reporting matters at Audit Committee meetings;
- the direct line of communication between the chairman of the Audit Committee and the designated external audit partner; and
- PwC's confirmation that they:
  - (i) are not precluded from re-appointment due to any impediment as listed in section 90(2)(b) of the Companies Act;
  - (ii) are in compliance with section 91(5) of the Companies Act, by comparison with the membership of the firm at the time of its re-appointment in 2017, more than one half of the members remain in 2018;
  - (iii) remain independent as required by section 94(8) of the Companies Act and the relevant provision in the JSE Listings Requirements; and
  - (iv) comply with the criteria specified by the Independent Regulatory Board for Auditors and internal regulatory bodies.

Based on the above assessment, the Audit Committee is satisfied that PwC is independent of the Group.

The Independent Regulatory Board for Auditors (IRBA) has issued a rule prescribing that auditors of public interest entities (PIEs) in South Africa must comply with mandatory audit firm rotation (MAFR) with effect from 1 April 2023.

Based on the above conclusions on PwC's independence and taking into account the fact that MAFR will be required with effect from 1 April 2023, the Audit Committee re-nominates PwC as independent external auditor for the 2018/19 financial year with Mr MC Hamman performing the functions of the designated external auditor partner, until the 2019 annual general meeting of Shoprite Holdings. Shareholders are therefore requested to re-elect PwC as independent external auditor for the 2018/19 financial year at the annual general meeting on 29 October 2018 with Mr Hamman as the designated audit partner.

Reporting

Financial statements and accounting practices

During the reporting period, the Audit Committee reviewed the interim and annual financial reports of the Group which includes the review of significant accounting policies, key accounting items and areas of significant judgement, together with any material assumptions and estimates adopted by management and confirmed that these were appropriate and recommended the acceptance and approval thereof to the Board.

The Audit Committee considered, amongst others, the following significant matters in relation to the annual financial statements:

- **Use of the official exchange rate in Angola**
  IFRS requires the use of the official exchange rate for accounting of foreign investments. Other views are that the unofficial rate should rather be used. It was agreed with management that more information on the impact of the use of the official rate will be disclosed in the annual financial statements.

- **Risk of investment in Angola**
  The Audit Committee discussed the investment in Angola and the associated risk. The Audit Committee is satisfied that the associated risks are adequately managed and addressed within the current regulatory framework.

- **Hyperinflation in Angola**
  IAS 29: Financial Reporting in Hyperinflationary Economies, requires financial statements of entities operating in a hyperinflationary economy to take full account of the effects of inflation using a "current purchasing power" approach. The Audit Committee considered the applicability of this standard in respect of the Group's investment in Angola and the impact of the application of IAS 29 on the disclosures required in the financial statements.

- **Classification of cash and bank balances in Angola**
  Local currency cash and short-term deposits held in Angola are subject to onerous local exchange control regulations. Management assessed the restrictions on the utilisation of the assets imposed by the regulations and the appropriate classification of those assets in the light of the restrictions. The Audit Committee challenged management assessment and is in agreement with management on the classification of those assets.

- **Provisions**
  The Audit Committee discussed with management and the external auditors and evaluated the major provisions made or required to be made for purposes of the annual financial statements. The Audit Committee is satisfied that sufficient provisions have been made and that the provisions are not excessive.

- **Impairments**
  The Audit Committee considered the policy for impairment of assets and the requirements of IAS 36: Impairment of Assets and is satisfied that the policy is appropriate and has been applied consistently in line with the requirements of IAS 36. The key assumptions to the impairment tests performed were discussed.

- **Taxes**
  The Audit Committee reviewed management's reports on the status of tax compliance in the Group as well as the status of disputes with and investigations by the relevant tax authorities to ensure that sufficient provision has been made for any potential income and other tax liabilities.

- **Inventory valuation**
  In the past, inventories were valued through the use of the retail inventory method as an approximation of weighted average cost. With the implementation of the SAP IS Retail system, the Group is now in a position to apply the moving average cost method. The SAP IS Retail system is however not yet fully implemented in all the branches and distribution centres. Management assessed the impact of this change in method on the valuation of inventory in respect of those branches and distribution centres where the SAP IS Retail system has not been implemented at year-end to account for the estimated impact of the change in method on those branches and distribution centres. The Audit Committee considered management assessment and is satisfied that the effect of the change in method is appropriately accounted for.

