



**SHOPRITE HOLDINGS LIMITED
("THE COMPANY")**

**BOARD
TERMS OF REFERENCE**

This is the Board Terms of Reference tabled and adopted at the meeting of Directors of Shoprite Holdings Ltd on 3 September 2020.

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INTRODUCTION

The Board of directors of the Company ("the Board") acknowledges the need for a Terms of Reference as recommended in the King IV Report on Corporate Governance for South Africa, 2016 ("King IV").

This Terms of Reference is subject to the provisions of the Companies Act 71 of 2008 (as amended) ("the Act"), the Company's Memorandum of Incorporation ("MOI") and any other applicable law or regulatory provision.

1. PURPOSE OF THE BOARD TERMS OF REFERENCE

The purpose of this Board Terms of Reference ("TOR") is to set out:

- 1.1 the Board's roles and responsibilities in exercising its leadership role;
- 1.2 the Board's delegation of roles and responsibilities to members or sub-committees of the Board;
- 1.3 the requirements for the Board's composition; and
- 1.4 Board meeting procedures to be followed.

2. COMPOSITION

- 2.1 Shoprite's board composition seeks to attain the appropriate balance of knowledge, skills, experience (including business, commercial and industry), diversity (in line with defined race and gender diversity targets) and independence to objectively and effectively discharge its governance role and responsibilities.
- 2.2 The Board is comprised of a balance of executive and non-executive directors, with a majority of non-executive directors. A majority of the non-executive directors is independent.
- 2.3 Non-executive directors are categorised as independent if it concludes that there is no interest, position, association or relationship which, when judged from the perspective of a reasonable and informed third party, is

likely to influence unduly or cause bias in decision-making in the best interest of the Group.

2.4 The following indicators are holistically considered, and on a substance-over-form basis, when assessing director independence for purposes of categorisation. The director:

2.4.1 is a significant provider of financial capital, or ongoing funding to the Group; or is an officer, employee or a representative of such provider of financial capital or funding;

2.4.2 participates in a share-based incentive scheme offered by the Group;

2.4.3 owns securities in the Group, the value of which is material to the personal wealth of the director;

2.4.4 has been in the employ of the Group as an executive manager during the preceding three financial years, or is a related party to such executive manager;

2.4.5 has been the designated external auditor responsible for performing the statutory audit for the Group, or a key member of the audit team of the external audit firm, during the preceding three financial years;

2.4.6 is a significant or ongoing professional adviser to the Group, other than as a member of the Board;

2.4.7 is a director or member of the executive management of a significant customer of, or supplier to, the Group;

2.4.8 is a director or member of the executive management of another organisation which is a related party to the Group; or

2.4.9 is entitled to remuneration contingent on the performance of the Group.

- 2.5 Directors are appointed through a formal process and the Nomination Committee of the Company assists with the process of identifying suitable candidates to be proposed to the shareholders. The nomination of candidates for election as members of the Board is approved by the Board as a whole.
- 2.6 The chief executive officer (“CEO”) and the chief finance officer (“CFO”) are ex officio members of the Board.
- 2.7 A formal induction programme is established for new directors.
- 2.8 Continuing professional development programmes are implemented which ensure that directors receive regular briefings on changes in risks, laws and the environment.

3. DIRECTOR CONDUCT

Directors are expected to individually and collectively cultivate the following characteristics and exhibit them in their conduct. The Board should embody the below ethical characteristics in order to offer effective leadership that results in achieving strategic objectives and positive outcomes over time.

- 3.1 Integrity:
- 3.1.1 Directors must act in good faith and in the best interests of the Group.
- 3.1.2 Directors should avoid conflicts of interest. In cases where conflicts cannot be avoided, full disclosure to the Board must be made at the earliest opportunity, and then proactively managed as determined by the Board and subject to legal provisions.
- 3.1.3 Directors should act ethically beyond mere legal compliance.
- 3.1.4 Directors should set the tone for ethical organisational culture.

