



**SHOPRITE HOLDINGS LIMITED  
("SHOPRITE HOLDINGS" OR THE "GROUP")**

**Application of the King IV Code Principles**

The Board is committed to complying with the requirements of the Companies Act, 71 of 2008, as amended, the JSE Listings Requirements and the King Report on Corporate Governance for South Africa 2016 (King IV).

The principles of King IV are adopted and applied by Shoprite Holdings as disclosed in this document.

## Leadership, Ethics and Corporate Citizenship

<b>Principle 1</b>	<b><i>Leadership</i></b> The Board should lead ethically and effectively.
1.1	The Board maintains a high level of individual and collective responsibilities, accountability, fairness and transparency, which together drive a culture of risk awareness, ethical behaviour and value creation.
1.2	During the 2017/18 financial year, the Board reviewed and amended its terms of reference to ensure compliance with King IV. This charter as well as the Group's Code of Conduct sets the basis of the Group's ethics framework. To ensure that the Board has full oversight of the Group's ethics related matters, regular reports on the performance are furnished to the Audit & Risk as well as the Social & Ethics Committees.
1.3	The Board is competent to steer and set the strategic direction of Shoprite Holdings and oversee the implementation of approved strategies by management, ensuring accountability for the Group's performance. The Board is mindful of the impact of the Group's activities on society and the environment, considering key risks and opportunities, and seeks to ensure sustained value creation for all stakeholders.
1.4	Further references in this regard can be found in the 2018 Integrated Report under the Corporate Governance Report with specific reference to: <ul style="list-style-type: none"> <li>▪ Our Governance Framework;</li> <li>▪ Conflicts of interest and directors financial interests;</li> <li>▪ Board effectiveness;</li> <li>▪ Corporate ethics.</li> </ul>

<b>Principle 2</b>	<b><i>Organisational Ethics</i></b> The Board should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.
2.1	The Board has implemented appropriate structures and processes to ensure that the Group's business is conducted in an ethical manner, taking into account the impact on the economy, society and the environment as well as balancing the diverse interest of all its various stakeholders.
2.2	The Audit and Risk and Social and Ethics Committees provide oversight of the Group's ethics.
2.3	An ethical corporate culture is promoted and sustained through: <ul style="list-style-type: none"> <li>▪ Endorsing the values of the Group documented in <i>the Code of Conduct</i>;</li> <li>▪ The Code which has been communicated to all employees through publishing it on the intranet and incorporation by reference in employee contracts;</li> </ul>

- Endorsing internal policies, specifically around *Anti-bribery and Corruption, Gifts and Entertainment and Whistle-blowing* to address practices related to ethical conduct efficiently;
  - Monitoring and reporting on the measures taken by the Group to achieve adherence thereof through the Social and Ethics and Audit and Risk Committees; and
  - All business conducted by the Board and management aligns with the values of the Group.
- 2.4 The implementation and execution of the *Code of Ethics and Conduct* and related policies are delegated to management.
- 2.5 Employees have a duty to report any suspected breaches of the Code of Conduct. The anonymous whistle-blowing hotline continues to be promoted across the business.
- 2.6 Further references in this regard can be found in the 2018 Integrated Report in the Social and Ethics Report.

### **Principle 3**

### ***Responsible Corporate Citizenship***

The Board should ensure that the organisation is and is seen to be a responsible corporate citizen.

- 3.1 The Board ensures that the Group is, and is viewed to be a responsible corporate citizen. Further to the Social and Ethics Committee having oversight of ethics matters, it also maintains oversight of various sustainability and good corporate citizen matters.
- 3.2 We have implemented various initiatives and programmes to ensure that we promote and protect the environment and maintain the health and safety of our people, suppliers and customers. In this regard we have implemented or engaged in the following initiatives:
- Growing consumer awareness on issues such as biodiversity, food waste, packaging and nutritional health;
  - Invested significantly in making our business resilient to water shortages and outages;
  - Monitoring and reporting our resource consumption;
  - Participation in the Carbon Disclosure Project and have set targets to reduce our carbon footprint;
  - Participation in a retail sector industry approved Waste Management plan;
  - Deepened our efforts to engage with employees, in particular store-based workers;
  - Invested in a centralised monitoring system to ensure the safety and security of our customers and employees at our stores; and
  - Continued with our corporate social investment spending and upliftment of the communities where we operate as well as charitable projects and initiatives.
- 3.3 Further details can be obtained from the following sections in our 2018 Integrated Report:
- Sustainability report 2018; and
  - Social and Ethics Committee report.

## Strategy, Performance and Reporting

### Principle 4

#### ***Strategy and Performance***

The Board should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.