- **Rebates from suppliers**
  The Audit Committee discussed the accounting treatment of rebates from suppliers.

  The Audit Committee considered the work and recommendations of the Group's finance function and received reports from the external auditor on their findings, including any control observations relevant to their audit work.

- **Revenue recognition**
  The Audit Committee discussed the potential impact of the implementation of the revised standard IFRS 15: Revenue from contracts with customers, on the financial statements of the Group. It is expected that the implementation of the revised IFRS 15 will mainly affect the revenue classification of OK Franchise.

- **Leases and Financial Instruments**
  The Audit Committee discussed the impact of the implementation of IFRS 16: Leases and IFRS 9: Financial Instruments on the financial statements of the Group.

Integrated and Sustainability reporting

In fulfilling its oversight responsibilities, the Audit Committee has reviewed 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 2018 annual financial statements.

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

Going concern

The Audit Committee has reviewed a documented assessment, including key assumptions, prepared by financial 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.

Recommendation to the Board

The Audit Committee has reviewed and considered the Integrated Report, including the annual financial statements and has recommended it for approval by the Board.

JF Basson
Chairman

20 August 2018

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 financial year to 1 July 2018:

- 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	21 August 2017	26 February 2018
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 2018

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 and race diversity at board level;
- recommended the appointment of Ms Shirley Zinn as an independent non-executive director; and
- complied with its terms of reference.

Annual general meeting 2018

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. Messrs JF Basson, JJ Fouché, JA Rock and Dr ATM Mokgokong will retire in terms of this provision but have offered themselves for re-election.

The Nominations Committee annually reviews the independence of non-executive directors that retire, based on the independence indicators of King IV™.

Having considered the circumstances of the retiring non-executive directors, the Nominations Committee is of the view that they can be considered as independent.

On 31 August 2018 the Board appointed Ms S Zinn as an independent non-executive director. She will however retire in terms of Article 33.3 of the MOI at the annual general meeting on 29 October 2018. Being eligible for election, Ms Zinn has offered herself for re-election.

Promotion of gender and race diversity at board level

During 2017, the Nominations Committee established a board diversity policy to ensure gender diversity at board level. In appointing Ms Zinn, the Board achieved its stated objective that at least 15% – 20% of the Board will consist out of women. After this appointment, the female representation is 17%.

The Nominations Committee also broadened the scope of its diversity policy at board level to include race diversification. In reviewing the composition of the Board, the Nominations Committee will consider gender and race diversity to effectively discharge its duties and responsibilities. The Board's objective in this regard is to ensure that at least 30% of the Board consist out of previously disadvantaged individuals of which 50% will be female.

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 assists the board and management in ensuring that the Group's reputation is based on a solid ethical foundation and that it is a responsible and ethical corporate citizen.

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 and amended during the period under review to comply with the requirements of King IV™.

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 2017/18 financial year:

- Mr JA Louw: Independent non-executive director and chairman;
- Dr ATM Mokgokong: Independent non-executive director; and
- Mr M Bosman: Executive financial director.

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	10 August 2017	15 February 2018
JA Louw	✓	✓
ATM Mokgokong*	✓	✓
M Bosman**	✓	✓
C Burger+	✓	N/A

* Appointed with effect from 21 August 2017
** Resigned with effect from 2 July 2018
+ Resigned with effect from 21 August 2017

The 2017/18 fees of non-executive members are disclosed in the notice of the annual general meeting.

Key activities in 2018

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;
- the Group's B-BBEE strategy review and performance in respect of Black Economic Empowerment as measured against the Department of Trade and Industry generic Broad-Based Black Economic Empowerment scorecard;
- the activities of the newly constituted BEE committee under the chairmanship of the CEO;
- 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 IV™ and the Companies Act.