3.2 Competence:

- 3.2.1 Directors should take steps to ensure that they have sufficient working knowledge of the Group, its industry, the triple context in which it operates, the capitals it uses and affects as well as of the key laws, rules, codes and standards applicable to the Group.
- 3.2.2 Directors must act with due care, skill and diligence, and take reasonably diligent steps to become informed about matters for decision.
- 3.2.3 Directors should continuously develop their competence to lead effectively.

3.3 Responsibility:

- 3.3.1 Directors should assume collective responsibility for steering and setting the direction of the Group; approving policy and planning; overseeing and monitoring of implementation and execution by management; and ensuring accountability for Group performance.
- 3.3.2 Directors should exercise courage in taking risks and capturing opportunities, but do so in a responsible manner and in the best interest of the Group.
- 3.3.3 Directors should take responsibility for anticipating, preventing or otherwise ameliorating the negative outcomes of the Group's activities and outputs on the triple context in which it operates, and the capitals that it uses and affects.
- 3.3.4 Directors should attend meetings of the Board and its committees, and devote sufficient time and effort to prepare for those meetings.

3.4 Accountability:

3.4.1 Directors should be willing to answer for the execution of their responsibilities, even when these were delegated.

3.5 Fairness:

3.5.1 Directors should adopt a stakeholder-inclusive approach in the execution of their governance role and responsibilities.

3.5.2 Directors should direct the Group in such a way that it does not adversely affect the natural environment, society or future generations.

3.6 Transparency:

3.6.1 Directors should be transparent in the manner in which they exercise their governance role and responsibilities.

4. ROLE AND RESPONSIBILITIES

The role and responsibilities of the Board include:

4.1 The Board will act as the focal point for, and custodian of, corporate governance in the Group and will exercise its leadership role by:

4.1.1 steering the Group through the setting of its strategic direction;

4.1.2 approving policy and planning that give effect to the direction provided;

4.1.3 overseeing and monitoring of implementation and execution by management; and

4.1.4 ensuring accountability for the Group's performance by means of, among others, reporting and disclosure.

4.2 The Board will appreciate that the Group's core purpose, its risks and opportunities, strategy, business model, performance and sustainable

development are inseparable elements of the value creating process, and will give effect to this as follows:

4.2.1 The Board assumes responsibility for the Group's performance by steering and setting the direction for the realisation of the Group's core purpose and values through its strategy.

4.2.2 The Board delegates to management the formulation and development of the Group's short, medium and long-term strategy.

4.2.3 The Board will approve the strategy as set by management, whilst through constructive challenge, taking the following into consideration:

- the timelines and parameters which determine the meaning of short, medium and long term respectively;
- the risks, opportunities and other significant matters connected to the triple context in which the Group operates and satisfying itself that the strategy and business plans do not give rise to risks that have not been thoroughly assessed by management;
- the extent to which the proposed strategy depends on the resources and relationships connected to the various forms of capital and ensuring that the strategy will result in sustainable outcomes;
- The legitimate and reasonable needs, interest and expectation of material stakeholders;
- The increase, decrease or transformation of the various forms of capitals that may result from the execution of the proposed strategy; and

- The interconnectivity and inter-dependence of all of the above.
- 4.2.4 The Board will approve the policies and operational plans developed by management to give effect to the approved strategy, ensuring that it includes key performance measures and targets for assessing the achievement of strategic objectives and positive outcomes for the short, medium and long term.
- 4.2.5 The Board delegates to management the responsibility for implementing and executing the approved policies and operational plans and will exercise ongoing oversight of this implementation through monitoring against performance measures and targets.
- 4.2.6 The Board will oversee that the Group continually assesses, and responsibly responds to, the negative consequences of its activities and outputs on the triple context in which it operates, and the capitals which it uses and affects.
- 4.2.7 The Board will be alert to the general viability of the Group with regard to its reliance and effects on the capitals, its solvency and liquidity, and its status as a going concern.
- 4.3 The Board will govern the ethics of the Group in a way that support the establishment of an ethical culture. To this effect, responsibilities for the governance of organisational ethics and conduct have been delegated to the Social and Ethics Committee.
- 4.4 The Board will ensure that the Group is and is seen to be a responsible corporate citizen by having regard to not only the financial aspects of the business of the Company, but also the impact that business operations have on the environment and the society within which it operates. To this effect, responsibilities for the governance of corporate citizenship have been delegated to the Social and Ethics Committee.

