



Corporate Governance

Adelle van Schalkwyk, BA, HDip LLaw, LLB, LLM and LLD, one of Massmart's seven accredited Ethics officers, inside the Palace of Justice in Pretoria.

We will always ensure that we act in good faith, with care, diligence and skill in the way that we manage our business.

We believe that sustainable and effective corporate governance is demonstrated through a consistent pattern of “doing the right thing”, through good times and the bad.

Introduction

(2.1.8)

It is possible that the term *good corporate governance* has become slightly overused and in some cases even abused in company reports and brochures. There can be a temptation to demonstrate one's adherence to good corporate governance by producing detailed checklists or highlighting the skills of the non-executive directors, for example. At Massmart we accept that the first steps towards good corporate governance must embrace the requirements of a particular governance framework – in our case, the King II Report on Corporate Governance – but believe that sustainable and effective corporate governance is demonstrated through a consistent pattern of “doing the right thing”, through good times and the bad.

(2.1.5)

Our Group is committed to complying with all legislation, regulations and best practices relevant to our business, in every country where we conduct business.

(8.4.7) (9)

For the financial year under review, the Board confirms that the Group complied with every major aspect of the Code of Corporate Practices and Conduct as set out in the King II Report on Corporate Governance. An index illustrating the Group's compliance to this code can be found on pages 110 and 111.

(2.1)

The Board

(2.1.1) (2.1.4) (2.1.6) (2.1.17) (3.2.4)

The Board of Massmart is responsible for directing the Group towards the achievement of the Massmart vision and so the Board is accountable for the development and execution of the Group's strategy, operating performance and financial results, all practised within the Group's Governance Authorities.

(2.1.18)

The Board attempts to finesse the often conflicting dynamics of encouraging entrepreneurial behaviour in the Group against the constraints of corporate governance.

(2.1.3) (2.3.1) (2.5.2) (2.7.10) (6.3.3) (6.3.4)

The Board is responsible for its own composition, the appointment of the Chairman and Chief Executive Officer, and the constitution and composition of its committees. The Board has a charter setting out its policies, roles and responsibilities in the execution of its mandate described above. Each Board Committee also has a charter, or terms of reference, that is formally signed off by the Board. Annually, in November the Committees and Board review, and amend, if necessary, the respective charters to ensure their relevance.

(2.3) (2.3.3)

Immediately after the financial year-end the following changes to the Board, which had earlier been widely communicated, took place:

(2.3.2) (2.3.3)

- Deputy Chief Executive Officer (CEO), Grant Pattison, was appointed CEO with effect from 1 July 2007.
- The outgoing CEO, Mark Lamberti, was appointed non-executive Chairman.

The directors were unanimously of the view that the interests of all Massmart stakeholders will be best served by the retention of the skills and experience of Mark Lamberti as Chairman.

(2.7.7)

To facilitate and ensure good governance, the Chairman of the four Board committees will be held by independent directors; the roles of CEO and Chairman have been separated and recognising that Mark Lamberti is not considered independent, Chris Seabrooke, the new non-executive Deputy Chairman, will maintain his role as the Group's Lead Independent Director.

(2.1.2) (2.2.1) (2.4.1) (2.7.6)

Prior to these changes the Board comprised three executive directors and 11 independent non-executive directors. Subsequent to these changes the Board now comprises two executive directors, 11 independent non-executive directors and one non-executive director.

Brief biographical details of each Board member are reported on pages 9 to 11.

The role of all directors is to bring independent judgement and experience to the Board's deliberations and decisions in the interests of the Company.

(2.2.2) (2.2.3)

All directors retire by rotation every three years. Unless requested to serve a further term by the Board, retiring directors are not proposed for re-election by the shareholders. In addition, shareholders must ratify the initial appointment of each director at the first annual general meeting of shareholders following that director's appointment.

DIRECTORS' ATTENDANCE AT BOARD MEETINGS:

	AUG 2006	NOV 2006	FEB 2007	MAY 2007
CS Seabrooke	✓	✓	✓	✓
MJ Lamberti	✓	✓	✓	✓
MD Brand	✓	✓	X	✓
ZL Combi	✓	✓	✓	✓
KD Dlamini	–	✓	✓	✓
NN Gwagwa	–	✓	✓	X
GRC Hayward	✓	✓	✓	✓
JC Hodgkinson	✓	✓	X	✓
P Langeni	X	✓	✓	✓
IN Matthews	✓	✓	✓	✓
P Maw	✓	✓	✓	✓
DNM Mokhobo	✓	✓	✓	✓
S Nothnagel	✓	✓	–	–
GM Pattison	✓	✓	✓	✓
MJ Rubin	✓	✓	✓	✓

Board process and evaluation

(2.6) (2.6.1)

The Board meets four times a year and on an ad hoc basis should a particular issue demand its attention. In addition, the Board meets once annually to formally consider and approve the strategies of the Divisions and the Group.

(2.7.1) (2.7.2) (2.7.4)

The Board's authority is devolved sequentially through the Massmart Executive Committee, the Divisional Boards and the Divisional Executive Committees as formally prescribed by the Massmart Governance Authorities. In addition, the Board has delegated certain specific responsibilities to Board Committees, as described more fully below. These Committees assist the Board and directors in discharging their duties and responsibilities under King II and the Governance Authorities. Full transparency of the Committees' deliberations is encouraged and the formal minutes of all Committee meetings are included in the papers at the ensuing Board meeting.