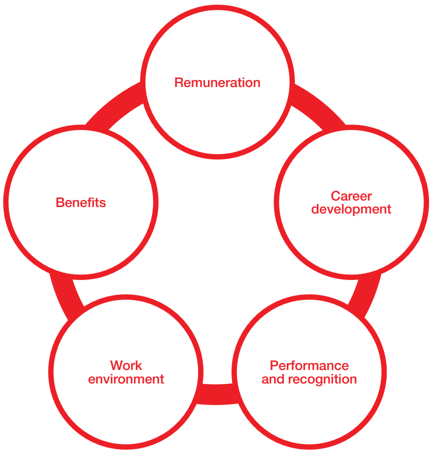
JA louw
Chairman

Remuneration report

Glossary

AGM	annual general meeting
CEO	chief executive officer
Company	Shoprite Checkers (Pty) Ltd
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

Our remuneration philosophy is broadly based on the following pillars:



Part 1
A letter from the Chairperson of the Remuneration Committee

Dear Shareholders

I present to you our remuneration report for the 2018 financial year (FY2018) on behalf of the Remuneration Committee and Shoprite's board of directors ("the Board"). The report is aligned to best practice reporting standards, including King IV™, to the extent that it supports our business strategy and sets out an overview of our company wide remuneration policy (part 2) and implementation report (part 3) for FY2018.

Context

We have experienced testing trading conditions in a year in which the durability of many companies was tested with a noticeable decrease in consumer spending. Positive customer and volume growth as well as local market share gains however reflect a strong underlying performance by the Group.

More information on our annual financial performance is contained in the Chief Executive Officer's ("CEOs") report on pages 32 to 33 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 40 to 46 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 2018 financial year.

Our remuneration philosophy is further detailed in part 2 of this report. During FY2018, the Remuneration Committee, in consultation with the Board, made several decisions which are in line with this remuneration philosophy.

Activities of the Remuneration Committee

- The 2019 financial year increases in guaranteed pay for executives, management and other employees were approved;
- The NED fees for the forthcoming year were considered taking into account the average increases approved for executives and the median of large cap service companies and recommended to shareholders for approval at the 2018 AGM;
- The STI on-target bonus pool was approved in principle for payment after the 2018 year-end;
- The Remuneration Committee reviewed best market practice pertaining to LTIs in accordance with market benchmarks obtained for purposes of making LTI awards;
- The Remuneration Committee engaged with dissenting shareholders via telephone conference on 7 November 2017 after release of the AGM results. Further details are contained in this letter;
- The Remuneration Committee considered the comments raised by shareholders and any resulting actions;
- The Remuneration Committee Charter was reviewed and aligned with King IV™; and
- The remuneration report was reviewed and approved for publication in the 2018 Integrated Report.

Forward-looking actions

The Remuneration Committee is committed to continued improvement to give effect to the principle of fair, responsible and transparent remuneration. Although we made no policy changes during FY2018, our forward-looking remuneration considerations include:

Considerations	Forward-looking action	Rationale
Fair and responsible remuneration	The Remuneration Committee will continue to consider the principle of fair and responsible remuneration as an agenda point and ensure that the principle of equal pay for work of equal value is applied in all new appointments and promotions as well as during the annual remuneration review.	Best practice and alignment with King IV™. Ensures that Shoprite remain an employer of choice.
Alignment with six capitals (financial, manufactured, intellectual, human, social and relationship, and natural)	The Remuneration Committee will review the alignment between Shoprite's incentives and the capitals that the Group uses or affects.	In line with King IV™ and the International Integrated Reporting Council's Integrated Reporting Framework, to ensure integrated thinking, ethical leadership and sustainable value creation.

During FY2018, we obtained the services of independent remuneration advisors, PwC, to advise on matters related to remuneration and we are satisfied that their services as rendered were independent and objective at all times.

Announcements

We bid farewell to Mr Marius Bosman who retired as CFO after more than 25 years of service. He will remain involved as a consultant to Shoprite inter alia to assist in the completion of the financial statements for the year-end to 1 July 2018. He will also continue to share his knowledge and experience in a consultancy capacity. Mr Bosman's consultancy fee will be based on a market related rate per hour spent. He will receive no other benefits or incentives. With regards to outstanding incentives at the time of his retirement, Mr Bosman will be treated as a good leaver and awards will vest in line with the plan rules.