- 4.5 The Board will ensure that reports issued by the Group enable stakeholders to make informed assessments of the Group's performance, and its short, medium and long term prospects. To this effect, responsibilities for the governance of reporting frameworks and the oversight of thereof have been delegated to the Audit and Risk Committee.
- 4.6 The Board will govern risk in a way that supports the Group in setting and achieving strategic objectives. Risk governance will encompass both the opportunities and associated risks to be considered when developing strategy; and the potential positive and negative effects of the same risks on the achievement of the Group's objectives. Risk will be treated as integral to the way in which the Board makes decisions and executes its duties. To this effect, responsibilities for the governance and oversight of risk have been delegated to the Audit and Risk Committee.
- 4.7 The Board will govern technology and information in a way that supports the Group in setting and achieving its strategic objectives. To this effect, responsibilities for the governance and oversight of technology and information have been delegated to the Audit and Risk Committee.
- 4.8 The Board will govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the Group in being an ethical and good corporate citizen. To this effect, responsibilities for the governance and oversight of compliance have been delegated to the Audit and Risk Committee.
- 4.9 The Board will ensure that the Group remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term. To this effect, responsibilities for the governance and oversight of remuneration policies and practices have been delegated to the Remuneration Committee.

- 4.10 The Board will ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the Group's external reports. To this effect the following responsibilities have been delegated to the Audit and Risk Committee:
- 4.10.1 the governance and oversight of assurance functions, including the combined assurance model;
 - 4.10.2 the governance and oversight of assurance obtained over the integrity of external reports issued by the Group; and
 - 4.10.3 the establishment and oversight of an effective internal audit function.
- 4.11 In the execution of its governance role and responsibilities, the Board will adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the Group over time. The Board will appreciate that stakeholders' perceptions affect the Company's reputation. To this effect, the governance and oversight of stakeholder relationship management have been delegated to the Social and Ethics Committee.
- 4.12 The Board will assume responsibility for governance across the Group by setting the direction for how the relationships and exercise of power within the Group should be approached and conducted, through the approval of a Group Governance Framework that articulates and gives effect to the set direction. The Board will ensure that:
- 4.12.1 the Group Governance Framework is developed through consultation with subsidiary Boards;
 - 4.12.2 the agreed Group Governance Framework is implemented across the Group;
 - 4.12.3 the Group Governance Framework does not conflict with the memoranda of incorporation, delegations of authority,

shareholder agreements, board and committee TOR's and related policies and agreements within the Group;

4.12.4 the Group Governance Framework recognises each subsidiary within the Group as a separate and independent juristic person to whom its directors owe fiduciary duties;

4.12.5 the Group Governance Framework addresses governance matters as for the Group, including the following:

- Delineation of the rights and role of the holding company;
- Delegation of certain responsibilities by the board of the subsidiary to a board committee of the holding company, without abdicating accountability, and subject to agreed reporting and information-sharing arrangements;
- The extent to which governance and operational policies of the holding company have been adopted by the subsidiary companies in the group;
- Engagement by the holding company with the board of a subsidiary company before the holding company exercises its rights to elect directors to the board of the subsidiary; and
- Arrangements to address the risk of breaching legal duty in relation to the use of information obtained while acting as director of one company in the group for the purposes of another company in the group.

4.13 The Board will act in the best interests of the Company by ensuring that individual directors:

- adhere to legal standards of conduct;

- are permitted to take independent advice in connection with their duties following an agreed procedure;
- disclose real or perceived conflicts to the Board and deal with them accordingly; and
- deal in securities only in accordance with the policy adopted by the Board.

4.14 The Board will elect and appoint a lead independent director if the chairman of the Board is not independent. The functions of the lead independent director will include:

- 4.14.1 to lead in the absence of the chair;
- 4.14.2 to serve as a sounding board for the chair;
- 4.14.3 to act as an intermediary between the chair and other directors, if necessary;
- 4.14.4 to deal with shareholders' concerns where contact through the normal channels has failed to resolve such concerns, or where such contact is inappropriate;
- 4.14.5 to strengthen independence of the Board, if the chair is not an independent non-executive director;
- 4.14.6 to chair discussions and decision-making by the Board on matters where the chair has a conflict of interest; and
- 4.14.7 to lead the performance appraisal of the chair.