(2.6.2)

The Board works to a formal agenda that covers strategy, structure, operating performance, growth initiatives, sustainability and other key activities of the Group. To do so effectively, formal documents and minutes of all Board Committees are included in the Board papers.

(2.1.7) (2.1.9) (2.7.8) (2.10.3)

Directors are encouraged to take independent advice, at the Company's cost, in the proper execution of their duties and responsibilities. They have direct, unfettered access to the Group's external auditors, professional advisors and to the advice and services of the Company Secretary.

(2.6.3)

Independent directors have unrestricted access to any executive, manager or employee.

Acting Ethically

(2.3.6)

The Nomination and Remuneration Committee facilitates a comprehensive annual formal performance evaluation of the CEO, comprising a self-evaluation; an evaluation of the CEO by every non-executive director by way of a questionnaire which includes open-ended comments; and an appraisal of the CEO by each of his direct reports using a different questionnaire. The Chairman provides the summary and feedback of the above to the CEO, and he is encouraged to probe and debate any aspect of the evaluation with the Board.

(2.7.10) (2.8) (2.8.1) (2.8.2)

In addition, all Board members complete a detailed Board self-assessment each year, probing the composition, duties, responsibilities, process and effectiveness of the Board. Similarly, all Board Committee members complete detailed self-assessments covering their committees.

(2.3.5)

Finally, all Board members formally assess the Chairman's performance and the Chief Executive Officer provides the feedback.

These assessments are approached in a constructive manner and provide valuable input that is used to enhance the effectiveness of the Chairman, the CEO and the Board and its committees.

(2.7)

Board Committees

DIRECTORS' MEMBERSHIPS ON THE BOARD COMMITTEES WITH EFFECT FROM JULY 2007:

	AUDIT	REMUNE- RATION	RISK	SUSTAIN- ABILITY
MJ Lamberti	✓	✓		
CS Seabrooke	✓	✓		
MD Brand			✓	✓
ZL Combi				✓
KD Dlamini				
NN Gwagwa				
GRC Hayward			✓	
JC Hodgkinson				
P Langeni				✓
IN Matthews	✓	✓	✓	
P Maw	✓		✓	
DNM Mokhobo		✓		✓
GM Pattison			✓	✓
MJ Rubin				✓

(2.7.3)

Greater detail on each Committee's terms of reference, focus areas and meetings held during the financial year is shown below.

(2.7.5)

Audit Committee

(2.7.6) (2.7.7) (6.3.1) (6.3.2)

During the 2007 financial year, the Audit Committee comprised Messrs Nigel Matthews (Chairman), Chris Seabrooke and Peter Maw, all of whom are independent non-executive directors and who each have the requisite financial and commercial skills and experience to contribute to the Committee's deliberations. With effect from 1 July 2007, Mark Lamberti joined the Audit Committee. When necessary, the Chief Executive Officer, the Chief Financial Officer, senior financial executives of the Group and representatives from the external and internal auditors attend Committee meetings by invitation.

(2.6.4) (2.7.3) (4.1.7) (4.2.5) (6.1.3) (6.2.4)

The Audit Committee is primarily responsible for:

- overseeing the effectiveness of the Group's internal control systems, ensuring that they are designed in response to identified key business and control risks, and have been effective throughout the period;
- reviewing the scope and effectiveness of the external and internal audit functions;
- ensuring that adequate books and records have been maintained and that the appropriate accounting policies have been adopted and consistently applied;
- reviewing and reporting on compliance with the King II Report;
- testing that the Group's going-concern assertion remains appropriate; and
- overseeing the quality and integrity of the financial statements by ensuring that they give a true and fair view, consistent with information known to the Committee.

(6.3.4)

Annually the Committee considers whether it is meeting its duties and responsibilities as set out in the Board-approved Committee charter.

(2.7.3) (6.1.2) (6.1.5)

The Committee reviews the scope, as well as the independence and objectivity, of the external auditors. The nature and extent of non-audit services provided by the external auditors is reviewed annually to ensure that fees for such services do not become so significant as to call into question their independence of Massmart. The Committee has adopted a guideline that fees paid to the Group external auditors for non-audit services (excluding due diligence investigations) should not exceed the level of audit fees charged to the Group. If it appears that this guideline will be breached on a consistent basis, non-audit services will be outsourced to alternative auditors.

(6.1.1)

The Audit Committee annually recommends the appointment of the external auditors for Board and shareholder approval. During the financial year, Deloitte & Touche were the external auditors for all Group companies with the exception of De La Rey.

During the year, Deloitte & Touche provided certain non-audit services, including tax reviews and advice, and reviews of information technology systems and applications.

(4.2.3) (4.2.4)

The Committee reviews the scope and coverage of the Internal Audit department, and has approved that department's coverage and work plan for the forthcoming year.

The internal and external auditors have unfettered access to the Audit Committee and its members, and both present formal reports to the meetings.

The Audit Committee met three times during the year and members of the Committee also met regularly with the head of Internal Audit and the external auditors.