We welcome Mr Anton de Bruyn as the new CFO of the Group from 2 July 2018. He is a qualified chartered accountant and holds BCom Accounting and BCompt Hons degrees. He also has more than 15 years' service within the Group, most recently in the capacity of deputy General Manager Group Finance and currently serves on the boards of various subsidiaries of Shoprite. The Audit and Risk Committee has considered the experience and expertise of Mr de Bruyn and supports his appointment. Mr de Bruyn's package has been benchmarked against an appropriate peer group and incentives determined in line with the Group's policy.

Shareholder engagement and voting

At the AGM held on 30 October 2017, our remuneration policy received a vote of 70.11% in its favour and our implementation report received a vote of 71.42% 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	Response from the Remuneration Committee
The companies used for remuneration benchmarking purposes are not disclosed.	In South Africa we are limited with options against which to benchmark ourselves in terms of similar size and operations. As such we have conducted a closeness metric looking at South African retailers and FMCG companies. We consider the companies used for benchmarking purposes as set out in part 2 under heading "Benchmarking and position in the market" to be appropriate.
A once-off retention amount of R11 million was paid to executive director Mr Etienne Nel during 2017.	Mr Nel heads up the Gauteng retail supermarket operations (one of our largest contributors) and is considered a strategically key employee. Upon mutual agreement between the parties, this retention award was made to him as part of the smooth transition (considering continuity and the provision of sufficient support) to Mr Pieter Engelbrecht as CEO in 2017. This once-off retention award vested in full on 29 June 2018.
Regular annual LTI awards have not been made to senior employees over the last 3 years, and with the 2017 LTI awards, the vesting period is shorter than 3 years.	We acknowledge that, although the LTI has been in place for a while, only one award has been made which vested in 2017. As part of the change in leadership with the new CEO and recognising strategic talent, the Board acknowledged that Shoprite is exposed in terms of retention risk. The shorter than normal vesting period is a once-off "ad-hoc" arrangement for executives. As from 2018 all awards will have the normal vesting periods of 3, 4 and 5 years.
LTI awards do not have prospective financial or non-financial performance conditions attached for vesting (continued employment only).	LTI awards will be made based on the achievement of financial performance targets set based on trading profit for the financial year preceding the 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. We do not consider setting performance conditions 5 years in advance in a volatile economic environment to be efficient. In our view, rolling periods of 12 months performance stack up to long-term performance and we prefer to pay key strategic employees in equity for 12 months performance over which they have line of sight with the condition that they remain shareholders for up to 5 years. This aligns their interests with shareholders in terms of share price exposure. Furthermore, the size of Shoprite's LTI awards is conservative in comparison with other retail companies.
Historically only trading profit has been applied as a measure for performance. Consider using other performance conditions and/or a combination of performance conditions.	The Remuneration Committee considered the comments received from shareholders. At this time we continue to believe trading profit is the most accurate measure of performance and over which management has line of sight. We will however continue to monitor the appropriateness of performance conditions as part of our annual review of the remuneration policy.

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 2018 AGM to be held on 29 October 2018. We look forward to engaging with you and receiving your support on the remuneration policy and the implementation report at the AGM.

EC Kieswetter
Chairperson of the Remuneration Committee

Remuneration report (continued)

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 during the reporting period it was updated to align with King IV™.

The Remuneration Committee is established to consider Shoprite's remuneration policy and the implementation thereof where appropriate and 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	26 February 2018	18 June 2018
JA Louw	Chairman (for period 1 July 2017 to 29 May 2018)/ Member/Independent NED	✔	✔
EC Kieswetter	Chairman (for period 29 May to date) Member/Independent NED	✔	✔
CH Wiese	Member/NED	✔	✔

The Remuneration Committee met twice during the 2018 financial year. The following persons in addition to the Remuneration Committee members were invited to attend and give input at meetings in FY2018:

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

Invitees to the Remuneration Committee meetings are not present 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 relevant parts of the Remuneration report are tabled for 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.

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. No policy changes were made during the reporting period. The following non-exhaustive principles apply:

- Awarding remuneration that is fair and just on an organisation-wide basis for general employees and 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 at all levels 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 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.