4.15 The Board will approve the appointment of and evaluate the performance of the CEO against relevant performance measures and targets. The CEO will be directly accountable to and report to the Board.

- 4.16 The Board approves the delegation of authority framework that articulates its set direction on the reservation and delegation of power to management via the CEO. To this extent, the Board ensures that:
- 4.16.1 the delegation of authority framework addresses the authority to appoint executives who will serve as executive directors and to make other executive appointments; and
 - 4.16.2 key management functions are headed by individuals with the necessary competence and authority and are adequately resourced.
- 4.17 The Board will consider, evaluate and approve any outside professional positions to be taken up by the CEO and the Chairman of the Board, as recommended by the Nominations Committee.
- 4.18 The Board will approve the appointment of the Company Secretary, whose office is empowered and carries the necessary authority, and who will provide professional and independent corporate governance and legal services to the Group. The Board will ensure that:
- 4.18.1 the Company Secretary has the necessary competence, gravitas and objectivity to provide independent guidance and support at the highest level of decision-making in the Group;
 - 4.18.2 for reasons of independence, the Company Secretary will have unfettered access to the Board, but will not be a member of the Board;
 - 4.18.3 the Company Secretary will report to the Board via the Chair on all statutory duties and functions performed in connection with the Board; and

5. DELEGATION

The Board delegates certain functions to well-structured committees, whilst ensuring that delegation promotes independent judgement, assist with the balance of power and effective discharge of Board duties, and without abdicating its own responsibilities. Delegation is formal and involves the following:

- 5.1 Formal terms of reference are established and approved for each committee of the Board, and includes the nature and extent of delegated responsibilities, decision-making authority, duration of delegation and the committee's reporting responsibilities.
- 5.2 The Board does not discharge its accountability through any delegation and will apply its collective mind to any information, opinions, recommendations, reports and statements presented by any committee.
- 5.3 The committees' terms of reference are reviewed and approved by the Board once a year.
- 5.4 The Board will ensure that each committee, as a whole, has the necessary knowledge, skills, experience and capacity to execute its duties effectively.
- 5.5 Roles and responsibilities and membership across committees are considered holistically, so as to achieve the following:
 - 5.5.1 Effective collaboration through cross-membership between committees, where required; coordinated timing of meetings; and avoidance of duplication or fragmented functioning as far as possible.
 - 5.5.2 Where more than one committee has jurisdiction to deal with a similar matter, the specific role and positioning of each committee in relation to such matter are defined to ensure complementary rather than competing approaches.

- 5.5.3 A balanced distribution of power in respect of membership across committees, so that no individual has the ability to dominate decision-making, and no undue reliance is placed on any individual.
- 5.6 The Board has established the following sub-committees and the delegated roles and responsibilities are contained in each sub-committee TOR which has been reviewed and approved by the Board:
- 5.6.1 Audit and Risk Committee
- 5.6.2 Social and Ethics Committee
- 5.6.3 Nomination Committee
- 5.6.4 Remuneration Committee

6. BOARD EVALUATIONS

- 6.1 The performance evaluation of the Board, its committees and individual directors, including the chairman, will be performed formally every two years, with informal consideration given every other year.
- 6.2 The Board will evaluate the performance of the Board, all its sub-committees', and each individual director's performance, as follows:
- 6.2.1 determine and approve the methodology for approaching and conducting board evaluations, taking into consideration the appropriate fit and proper criteria, specific responsibilities assigned to each committee and director through the Board and its sub-committees' terms of reference's, as well as the ethical and leadership characteristics expected from the directors individually and collectively and as listed in the Board terms of reference;
- 6.2.2 ensure that the performance of the Board, its sub-committees, the Chairman of the Board and all individual directors are

formally evaluated at least every two years. This review will be facilitated by the Company Secretary and will be led by the Chairman of the Board, or in his/her absence, another independent non-executive director as determined by the Board as a whole;

6.2.3 ensure that, every alternate year to the formal evaluation being conducted, the Board schedules an opportunity for consideration, reflection and discussion of its performance as well as that of its committees, its Chairman and each individual director; and

6.2.4 consider the performance of directors and take steps to remove directors who do not make an appropriate contribution. These steps may include training, mentoring or asking directors to step down.