(2.7.9)

ATTENDANCE AT AUDIT COMMITTEE MEETINGS:

	AUG 2006	FEB 2007	MAY 2007
IN Matthews	✓	✓	✓
CS Seabrooke	✓	✓	✓
P Maw	✓	✓	✓

(2.7.5) (2.7.6) (2.7.7)

Nomination and Remuneration Committee

During the 2007 financial year, the Nomination and Remuneration Committee comprised Messrs Chris Seabrooke (Chairman), Nigel Matthews and Ms Dawn Mokhobo, all of whom are independent non-executive directors. With effect from 1 July 2007, Mark Lamberti joined the Committee. The CEO attends by invitation.

(2.5.11) (2.5.12) (2.7.9)

The Committee is responsible for:

- designing, monitoring and communicating the Group's remuneration policy and the short- and long-term incentive policies for directors, executives, management and staff;
- considering and approving the remuneration and incentives for directors and executive management; and
- the recruitment and nomination of new non-executive directors and for ensuring that succession plans are in place for the CEO, the executive directors and Divisional heads.

(2.5.7)

The Committee recommends to the trustees of the Massmart Employee Share Trust that award shares or options should be granted in terms of the scheme rules. Annually, the Committee reviews the Group's employee benefit funds, specifically the in-house medical scheme and the provident and pension funds, considering their performance, financial stability and general principles of the benefit levels being applied.

Bi-annually, the Committee receives a report prepared by independent remuneration consultants on recent trends in, and the current levels of, short- and long-term executive remuneration in South Africa.

(2.5.4)

The Group's philosophy and practice concerning executive remuneration is described later in this report on page 106, and greater details of individual directors' remuneration are provided on pages 163 to 165.

The Nomination and Remuneration Committee met four times during the year.

(2.5.3) (2.7.9)

ATTENDANCE AT NOMINATION AND REMUNERATION COMMITTEE MEETINGS:

	AUG 2006	NOV 2006	FEB 2007	MAY 2007
CS Seabrooke	✓	✓	✓	✓
IN Matthews	✓	✓	✓	✓
DNM Mokhobo	✓	X	✓	✓

(2.7.6) (2.7.7) (3.2.6)

Risk Committee

The Risk Committee comprises Messrs Nigel Matthews (Chairman), Dods Brand, Peter Maw, Guy Hayward, Grant Pattison, Kevin Vyvyan-Day and Norman Gray (Head of Internal Audit). Nigel Matthews chairs both the Risk and Audit Committees to ensure the appropriate exchange of key issues between the two Committees.

In order to facilitate the effective operation of the Committee to assess risk at all levels in the Group, the Committee is not comprised exclusively of non-executive directors which is the preference of the King II Report.

The Board considers risk management to be a key business discipline designed to balance risk and reward and to protect the Group against risks and uncertainties that could threaten the achievement of our business objectives.

(3.1.2) (3.1.3)

The Board's risk strategy has been established through debate with the executive directors where the Group's risk tolerance has been considered and balanced against the drive towards the achievement of its strategies and objectives.

(3.1.1) (3.1.7) (3.2.2)

The Risk Committee is responsible to the Board to oversee the Group's risk management programme. The day-to-day responsibility for risk management, including maintaining an appropriate loss prevention and internal control framework, remains with the executives of the Group and of each Division.

(2.7.9)

ATTENDANCE AT RISK COMMITTEE MEETINGS:

	JULY 2006	APRIL 2007
IN Matthews	✓	✓
MD Brand	✓	✓
P Maw	✓	✓
GM Pattison	✓	✓
GRC Hayward	✓	✓
S Nothnagel	✓	–
K Vyvyan-Day	–	✓
N Gray	✓	✓

In addition to these meetings, an interim report is prepared annually in February by the executives on the Committee and is circulated to the Committee. This report evaluates the status of the risks identified in the current Group Risk Register, notes any risk incidents that may have occurred since the previous Committee meeting and comments on the internal and external risk environment.

(2.7.3) (3.1.5) (3.1.6) (3.2.3)

The Committee's primary role is one of oversight and therefore it reviews and assesses the dynamic interventions, within the Group's available resources and skills, required in response to business-specific, industry-wide and general risks. The Committee tables a Group Risk Register, aggregated from those prepared by the Divisions and the Group Executive Committee, to the Board annually in August.

(3.1.4) (3.2.7)

This register summarises the major risks facing the Group, taking into account the likelihood of occurrence, the potential impact, and any mitigating factors or compensating controls. Together with the ambit of the Audit Committee, the Risk Committee oversees the maintaining of a sound system of risk management and control with regard to operations, safeguarding assets, reliability of management reporting, and compliance with laws and regulations.

(2.1.11) (3.2.7) (8.2)

The 10 major risks facing the Group, not strictly ranked in priority, are shown in the table on pages 104 and 105.

Risk

ANOTHER MAJOR STORE FIRE

In the last 13 years Makro has had three stores totally destroyed by fire. The most recent fire, in May 2004, allegedly caused by a subcontractor working on the roof, occurred despite significant and costly fire detection and prevention measures implemented following the previous Makro store fire in 2001. Depending upon the cause of any future potential fire, it is unlikely that Makro, and possibly the Group, would be able to secure adequate catastrophe insurance cover or, alternatively, may secure adequate insurance cover but at a significant premium. Compounding this risk is the relatively high insurable values associated with inventory contained in the Group's larger warehouse formats in CBW, Makro and Builders Warehouse.