Fair and responsible remuneration

The Remuneration Committee takes responsibility for ensuring that executive remuneration is justifiable in the context of overall employee remuneration. Taking into account the Group's strategic objectives, the Remuneration Committee gives due consideration, in consultation with management, independent remuneration advisors and any relevant parties, to the practical implementation of the principle of fair and responsible remuneration, and recommends appropriate actions to the Board.

Some of the activities undertaken during the year in reviewing fair and responsible remuneration include:

- Regularly benchmarking roles against the market using PwC's REMchannel™ survey; and
- Applying the principle of equal pay for work of equal value as contained in the Employment Equity Act in all new appointments and promotions as well as when annual remuneration reviews are conducted.

Through the activities above the Company is able to examine possible pay disparities amongst the various employment arrangements within the Group, investigate the underlying reasons for any such pay disparities and consider whether differentiation is justifiable.

In an effort to improve working conditions, Shoprite:

- provides skills development opportunities for general and junior employees, thereby empowering them to improve their skills and gain the experience necessary to progress their careers within Shoprite;
- regularly reviews the Employee Value Proposition;
- provides a discount to all its employees on goods purchased at the Group's stores;
- provides pension backed housing loans through a financial institution to assist employees in buying a residence or conduct improvements to their existing residence; and
- provide assistance to employees and their relatives in the form of loans and bursaries to further their education.

At Shoprite, in addition to TGP, benefits and our efforts to ensure the implementation of fair and responsible remuneration across the organisation, we offer the following to our employees below management level:

- sales commission to qualifying sales employees;
- 13th cheques to employees on bargaining unit level after certain years of service; and
- performance based bonuses based on KPIs/divisional performance.

Benchmarking and position in the market

Executive positions are periodically evaluated. Remuneration (which includes TGP, STI and LTI) in the Group is generally positioned at the market median, however may exceed the market median in the case of exceptional and/or critical/scarce skills. Shoprite uses PwC's REMChannel™ survey for benchmarking of roles.

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.

Remuneration framework

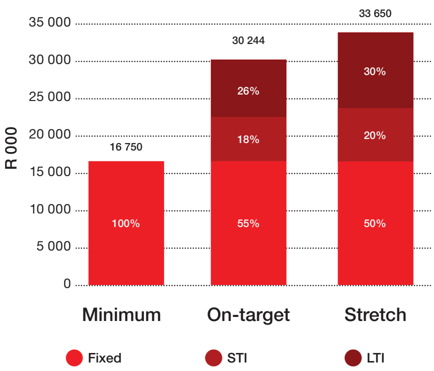
The different components of remuneration, their objectives and their link to the business strategy are summarised in the table below.

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 competiveness 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 120%. If actual profit falls below 70% of Group trading profit target, a modest bonus may be paid.

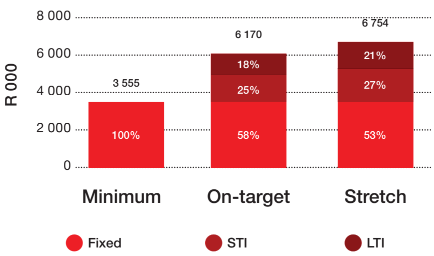
Remuneration report (continued)

Component	Nature	Objective	Link to business strategy	Policy
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 is 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 executives 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 senior executives, the September 2017 VOB award for such executives will vest in years 1, 2, and 3 after the award date in 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 open market for delivery and does not result in any 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 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 vesting condition.

CEO



CFO



Pay mix scenario graphs

The Remuneration Committee has considered the pay mix of the CEO, CFO and other executives (in rand value) at minimum, on-target and stretch performance, as would be applicable for the 2019 financial year. The illustration indicates that a greater weighting is placed on variable pay (more specifically LTIs) but that executive directors do not receive variable pay at minimum performance. The graphs assume the following:

Element	Minimum	On-target	Stretch
TGP	TGP as at 1 July 2018		
STI	Nil	**CEO:** 33.3% of TGP **CFO:** 42.8% of TGP	**CEO:** 40.0% of TGP **CFO:** 50.6% of TGP
LTI	Nil	**CEO:** Awards equal to 100% of TGP **CFO:** Awards equal to 70% of TGP October 2017 grant used as approximation, valued using fair value on grant.	**CEO:** Awards equal to 100% of TGP **CFO:** Awards equal to 70% of TGP October 2017 grant used as approximation, valued using face value on grant.