7. MEETING PROCEDURES

7.1 Frequency:

7.1.1 The Board must hold sufficient scheduled meetings to discharge all its duties as set out in this charter but subject to a minimum of four (4) meetings per year.

7.1.2 Meetings in addition to those scheduled may be held at the instance of board members in accordance with section 73 (1) of the Companies Act , Act 71 Of 2008.

7.1.3 The chairman of the Board may meet with the chief executive officer and the chief finance officer and/or the company secretary prior to a Board meeting to discuss important issues and agree on the agenda.

7.2 Attendance:

- 7.2.1 Members of senior management, assurance providers and professional advisors may be in attendance at meetings, but by invitation only and they may not vote.
- 7.2.2 Board members must attend all scheduled meetings of the Board, including meetings called on an *ad hoc*-basis for special matters, unless prior apology with reasons, has been submitted to the chairman or company secretary.
- 7.2.3 The company secretary is the secretary to the Board.
- 7.2.4 If the chairman of the Board is absent from a meeting, the meeting will be chaired by the lead independent director or another independent director as nominated by all members present.

7.3 Agenda and Minutes:

- 7.3.1 The Board must establish an annual work plan for each year to ensure that all relevant matters are covered by the agendas of the meetings planned for the year. The annual plan must ensure proper coverage of the matters laid out in this charter. The more critical matters will need to be attended to each year while other matters may be dealt with on a rotation basis over a three-year period. The number, timing and length of meetings and the agendas are to be determined in accordance with the annual plan.
- 7.3.2 A detailed agenda, together with supporting documentation, must be circulated, prior to each meeting, to the members of the Board and other invitees.
- 7.3.3 Board members must be fully prepared for Board meetings to be able to provide appropriate and constructive input on matters for discussion.

7.3.4 At the start of each Board meeting, all directors are required to declare whether any conflict of interest exist with respect to a matter on the agenda. Such conflicts will be proactively managed as determined by the Board and subject to any legal provisions.

7.3.5 The minutes must be completed as soon as possible after the meeting and circulated to the chairman and members of the Board for review thereof. The minutes must be formally approved by the Board at its next scheduled meeting.

7.4 Quorum:

7.4.1 A representative quorum for meetings is as provided for in the Company's MOI.

7.4.2 Individuals in attendance at Board meetings by invitation may participate in discussions but do not form part of the quorum for Board meetings

8. DISCLOSURES

The Board will ensure that the following is disclosed in the Annual Integrated Report:

8.1 The arrangements by which directors are being held to account for ethical and effective leadership.

8.2 In relation to the primary role and responsibilities of the Board:

8.2.1 the number of meetings held during the reporting period, and attendance at those meetings; and

8.2.2 whether the Board is satisfied that it has fulfilled its responsibilities in accordance with its charter for the reporting period.

- 8.3 In relation to each sub-committee of the Board:
- 8.3.1 its overall role and associated responsibilities and functions;
 - 8.3.2 its composition, including each member's qualifications and experience;
any external advisors or invitees who regularly attend committee meetings;
 - 8.3.3 key areas of focus during the reporting period;
 - 8.3.4 the number of meetings held during the reporting period and attendance at those meetings; and
 - 8.3.5 whether the committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.
- 8.4 A statement by the Board on whether it is satisfied that the delegation of authority framework contributes to role clarity and the effective exercise of authority and responsibilities.
- 8.5 The arrangements in place for accessing professional corporate governance services and a statement on whether the Board believes those arrangements are effective.
- 8.6 An overview of the group governance framework that is implemented across the group should be disclosed by the holding company, whilst the subsidiary company should disclose the responsibilities it has delegated to board committees of the holding company and the extent to which it has adopted the policies and procedures of the holding company.

9. REVIEW

These terms of reference will be reviewed annually by the Board, and subject to the approval of the Board, amended accordingly.