INFORMATION TECHNOLOGY

With millions of transactions daily, the Group is dependent upon reliable, secure, effective and efficient IT systems, including data and information. Major IT implementations or initiatives can distract management, be costly, destabilise the current IT platform and/or perform sub optimally post-implementation. Finally, at a strategic level, there exists the potential for misalignment between business strategy and the IT capability, which can result in reduced operational effectiveness.

LOW-GROWTH MARKETS/CHANGE IN LONG-TERM MARKET STRUCTURE

There is the possibility of: the Group unnecessarily or inadvertently increasing its market shares in potentially low- or no-growth South African markets; or that the rate of market growth slows dramatically in the Group's major categories; or that there is a change in market structure caused by long-term shifts in consumer behaviour or preferences. Any of these potential scenarios may have potentially adverse financial consequences over the longer term.

TALENT RETENTION AND SUCCESSION

This covers four broad issues including: the national scarcity of retail-specific skills; the challenge to develop and retain sufficient business and leadership skills internally to ensure our longer term competitiveness; a possible overdependence on key leaders in the Group; and the need for an actively managed leadership succession pipeline.

INSUFFICIENT PROGRESS WITH TRANSFORMATION

There is the possibility of adverse or undue reputational exposure due to the Chains or the Group not fulfilling, or under delivering towards BEE requirements. In the broader national context, inadequate transformation at all levels by us and other South African businesses will curb the country's longer-term growth potential and maintain the current, unacceptable and unsustainable, levels of social and economic inequality.

This issue includes insufficient black representation at Group and Division executive level.

Response

Makro and the rest of the Group work closely with external risk assessors, insurance brokers and our major insurers in order to ensure that our stores have the highest possible level of fire detection and prevention.

All the Group's IT development, for hardware and software, must be specifically approved and then monitored by the Group's Technology, Information and Processes Forum (TIP), representing all the Chains' IT executives, Massmart Internal Audit and, where appropriate, the external service providers. Divisional Boards must sign-off all IT developments. Massmart Internal Audit has significant IT expertise and independently assesses all IT developments and is part of the "go-live" decision on any project. External auditors review the IT general control environment in the major Divisions on an agreed rotation basis.

Massmart is careful to monitor and measure sales growth, per Division, and growth relative to the market, i.e. market share movements. The Group reviews new product categories and businesses within strict strategic criteria, and only considers exposure in those markets that offer good growth opportunities. All store opening decisions are approved at Group level after being financially assessed against a ten-year view of the socio-demographics of that particular market (this view is provided by external researchers).

The Group considers this a major area of focus and deals with it on several levels. The Executive Committee actively monitors and manages the progress, development and likely succession plans for the "Top 200" employees, as well as monitoring a further 200 employees. In addition, there are in-house education programmes prepared and presented in conjunction with GIBS and Babson Retail that focus on developing our middle and junior executives. Annual "fire-side chats" are held with each executive in the Group, which are attended by that person's superior and a third person – either the Group Organisation Executive or HR person in that Chain. The Group's remuneration policy, including short-term incentives, is to pay salaries in the upper quartile.

The Board-approved BEE Strategy, dated February 2004 and covering the elements of the Code of Good Practice, has been effectively implemented Group-wide and we believe that much progress has been achieved. Transformation is a major agenda item at all Division and Group Board meetings, and a senior executive at Massmart has overall responsibility for delivering to the strategy.

A BEE staff share issue amounting to 10% of the pre-dilution shares of Massmart was implemented in October 2006. All permanent Massmart employees, not already participants in the current share trust, are beneficiaries. The rights awarded to general staff have voting and dividend rights.

A transformation incentive has been implemented for Divisional executives.

Risk

HIV/AIDS

This refers to the impact of the consequences of the virus on Massmart and its broader community. Separate from the human tragedy, potential business impacts include higher levels of employee deaths, reduced available skills, lower productivity and higher absenteeism, and higher direct and indirect costs of employment. Accelerated death rates amongst our consumer base may affect local sales or may render uneconomic certain stores that are significantly exposed.

ECONOMIC VOLATILITY

This concern focuses on two potential impacts, the first being the financial impact on the business's trading and the second being the possible adverse effect on consumer expenditure of dramatic changes in key economic variables including inflation, interest and exchange rates.

With approximately 30% of the Group's merchandise being imported, directly and indirectly, any sudden changes in the exchange rate will affect the stock valuation, although there may be a lag where the Group has entered in forward exchange contracts on its own direct imports to combat this eventuality. Furthermore, foreign currency fluctuations in those African countries where Game operates stores can also affect the level of sales and earnings reported by those stores in South African currency, as well as resulting in potentially adverse balance sheet translation difference.

Increases in interest rates will make South African corporate funding more expensive, with an adverse impact on profitability. Higher inflation rates may affect Group profitability where these cost increases cannot be controlled or additional productivity associated with those is not forthcoming. Lower inflation rates may make long-term property leases with higher fixed escalation rates appear expensive and potentially affect profitability.

South African consumer behaviour appears to be more affected by sudden and large changes in economic variables, including exchange rates and local interest and inflation rates, than by gradual changes in these variables. It follows that a sudden deterioration in one or several of these economic variables may dampen levels of consumer expenditure, thereby reducing sales growth and potentially Chain or Group profitability too.