- 4.1 The Board acknowledges that strategy, risk, performance and sustainability cannot be separated. The Board and its various committees monitor key performance aspects for material issues, as well as a broader range of sustainability, risk and compliance indicators.
- 4.2 The Board determines the Group's strategic direction and provides corporate governance oversight. In this regard it ensures that the business portfolio is managed in a responsible fashion. In analysing the strategic direction and objectives of the Group, the Board:
- Ensures that the strategy is aligned with the Group's business model and value drivers taking into account the legitimate expectations and interests of stakeholders;
  - Satisfies itself that the strategy and business plan are not encumbered by risks that have not been properly assessed; and
  - Aims to ensure that the strategy results in a sustainable outcome.
- 4.3 Further references in this regard can be found in the 2018 Integrated Report under the following headings:
- Strategy and performance;
  - Stakeholder engagement;
  - Chairman's report;
  - Chief Executive's reports; and
  - Financial report.

### Principle 5

#### ***Reporting***

The Board should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short, medium and long- term prospects.

- 5.1 Sustainability reporting and disclosure are integrated with the Group's financial reporting. Independently assured sustainability reporting and disclosures has not taken place and remains under review.
- 5.2 The Board delegates the governance and approval of the Integrated Report to the Audit and Risk Committee.

5.3 The Audit and Risk Committee discharge its duties by:

- Ensuring that the Group issues a report annually;
- Assessing the integrity of external reports;
- Approving the reporting frameworks adopted by management;
- Ensuring that all issued reports comply with legal requirements and meet the legitimate and reasonable information needs of material stakeholders;
- Approving the threshold of materiality used for purposes of disclosing information or not; and
- Overseeing the assurance provided by the Internal Audit department on sustainability reporting and disclosure.

## Governing Structures and Delegation

### Principle 6

#### ***Primary Role and Responsibilities of the Board***

The Board should serve as the focal point and custodian of corporate governance in the organisation.

- 6.1 The Board is the custodian of corporate governance in the Group and has adopted a formal terms of reference setting out its responsibilities, duties and accountability. The charter was reviewed and amended during the period under review and will be reviewed annually going forward.
- 6.2 Our governance practices are disclosed in the 2018 Integrated Report.

### Principle 7

#### ***Composition of the Board***

The Board should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.

- 7.1 The Board comprises of 8 non-executive and 3 executive directors. 5 of the non-executive directors are independent. The Chairperson is not independent and a lead independent non-executive director has been appointed.
- 7.2 Directors are appointed through a formal process. The Nomination Committee assists in identifying suitable candidates and final approval of appointment resides with the Board. All effort is taken to ensure the composition of the Board comprise the appropriate mix of knowledge, skills and experience (business, commercial and industry) which are sufficient to deliver on strategies and create long term shareholder value. Targets are also set to more adequately reflect the demographics of South Africa
- 7.3 The Group has adopted a *Promotion of Gender and Race Diversity policy* at Board level which seeks to achieve a voluntary target of black female representation by the end of 2019. Further details in this regard can be obtained from the 2018 Nominations Committee report.

- 7.4 One third of the non-executive directors retire annually by rotation in terms of the Shoprite Holdings MOI. The Nomination Committee makes recommendations regarding the re-election of the retiring directors considering performance, meeting conduct, etc. The independence and performance of non-executive directors who have served on the Board for more than 9 years is subjected to a rigorous review.
- 7.5 A formal induction programme exists for all new directors. Upon their appointment new directors receive an induction pack consisting of, inter alia, agendas and minutes of the previous Board and sub-committee meetings, the latest Integrated Report, relevant insurance information, strategic documents, relevant policies and charters, and are informed of their fiduciary duties in terms of the Companies Act and JSE Listings Requirements. They also visit various sites and distribution centres and have meetings with executive management.
- 7.6 The roles and responsibilities of the chair and the CEO are separated. The CEO and CFO are executive members of the Board.

## Principle 8

### *Committees of the Board*

The Board should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.

- 8.1 The Board has delegated particular roles and responsibilities to Board Committees, which operates under Board approved Terms' of Reference, setting out the nature and extent of the responsibilities delegated and decision-making authority.
- 8.2 The Terms of Reference of each Board Committee is reviewed annually. The Board ensures that each Board Committee has the necessary skills, experience and knowledge to discharge their duties effectively. Committee members are nominated by the Nomination Committee and appointed by the Board, except for the Audit and Risk Committee whose members are annually elected by the shareholders.
- 8.3 The Board has appointed the following Committees:
- This delegation by the Board of its responsibilities does not constitute a discharge of its accountability.
- *Audit and Risk Committee* - a statutory requirement and comprises of at least 3 independent, non-executive directors which have the necessary financial literacy, skills and experience to execute their duties effectively. This committee is also accountable for the risk management process, which includes a comprehensive risk management system that incorporates continual risk assessment, evaluation and embedding of internal controls. The Chairperson is an independent, non-executive director.
  - *Nomination Committee* - all members are non-executive directors with the majority being independent. The primary responsibility of the Committee is to review and recommend the size and composition of the Board, succession plans for executive and non- executive directors and the evaluation of the performance and independence of the Board, its committees and individual members.