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. Factors that may be taken into account include average and estimated inflation, budgeted sales growth, actual sales growth and minimum wage as required by legislation.

Variable pay

Introduction

Variable pay refers to STI and LTI, which are linked to Group 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, and then moderated by the financial performance of each operational/business unit within the Group. The table below sets out the interaction of Group and operational/business unit targets and the impact of the bonus.

Achievement of Group level profit target	Achievement of operational/business unit target	Impact on operational/ business unit bonus pool	Impact on individual bonuses
<70%	Any	Bonus pool adjusted down to reflect achievement of operational/business unit 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.
70% – 100% Or >100%	Equal to or greater than Group level achievement	Bonus pool equal to actual percentage of operational/business unit profit budget achieved.	Can achieve up to 120% of on-target incentive capped at 100% if current year performance does not exceed prior year.
70% – 100% Or >100%	Less than Group level achievement	Bonus pool adjusted down to reflect achievement of operational/business unit 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.

Due to the diversified nature of the Group, 19 operational/business units exist. It is therefore not possible to provide the exact breakdown per operational/business unit. The list below provides examples of the individual criteria that may be included 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.

Employees from all of the 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.

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 CEO and CFO) will have exposure to Group performance in the determination of their bonuses.

On an individual executive level the earning potential as a percentage of guaranteed remuneration is expressed in the table below.

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 and CFO 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	42.8%	50.6%

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

Remuneration report (continued)

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 and should be 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. Performance will be tested "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 for the CEO to 70%, 50%, 35% and 25% of TGP for other employees 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 that they are invested in equity. VOB benefits vest 3, 4 and 5 years after award date in equal tranches.

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 percentage 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 open 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.

Dilution limit
In terms of the plan 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 the limits will not be impacted.

Shoprite takes care not to destroy shareholder value by unnecessarily issuing shares to settle LTI awards. Accordingly, where shares are used to settle VOB or LTIB awards, the shares are purchased on the open market.

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 (1) calendar month, except for the CEO who has a notice period of six (6) months. Normal retirement age ranges between 60 and 65 years, unless the executive is requested to extend this term. 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 (2) 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 but contractual restraints.

Mr E Nel was employed by the Group by way of a term contract up to 30 June 2018 and, similarly, Mr B Harisunker is employed by the Group by way of a term contract up to 31 December 2018. Mr M Bosman will be employed by the Group by way of a consultancy agreement.

Termination provisions
The following applies in the event of termination of employment:

Reasons for termination	Voluntary resignation	Dismissal/ termination for cause/early retirement	Normal retirement and death	Mutual separation
Base salary	Paid over the notice period or as a lump sum.	No payment.	Base salary is paid for a defined period based on cause and local policy as executives have different employment entities.	Paid over the notice period or as a lump sum.
Benefits	Applicable benefits may continue to be provided during the notice period but will not be paid on a lump sum basis.	Benefits will fall away at such time that employment ceases.	Benefits will fall away at such time that employment ceases.	Applicable benefits may continue to be provided during the notice period but will not be paid on a lump sum basis.
STI	No payment.	No payment.	Payment made.	Depends on agreement made.
LTI	No payment or vesting.	No payment or vesting.	Awards vest/ payment made.	Depends on agreement made.

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 has decided that independent NEDs should be remunerated on a retainer basis which encompasses the time required to attend and prepare for all meetings.

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. Fees are paid exclusive of VAT.

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

Non-independent non-executive directors

Shoprite has two (2) non-independent NEDs namely:

i) 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

ii) Mr CG Goosen who was appointed as a non-executive director with effect from 21 August 2017.

Non-executive directors

The table below sets out the proposed fees payable to NEDs from 1 November 2017 to 30 October 2018. These fees, which are exclusive of VAT, will be tabled before shareholders for approval by a special resolution at the 2018 AGM in line with the Companies Act, No 71 of 2008. NED fees will only be paid after the 2018 AGM.