FRAUD, SECURITY AND CRIME

There is the risk of human, financial and reputational exposure through high levels of inventory shrinkage, armed robberies for cash or merchandise, and losses from fraud, internal and external. The rate of armed and violent crime has increased to unacceptable levels and if left unchecked can adversely affect employees, customers, the business and the overall business environment.

INTERNATIONAL EXPANSION

Game has 12 stores across sub-Saharan Africa and Makro two stores in Zimbabwe. The level of complexity unavoidably increases with the greater distances involved, the associated communication and logistical challenges and the multiple regulatory environments. There is also the increased exposure to foreign currencies and the related potential volatility of Rand-reported sales and earnings. There is the small and unpredictable risk that a store's earnings, assets, repatriation of cash and/or inventory may be seized or prevented from being lawfully accessed by Massmart.

COMPLEXITY ASSOCIATED WITH EXPECTED SUSTAINABILITY STANDARDS OF CONDUCT

There is a growing threat of there being potentially significant reputational risk associated with the failure to meet stakeholders' increased expectations around sustainability in its many forms. These expectations may be shaped by a variety of standards of conduct as encapsulated in codes such as, but not limited to, Global Reporting Initiative, Global compact, JSE Limited Socially Responsible Investment Index, Broad-based Black Economic Empowerment codes of good practice, Marine Stewardship Council, Forestry Stewardship Council and ISO 14001 certification. Increasingly, the Group needs to comply with some or all of these standards.

Response

Over the last three years, HIV prevalence has been measured in all the Divisions by an external agency. The Group's estimated infection rate, using statistical methods, is 7% amongst permanent employees and 12% amongst temporary employees. All the Divisions are at various stages of rolling out Aids support initiatives and offering voluntary counselling and testing programmes. In 2006, Massmart implemented a comprehensive HIV/Aids awareness and treatment programme which includes the provision of free antiretrovirals to all permanent staff and spouses.

All direct foreign exchange liabilities are covered forward, resulting in certainty about the expected landed cost of merchandise and also providing a 4 – 6 month buffer against changing the cost of imported inventory should there be any sudden deterioration in the exchange rate. The value of inventory in the supply chain between manufacturer and retailer has also been actively managed lower by all participants. This reduces the extent of any imported inventory that is over- or under-valued following a sudden change in the exchange rate.

Interest rates on the Group's medium-term debt has been fixed to provide certainty as to the future cost of this funding, and this will keep the Group immune to any adverse increases in corporate borrowing rates.

Where possible, property lease escalation rates are negotiated as low as possible, taking market conditions into account, and certain property leases are inflation-linked, within a cap (maximum rate) and collar (minimum rate).

Salary and wage increases are negotiated in the context of the current South African socio-economic environment, and where a negotiated increase may be higher than is suitable, productivity measures may be introduced to reduce the net cost of the higher wages.

The Group is continually improving its procedures and controls to ensure that the risk of potential losses or injury through criminal incidents is minimised. Massmart is also an active participant in the Business Against Crime/ECR forum that shares information on all incidents of crime across the major retail chains. There is a whistle-blowing facility, Tipoffs Anonymous, through which employees, customers or suppliers can report unethical or dishonest acts. Staff fraud is dealt with severely.

Before investing in each country, a thorough country pre-evaluation is performed, which must include confirmation of a transparent foreign exchange policy. There is a dedicated team, led by a senior executive, responsible for all Game's African stores. The risk diversifies slightly with multiple African stores.

The Group has implemented transparent and honest stakeholder interactions with special interest groups, which inform our view on stakeholder expectations and the management thereof. The ongoing identification, monitoring and adoption of relevant principles and standards of sustainability that are consistent with Massmart's core values and industry norms.

Acting Ethically

(2.6.5) (2.7.6) (2.7.7)

Sustainability Committee

The Sustainability Committee comprises Messrs KK Combi (Chairman), Dods Brand, Michael Rubin, Grant Pattison and Brian Leroni (Group Corporate Affairs Executive), and Mmes Phumzile Langeni and Dawn Mokhobo.

(2.6.5) (2.7.3)

The role of the Committee is to assist the Group to discharge its business sustainability responsibility with respect to the implementation of practices that are consistent with good corporate citizenship. This includes evaluating and formulating an opinion about the Group's Broad-based Black Economic Empowerment (BBBEE), transformation, Corporate Social Investment (CSI), environmental, health and safety, and stakeholder engagement activities.

(2.7.9)

ATTENDANCE AT SUSTAINABILITY COMMITTEE MEETINGS:						
	AUG 2006	NOV 2006	DEC 2006	JAN 2007	FEB 2007	APRIL 2007
KK Combi	✓	✓	✓	X	✓	✓
MD Brand	✓	✓	X	X	X	✓
GM Pattison	✓	✓	✓	✓	✓	✓
MJ Rubin	✓	✓	✓	✓	✓	✓
DNM Mokhobo	✓	✓	X	X	✓	✓
P Langeni	✓	✓	✓	✓	✓	✓
B Leroni	✓	✓	✓	X	✓	✓

(8.2)

A separate sustainability section appears in this report on pages 73 to 98.

The Sustainability Committee's priority during the year in review was to evaluate Massmart's BBBEE and transformation performance. Their evaluation findings are described in the Sustainability section on page 86 of this report.