- *Remuneration Committee* - all members are non-executive directors with the majority being independent. The Chairperson is an independent, non-executive director. The primary responsibilities include reviewing and approving short- and long-term incentive plans (and related performance targets), recommending changes to employment contracts and approving individual remuneration levels of executives and top management. Further details on the remuneration policy and its implementation are included in the 2018 Integrated Report.
- *Social & Ethics Committee* - a statutory requirement and comprises of executive and non-executive directors, with the majority being non-executive. The Committee's main focus areas include sustainability, employment equity, skills development and health and safety.

Additional information on the role, responsibilities and the activities of the Committees during the 2017/18 financial year is disclosed in the 2018 Integrated Report.

### **Principle 9**

#### ***Evaluations of the performance of the Board***

The Board should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.

- 9.1 A self-evaluation of the performance of the Board and its committees as a whole is performed annually. The results of such evaluations are considered and actions taken where required. The Chairperson is responsible to assess each director and committee on an on-going basis.
- 9.2 Each director is required to comment on the Board structure and responsibilities, processes, practices and culture of the Board, overall performance, the structure, resources and performance in respect of statutory duties of the Committees.

### **Principle 10**

#### ***Appointment and delegation to management***

The Board should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.

- 10.1 The Board has delegated to the CEO, CFO and other executive management the authority to run the day-to-day business subject to an approval framework established by the Board.
- 10.2 The Executive Committee comprise the CEO, CFO and nominated business unit and function heads who are responsible to implement and execute the approved strategy and discharge all duties and functions as delegated by the Board. The Executive Committee meets on a regular basis.
- 10.3 Shoprite Holdings has appointed a company secretary who is responsible for corporate governance and plays a vital role at Board level. The Board believes the company secretary is suitably skilled, qualified and experienced enough to fulfil the role competently, that he is independent and maintains an arm's length relationship with the directors.

## Governance Functional Areas

### Principle 11

#### ***Risk Governance***

The Board should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.

- 11.1 The risk management process forms an integral component of the Audit and Risk Committee and has been included in the terms of reference.
- 11.2 The Board is responsible for the governance of risk which also forms part of its charter. The Board sets the direction for how risk should be approached and addressed in the Group and this responsibility to govern risk is delegated to the Audit and Risk Committee.
- 11.3 The Group has appointed a Group Risk Manager who assists in identifying, assessing and recording strategic risks facing the Group, and where appropriate monitors mitigating actions.
- 11.4 Management continuously develops and enhances risk and control procedures, aiming to improve risk identification, assessment and monitoring.
- 11.5 The Risk Forum is a management committee chaired by the CFO and meets four times per year. Current membership comprises of key management. A report is submitted to the Audit and Risk Committee after each meeting.
- 11.6 The Group's principal risks are disclosed in its 2018 Integrated Report.

### Principle 12

#### ***Technology and Information Governance***

The Board should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.

- 12.1 The Board has assumed the responsibility for IT governance but has delegated the establishment of an appropriate IT policy, framework and strategy to management. IT reports to the Audit & Risk Committee on various aspects including compliance with relevant governance frameworks and results of internal audit reviews. An information technology (IT) governance framework has been adopted and is reviewed and approved by the Audit & Risk Committee on a regular basis.
- 12.2 IT is fully integrated into the Group strategic planning process which ensures alignment in the achievement of the Group's business objectives.
- 12.3 The Audit and Risk Committee has mandated IT governance within the Group via an approved IT charter.
- 12.4 An IT projects approval committee monitors and evaluates significant IT investments and expenditure. A report in this regard is tabled at each meeting of the Audit and Risk Committee.



- 12.5 The IT risk management framework includes the assessment and management of all significant IT risks, including disaster recovery and other IT practices. Reports in this regard are presented to the Risk forum and Audit and Risk Committee.
- 12.6 An information management strategy has been implemented which monitors the management of assets, including the management of information security.
- 12.7 IT is represented at the meetings of the Audit & Risk Committee by the financial director who forms part of IT steering committees.
- 12.8 Global data leakage prevention, legal and regulatory compliance along with identity and access management is the focus with a strong emphasis on confidential information and the availability of core business systems.

### **Principle 13**

#### ***Compliance Governance***

The Board should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.