Based on the PwC 2018 non-executive director remuneration report, Shoprite concluded that the fees for the Chairperson of the Board, the lead independent and director fees are significantly below the median for large service companies. As a result and after careful consideration, the Remuneration Committee considered it prudent to steadily adjust the fees over the next few years. Accordingly, the Chairperson of the Board, lead independent and directors' fees for 2018 were increased by bigger percentages than previous years to bring the fees closer to aligning with the median for large service companies as reported in the PwC 2018 non-executive director remuneration report. Chairpersons of committees and committee members' fees are increased by the same percentage as the approved normal increases for executive management.

	2018	2017	Increase %
The Board			
Chairperson*	R598 000	R397 000	51%
Lead independent director	R466 000	R245 000	90%
NED**	R424 000	R234 000	81%
The Audit and Risk Committee			
Chairperson	R301 000	R279 000	8%
Member	R152 000	R141 000	8%
The Remuneration Committee			
Chairperson	R78 500	R72 500	8%
Member	R47 000	R43 500	8%
The Nominations Committee			
Chairperson	R78 500	R72 500	8%
Member	R47 000	R43 500	8%
The Social and Ethics Committee			
Chairperson	R102 000	R94 500	8%
Member	R47 000	—	—

* The median for remuneration of chairpersons of large cap service companies is R886 000 – the 11th edition of the PwC Non-executive directors: Practices and fees trends report, January 2018.

** The median for remuneration of non-executive directors of large cap service companies is R809 000 – the 11th edition of the PwC Non-executive directors: Practices and fees trends report, January 2018.

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 at the 2018 AGM. 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:

1. 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
2. The invitation will reveal the manner and timing of engagement, which may include communication via email, telephone calls, face to face 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.

Remuneration report (continued)

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 2018 financial year.

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 four years. The financial performance for the 2018 financial year is contextualised in the CEO's letter on page 32 of the Integrated Report.

	2018	2017	2016	2015
Average increase in executive guaranteed pay levels	+7.8%	+7.9%	+7.0%	+7.2%
Growth in basic headline earnings per share	-5.2%	+13.1%	+17.0%	+10.8%
Trading profit	-1.4%	+11.6%	+15.0%	+10.7%
Turnover	+3.1%	+8.4%	+14.4%	+11.2%
Dividend per share	-4.0%	+11.5%	+17.1%	+10.3%
Earnings before interest, tax, depreciation and amortisation	+1.0%	+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 2018 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.

The Remuneration Committee approved an average increase of 7.8% for executives and an average increase of 17.5% for executives being promoted. Furthermore, the Remuneration Committee approved an average increase of 6.0% for management employees with an additional margin of 0.5% for exceptional performance.

The average annual bargaining unit increase for unionised employees was 7.2% resulting in an increase of 13.0% to Shoprite's bargaining unit wage bill (of which 5.9% is as a result of Sector Determination and minimum wage increases).

STI outcomes

This table sets out the STI of prescribed officers in the 2018 financial year based on the achievement of the performance conditions, i.e. trading profit budget. For the 2018 financial year the Group achieved a trading profit of R8.0 billion which equated to a 89.2% achievement of the budgeted trading profit amount.

Executive/Alternate Directors	On-target STI earning potential (as % of guaranteed package)	Maximum STI earning potential (as % of guaranteed package)	FY2018 actual STI (expressed as R'000)	Actual 2018 STI (as % of guaranteed package)
PC Engelbrecht	33.3%	40.0%	4 524	29.0%
M Bosman	62.8%	75.3%	2 380	55.3%
B Harisunker	51.0%	61.2%	1 615	43.3%
EL Nel	58.5%	70.2%	2 035	52.4%
JAL Basson	69.9%	83.9%	1 679	59.4%

LTI outcomes

As set out in part 2 of this report, LTI awards are granted to participants based on performance "on the way in" and as such there are no prospective performance conditions attached. Based on the methodology set out in King IV™, the awards therefore included in the single figure of remuneration are those which were granted in the year.