Annual General Meeting

(2.5.3) (2.7.9) (6.3.5)

Attendance by all directors at Massmart's annual general meeting is encouraged while attendance for Committee Chairmen is compulsory. At the November 2006 Massmart annual general meeting the Chairmen of the Remuneration and Nomination, Audit and Risk Committees were in attendance, as were the Board Chairman, CEO and CFO. In addition, five other non-executive directors attended the annual general meeting.

Executive Committee

The Massmart Executive Committee is the most senior executive decision-making body in the Group. With effect from 1 July 2007, the Committee is chaired by the CEO (Grant Pattison) and comprises the Chief Financial Officer (Guy Hayward), Group Organisation Executive (Pearl Maphoshe), Group Commercial Executive (Jay Currie), Group Corporate Affairs Executive (Brian Leroni), the four divisional Managing Directors (Robin Wright, Joe Owens, Kevin Vyvan-Day and Jan Potgieter), and the Deputy CEO of Massbuild (Aubrey Cimring).

Fanus Nothnagel (the Chief Operating Officer and Managing Director of Massdiscounters) resigned in December 2006, and Steve Glendinning (Group Organisation Executive) and Richard Potash (Managing Director of Shield and Jumbo) resigned with effect from June 2007.

The Committee deliberates, takes decisions or makes recommendations on all matters of strategy and operations. Within the parameters described by the Board-approved Governance Authorities, the decisions or recommendations are sometimes referred to the Board or its relevant Committee for final approval, while in other cases the power to take decisions is delegated to individual subsidiary boards, or subsidiary executive committees.

The Executive Committee has specific responsibility, inter alia, for:

- monitoring and measuring the structures, trends and performance of markets and competition;
- strategic planning;
- defining, configuring, financing and structuring the Group's portfolio of assets;
- shaping and approving the competitive strategies, operating plans and budgets of the Divisions and functional departments;
- measuring, monitoring and taking proactive corrective action on Divisional performance;
- ensuring adequate risk management, controls and governance throughout the Group; and
- shaping and approving succession plans and senior executive management appointments.

In many respects, the relationship between the Massmart Board and the Executive Committee is analogous to the Supervisory Board and Management Board relationship found in the European governance model.

(2.5) (2.5.10)

Remuneration of directors and executives

Massmart strives for remuneration policies that enable it to recruit, retain and motivate the executive talent needed to achieve superior performance. The Nomination and Remuneration Committee, with periodic advice from external executive remuneration consultants, ensures the provision of executive remuneration packages that are competitive with reference to other major South African retail companies, as well as other companies similar to Massmart in their size, spread and complexity.

(2.5.5)

The Massmart remuneration policy strives for fixed remuneration at the median to upper quartile of comparable positions, but places particular emphasis on generous annual incentives for high performance for both executive directors and executive management. This policy, communicated to and understood by the Group's executives, codifies a range of performance incentives linked to annual headline earnings per share growth targets for the Group in excess of average CPIX plus 10%, or profit before tax targets for each Division, as appropriate. With effect from 2006, an element of the annual incentive bonus was linked to non-financial performance, specifically the achievement of employment equity targets approved by the Nomination and Remuneration Committee. This incentive will amount to between one and three months' salary in addition to the headline earnings per share or profit before tax growth bonuses. The Nomination and Remuneration Committee also has the discretion to make ad hoc awards for superior individual performance.

(2.5.7)

In addition, long-term equity incentive plans ensure the alignment of executive reward with shareholders' interests, in particular the sustained creation of shareholder value. New issues of annual allocations of shares or options are only allowed when Massmart's growth in earnings per share in the prior year exceeded average CPIX plus 10%. The amount allocated is based upon a factor of the executive's total prior year remuneration plus incentive bonus.

With effect from July 2002, only members of the Massmart Executive Committee can elect to receive scheme shares, whilst all other participants receive options.

(2.5.1)

Non-executive directors receive fees in the top quartile for their role as directors and for their roles on Board Committees.

Details of individual directors' remuneration are provided on pages 163 to 165.

(6.2.6) (8.1)

Shareholder communication

We strive to provide useful and frequent disclosure to our shareholders, regardless of how hard this may be in periods of difficulty or underperformance.

(7.1) (7.2) (8.4.3)

Massmart reports formally to shareholders twice a year (in February and August) when its half-year and full-year results, together with a thorough executive overview, are announced and issued to shareholders and the media. On both occasions the Chief Executive Officer, Chief Financial Officer and selected Group executives give presentations to institutional investors, analysts and the media.

Early in January and July, shortly after the conclusion of the half-year and full-year trading periods, on release of the annual report and at the Group's annual general meeting in November, Massmart releases sales updates reporting on the Group's year-to-date sales performance.

During the year, apart from closed periods, the Chief Executive Officer and Chief Financial Officer together meet regularly with institutional shareholders and, in addition, are available for meetings or conference calls with analysts and any existing or prospective Massmart shareholder.

Massmart's website, www.massmart.co.za, provides financial and business information about the Group and includes electronic copies of all recent formal announcements, public statements and presentations made by Massmart.

Share buy-back programme

Annually, the Group seeks, and obtains, the approval of the shareholders in general meeting to purchase Massmart shares. This authority – valid until the following year's annual general meeting and subject to the Listings Requirements of the JSE Limited (JSE) – allows the Group to purchase its own shares up to a maximum of 15% of the issued shares, at a price not greater than 10% above the preceding five-day weighted average. Shareholders have been asked to renew this authority at the forthcoming November 2007 annual general meeting.