- 13.1 Promoting adherence to regulations and legislation applicable to the business across its various jurisdictions is a key focus area for the Group and forms part of its key business principles.
- 13.2 Legislative and regulatory compliance is monitored by a dedicated Group Compliance Manager that reports under the company secretary. The Group's regulatory universe was updated in 2018 and presented to the Audit and Risk Committee as well as the Board. The potential effect of pending legislation on the Group's business activities are also assessed prior to promulgation.
- 13.3 The Board is continually informed of material legislation, rules, codes, standards and changes thereto. Information on laws, rules and codes are shared with directors regularly through documentation and briefing sessions by the company secretary and external advisers.
- 13.4 The Group's enterprise risk management framework provides for all classes of risk that includes compliance risks.
- 13.5 The Board discloses in the 2018 Integrated Report details on how it discharged its responsibility towards governing and managing compliance, areas of focus, and inspections by authorities as well as material or repeated instances of non-compliance.

### **Principle 14**

#### ***Remuneration Governance***

The Board should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.

- 14.1 Shoprite Holding's Remuneration Policy is designed to attract, develop, motivate and retain talented employees who enable the Group to pursue and achieve the strategic objectives and thereby enhancing value for all stakeholders.

- 14.2 Our remuneration philosophy is aimed at driving a high-performance culture by ensuring that our employees are motivated and committed to the success of the Group and promotes remuneration that is fair and responsible. The Remuneration policy is transparent and is based on the principles of market competitiveness, internal equity and pay for performance. It ensures that no discrimination occurs and recognises exceptional and value-adding performance. The Board, through the Remuneration Committee, oversee that the implementation and execution of the Remuneration Policy achieves the set objectives.
- 14.3 The remuneration of each director is disclosed in the 2018 Integrated Report.
- 14.4 As recommended by King IV, both the Remuneration Policy and the Implementation Report will be tabled at the 2018 AGM for separate non-binding advisory votes.
- 14.5 The Remuneration Report for 2018 has been structured along the lines as recommended by King IV. Further details are disclosed in the Remuneration Report that forms part of the 2018 Integrated Report.

**Principle 15*****Assurance***

The Board should 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 organisation's external reports.

- 15.1 The Board has adopted a combined assurance model that identifies the risk areas affecting the Group and maps the level of assurance being provided by the different lines rolled out into the business to improve the assessment of the levels of assurance provided.
- 15.2 Assurance services are overseen by the Audit and Risk Committee who is responsible for inter-alia:
- Reviewing the adequacy and effectiveness of the financial reporting process and system of internal control;
  - Approving the Integrated Report, annual financial statements, interim reports and recommend to the Board for final approval;
  - Overseeing the Internal Audit Function and approving the annual work plan;
  - Making recommendations to the shareholders for the appointment of the external auditors and confirming their independence;
  - Confirming the expertise of the CFO and Group finance function; and
  - Ensuring that the financial reporting procedures are appropriate and that those procedures are effective.
- 15.3 Internal audit follows a risk-based approach and provides written assessment of the effectiveness of the systems of internal controls and risk management to the Audit and Risk Committee. The Head of Internal Audit reports to the Chairperson of the Audit and Risk Committee and administratively to the CFO. He has unrestricted access to the members of the Audit and Risk Committee and executives of the Group.

15.4 Where compliance issues are identified, they are reported and rectified timeously. The Audit and Risk Committee and the Board are satisfied that control systems and procedures are suitably implemented, maintained and monitored by qualified personnel, with appropriate segregation of authority, duties and reporting lines.

15.5 Further details in this regard are disclosed in the 2018 Integrated Report.

## Stakeholder Relationships

### Principle 16

#### *Stakeholders*

In the execution of its governance role and responsibilities, the Board should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.

16.1 The brand of “Shoprite” and its reputation is of paramount importance to the Board. The Board strives to achieve the appropriate balance between the various stakeholder groups, in the best interest of the Group. Every effort is made to ensure transparent and effective communication with stakeholders that is essential for building and maintaining confidence.

16.2 The Social and Ethics Committee, governs stakeholder relationships, communication and reporting and delegates to management the responsibility for execution.

16.3 The Group manages communications with its key financial audiences, including institutional shareholders and financial analysts, by conducting information sessions following the publication of interim and final results. Executive directors, as well as representatives from management, attend these sessions. A broad range of public communication channels are also used to disseminate information. There is also a dedicated investor centre on the corporate website.

16.4 Shareholders are encouraged to attend and actively participate in the AGM. The Board ensures that the chairpersons of the Audit and Risk, Social and Ethics, Remuneration and Nominations committees and the designated external auditor are present at the AGM to respond to questions from shareholders.

16.5 Effective and efficient dispute resolution forms part of the Group’s legal and regulatory processes.

16.6 Further details can be obtained from the 2018 Integrated Report under the heading Stakeholder Engagement.