Executive/ Alternate Directors/ Prescribed Officer	Value granted under the VOB (R'000)	Value granted under the VOB (% of TGP)	Total value granted under LTI to be included in the single figure of remuneration	Value to be settled in cash	Value to be settled in shares
PC Engelbrecht	—	—	—	—	—
M Bosman	2 685	62.4%	2 685	—	2 685
B Harisunker	—	—	—	—	—
EL Nel	—	—	—	—	—
JAL Basson	—	—	—	—	—
A de Bruyn	1 249	44.6%	1 249	—	1 249

Dilution limit

There is currently no shareholder dilution as no fresh issue of shares were made during the year.
The current policy is to purchase all shares awarded in terms of the VOB and LTIB in the open market.

Remuneration paid to executive and alternate directors

The table below reflects the comparison of remuneration paid/payable (expressed as R'000) to executive and alternate directors in the 2017 and 2018 financial years respectively.

	Executive/Alternate Directors	Guaranteed pay	Benefits	STI	LTI	Other	TOTAL
2018	PC Engelbrecht	15 007	330	4 524	—	503	20 364
	CG Goosen	38	12	—	—	2	52
	M Bosman	3 791	341	2 380	2 685	618	9 815
	B Harisunker	3 553	—	1 615	—	790	5 958
	EL Nel**	3 708	—	2 035	—	11 271	17 014
	JW Basson*	12 414	17	—	—	7 029	19 460
	JAL Basson	2 468	153	1 679	—	245	4 545
	Total	40 979	853	12 233	2 685	20 458	77 208
2017	PC Engelbrecht	9 713	685	4 324	10 586***	527	25 835
	CG Goosen	206	194	293	—	803	1 496
	M Bosman	2 601	487	2 216	3 124***	259	8 687
	B Harisunker	3 339	—	1 572	—	2 418	7 329
	EL Nel	3 452	—	2 185	—	301	5 938
	JW Basson	49 656	64	—	—	394	50 114
	JAL Basson	2 189	300	2 360	—***	332	5 181
	Total	71 156	1 730	12 950	13 710	5 034	104 580

* 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 received guaranteed pay until 30 September 2017.
** Mr Nel was awarded a once-off retention cash amount of R11 million with effect from 1 July 2017 which vested on 30 June 2018.
*** Reinstatement of prior year figures in terms of King IV™ single figure reporting requirement.

Prescribed officer R'000		Guaranteed pay	Benefits	STI	LTI	Other	Total
2018	A de Bruyn	2 445	173	1 023	1 249	255	5 145

NED fees

The table below sets out the NED fees paid to NED (exclusive of VAT) for the 12 month period from 1 November 2016 – 31 October 2017.

NED	Fees paid
CH Wiese	R513 000
CG Goosen	R0
JF Basson	R513 000
JJ Fouché	R375 000
EC Kieswetter	R332 000
JA Louw	R585 000
ATM Mokgokong	R277 500
JA Rock	R375 000

Table of unvested awards and cash settled values

The tables below provides information on long-term incentives granted and accepted during the year and the indicative value of those outstanding at the year-end. It also illustrates the cash value of awards settled during the year.

Date of grant	Number of instruments awarded (if shares)	Price on grant (if shares) R	Total face value on grant R	Total fair value on grant R	Settle-ment method	Final vesting date	Number of instruments vested	Number of instruments settled in year	Cash value of instruments settled in year[1] R	Closing number of unvested instruments	Indicative fair value of unvested instruments R
P Engelbrecht											
24 October 2017	50 873	208.08	10 585 654	10 305 740	Shares	30 September 2020	—	—	—	50 873	7 964 306
M Bosman											
24 October 2017	15 012	208.08	3 123 697	3 123 697	Shares	16 May 2018	15 012	15 012	3 591 771	—	—
A de Bruyn											
24 October 2017	6 983	208.08	1 453 023	1 403 209	Shares	30 September 2020	—	—	—	6 983	1 086 468

[1] Awards were settled on the 16 May 2018 at a share price of R239.26.

Approval

The 2018 remuneration report was approved by the Remuneration Committee of Shoprite Holdings Limited.