During the year to June 2007, Massmart shares with a value of R313 million were purchased by a Massmart subsidiary or by the Massmart Employee Share Trust. The amount and timing of any future purchases will be determined by the Board and are dependent on the Board's view on the intrinsic value of Massmart shares, the ruling market price from time to time, and prevailing market conditions.

The Massmart Employee Share Trust acquires shares from time to time to partially mitigate the dilution caused by the Company issuing new shares when options are exercised by participants.

(2.9)

Share dealings

(2.9.1) (2.9.2)

No director, executive or employee may deal, directly or indirectly, in Massmart shares where that person may be aware of unpublished price-sensitive information. There are strict closed periods during which all directors, executives and employees are not allowed to deal in Massmart shares. The periods begin one month prior to the end of each reporting date (these reporting dates being 31 December and 30 June) and end on release of the Group results. A closed period also applies whenever Massmart issues a cautionary announcement.

In addition, all directors, executives and employees, and their associates, as defined by the JSE, are not allowed to deal in Massmart shares in the final hour of trading on the JSE. All share dealings by a director, executive or employee must be authorised by either the Chief Executive Officer or Chief Financial Officer. Any dealings by the Chief Executive Officer are authorised by the Chairman.

(3.2.3)

Accountability, risk and control

(3.2.5) (8.4.1)

The Board recognises its responsibility to report a balanced and accurate assessment of the Group's financial results and position, its business, operations and prospects. Aspects of how this is achieved are covered in the section below.

Internal control framework

(2.1.6)

Massmart maintains clear principles and procedures designed to achieve accountability and control across the Group. These are codified in the Governance and Approvals Framework that describes the specific levels of authority and the required approvals necessary for all major decisions at both Group and divisional level. Through this framework, operational and financial responsibility is formally and clearly delegated to the Divisional and Chain boards. This is designed to maintain an appropriate control environment within the constraints of Board-approved strategies and budgets, while providing the necessary local autonomy for day-to-day operations.

Audit Committee

(6.2.1) (6.2.2)

The Audit Committee receives regular reports on Group companies' financial performance, internal controls, adherence to accounting policies and areas of significant risk, amongst others. After considering these reports, the Committee formally reports to the Board, twice each year, regarding the overall framework and effectiveness of controls. The Group's interim reports are always subject to independent review by the external auditors.

Internal Audit

(4.1.1) (4.2.1)

The Audit Committee considers Massmart Internal Audit to be an independent, objective body providing assurance to the Group's activities. Internal Audit comprises a dedicated team of 30 staff that, although managed from Massmart Corporate, is deployed group-wide. The team is comprised of appropriately qualified and experienced personnel, including internal audit professionals and managers with retail experience, to ensure the delivery of a relevant and high-quality service. The Internal Audit team has 69 degrees and over 300 years of work experience of which 35% is in retail and 60% is in audit. Pleasingly, 67% of the audit staff and 60% of audit management are ACI, compared to 30% and 45% five years ago.

Acting Ethically

(4.1.2) (4.1.4) (4.1.6)

The responsibilities of Internal Audit are defined and governed by a charter approved by the Audit Committee and Board. The Head of Massmart Internal Audit reports functionally to the Audit Committee to ensure the department's independence and reports only administratively to the Chief Financial Officer. The appointment or dismissal of the Head of Internal Audit is subject to ratification by the Audit Committee. Internal Audit has unfettered access to the Board and all information within the Massmart Group. All functions across all operating Divisions are subject to review by Internal Audit and all employees are required to cooperate positively.

(4.1.5)

The Internal Audit team, which has the unequivocal support of the Board and the Audit Committee, formally reports any material findings and matters of significance to the Divisional Boards and the Audit Committee on a quarterly basis. The reports highlight whether actual or potential risks to business are being appropriately managed and controlled. Progress in addressing previous unsatisfactory audit findings is monitored until Internal Audit can report the proper resolution of the problem area. In addition, the Head of Internal Audit formally attends every Audit Committee meeting and all Divisional Board meetings twice per annum and provides an advisory role to both the Risk Committee and the Ethics Officers Forum.

(3.2.1) (4.2.2) (4.2.3) (4.2.4)

Massmart Internal Audit applies a risk-based approach that aligns its audit methodology to the internal and, where applicable, external risks facing Massmart. The annual audit plan, which is pre-approved by the Audit Committee, is determined through a continuous assessment and understanding of risks facing the Group. Where necessary, and infrequently, some audit tasks are outsourced to consultants with appropriate skills, for example certain forensic work or highly specialised IT reviews. Internal Audit utilises audit programmes and technologies that are designed and selected after assessing the significant business, strategic and control risks. The results of these programmes provide audit assurance regarding the adequacy and effectiveness of controls. In addition to providing this assurance, Massmart Internal Audit applies its knowledge and understanding to advise local and executive management on best practice processes and controls that could be implemented to improve overall effectiveness and efficiency.

There is significant Internal Audit involvement in Information Technology (IT) throughout the Group in order to ensure satisfactory IT governance and assurance. All new major IT systems in the Group require specific Massmart Internal Audit sign-off prior to implementation. The Internal Audit role is twofold: to assess the process and controls around large IT projects at significant phases of these projects; and to assess the control environment within existing IT systems and the Group's general computer control environment.

(4.2.5) (6.1.3) (6.1.4)

Massmart Internal Audit and External Audit scope and efforts are properly coordinated in order to provide efficient and effective assurance to the Audit Committee.

(4.1.3)

An independent quality assurance review was completed in the year on Massmart Internal Audit by PricewaterhouseCoopers. This assessed Massmart Audit against the International standards for the professional practice of Internal Auditing as promulgated by the Institute of Internal Auditors. Massmart Audit was found to "generally conform", which is the highest compliance rating of the Institute of Internal Audit standards. This review included a qualitative benchmarking process that compared Massmart Internal Audit to an international database. The benchmarking process noted Massmart Internal Audit's maturity as 'strong practice'. The benchmark review concluded *"that Massmart Internal Audit enjoys incomparable status with regard to the authority and sponsorship granted to it by the Audit Committee and Management and the independence displayed in the execution of internal audit activities, as best practice was exceeded by some distance."*

(3.1.3)

Risk

The Board assesses the risks in the Group's business environment, with a view to eliminating or reducing them in the context of the Group's strategies and operations.

Litigation and legal

In the normal course of business, Massmart is subject to various legal proceedings, actions and claims. These matters are subject to risks and uncertainties that cannot be reliably predicted. The Board does not believe that there is any material pending or threatened legal action.

Information technology

Protecting Massmart's electronic assets is increasingly complex as networks, systems and electronic data expand and, in some cases, are shared with third parties and business partnerships. Depending on the internet for communication brings additional risk. Ensuring proper system security, data integrity and business continuity is the responsibility of the Board, but is given effect by the Audit Committee, the Risk Committee, the Massmart Technology, Information and Process Forum (TIP) and Massmart's formally contracted information technology business partners and providers.

Financial risk and appraisal

Financial targets agreed in Group budgets and strategy processes are predicated on assumptions about the future that are uncertain and may prove incorrect or inaccurate. The monitoring and management of this risk is the responsibility of the Executive Committee. Monthly performance is measured and compared to the budget and prior year, and corrective or remedial action taken as appropriate.

Despite extensive financial, accounting and management controls and procedures, including reviews by internal and external auditors, there are risks arising from the Group's cash management and treasury operations, direct and indirect taxation, and employee or third-party fraud or economic crime.

Corporate ethics and compliance

(5.2.1) (5.2.2) (5.2.3) (5.2.4)

Massmart is committed to achieving the highest standards of ethical behaviour and continued its strong emphasis on promoting awareness of, and compliance with, Massmart's Code of Ethical Practice.

Massmart maintained its close relationship with the Ethics Institute of South Africa and a further three employees attended the Ethics Officers Certification course and two more employees were accredited as ethics officers. Furthermore, the Institute requested that Massmart provide material for an ethics case study that is to be included in a booklet that will be distributed by the United Nations to multinational companies and governments around the world.

The appointment of ethics officers in all Divisions, including the recently acquired Massbuild division, and the formulation and regular meeting of the Ethics Officers Forum have ensured the continued focus on the consistent application of ethics practice and training in the organisation.

(3.1.8)

The Massmart Ethics Line provides an important indication of the status of the ethics climate at Massmart. The fully independent line, the operation of which is outsourced to Deloitte & Touche, provides employees and suppliers with the opportunity to report perceived cases of unethical practice. All reports received are thoroughly investigated and acted upon under the guidance of the Group Ethics Officer who is responsible, from an ethics perspective, to the Massmart Audit Committee. Total calls and reports for the year under review were 44% higher than the previous year.

SUMMARY OF CALLS TO THE MASSMART ETHICS LINE FROM JULY 2006 TO JUNE 2007:

PERIOD	TOTAL CALLS AND REPORTS	CRIME-RELATED CALLS	HR-RELATED CALLS	OTHER CALLS	ANONYMOUS CALLS
July	33	3	3	27	3
August	43	1	7	35	4
September	49	7	10	32	8
October	51	8	18	25	10
November	42	7	7	28	7
December	51	6	11	34	9
January	58	7	8	43	9
February	58	2	15	41	8
March	73	3	21	49	13
April	65	1	14	50	6
May	49	1	9	39	6
June	43	7	9	27	10
Total	615	53	132	430	93

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na: not applicable
nr: not reported

In the year 2006, the Global Compact Regional Learning Forum (RLF) arranged for the preparation of seven case studies pertaining to anti-corruption practices and initiatives from around southern Africa. These case studies documented different approaches to fighting corruption in the corporate sector - drawn from two southern African countries, namely Malawi and the Republic of South Africa.

Two of these cases were prepared for the 4th International Learning Forum meeting of the UN Global Compact, which took place from the 22nd - 24th of November 2006 in Accra, Ghana. The other five were prepared separately by the Ethics Institute of South Africa, which was commissioned by the RLF. The following is an extract from one of the five case studies prepared by the Ethics Institute of South Africa:

“It is not often that one finds a company where financial success is matched by demonstrated ethical commitment. Massmart may be viewed as providing tangible evidence for the assertion that well-managed companies are motivated to act ethically.”

**SOURCE: PREPARED BY ETHICS INSTITUTE
OF SOUTH AFRICA FOR GLOBAL COMPACT
CASE STUDY SERIES**