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# Corporate Governance

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“...the skills and diversity of the Board are well matched to your Company’s needs, and the allocation of committee responsibilities ideally aligned to the qualifications and experience of the Chairpersons and members involved.”

# Corporate Governance

## Introduction

(2.1.8)

Massmart believes that the first steps towards good corporate governance must include embracing the requirements of the relevant governance framework – in our case, the King II Report on Corporate Governance, 2002. More than this, Massmart believes that sustainable and effective corporate governance is best demonstrated through a consistent pattern of ‘doing the right thing’, through good times and bad.

(2.1.5)

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

(2.3.2) (8.4.7) (9)

For the financial year under review, apart from the exception outlined immediately below, 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.

(2.3) (2.3.3) (2.7.6) (2.7.7)

The King II Report states that it is preferable that the chairman of the board be an independent non-executive director. Mark Lamberti was appointed non-executive Chairman on 1 July 2007 and, as he was previously the CEO of Massmart, he cannot be considered independent for at least another two years. The Board is of the view that the interests of all Massmart stakeholders is best served by the retention of the skills and experience of Mark Lamberti in the role of Chairman. To ensure good governance, the chairmanship of each of the four Board committees will be held by independent directors, and recognising that Mark Lamberti is not considered independent, Chris Seabrooke, the non-executive Deputy Chairman, will maintain his role as the Group’s Lead Independent Director.

(2.1)

## The Board

(2.1.1) (2.1.3) (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 is therefore accountable for the development and execution of the Group’s strategy, operating performance and financial results, all practised within the Group’s Governance Authorities. These Governance Authorities describe the specific levels of authority and required approvals for all major decisions at both Group and Divisional level. It clarifies which executive position, committee or board needs to be consulted prior to taking the decision, which body makes the decision and which bodies should thereafter be informed of the decision.

(2.1.18)

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

(2.1.3) (2.2) (2.3.1) (2.7.3) (2.7.10) (6.3.3) (6.3.4)

The Board is responsible for its own composition, the appointment of the Chairman and the Chief Executive Officer, and the constitution and composition of its sub-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.

(2.1.2) (2.2.1) (2.4) (2.4.1) (2.4.3) (2.4.4) (2.7.6)

The role of all directors is to bring independent judgement and experience to the Board’s deliberations and decisions. The Board comprises two executive directors, 11 independent non-executive directors and one non-executive director. Massmart does not have or allow shadow directors.

(2.1.10) (2.4.2) (2.4.5)

Brief biographical details of each Board member are reported on pages 11 to 13.

(2.4.6) (2.4.7) (2.10) (2.10.1) (2.10.2) (2.10.3) (2.10.4) (2.10.5) (2.10.6)

The Company Secretary, who is subject to a ‘fit and proper’ test, assists the Board in fulfilling its functions and is empowered by the Board to perform his duties. The Company Secretary directly or indirectly:

- assists the Chairman, CEO and CFO with induction of new directors
- assists the Board with director orientation, development and education
- ensures that the Group complies with all legislation applicable/relevant to Massmart
- monitors the legal and regulatory environment and communicates new legislation and any changes to existing legislation relevant to the Board and the Divisions
- provides the Board with a central source of guidance and assistance.

### Reference guide

|   |     |
|---|-----|
| The numbers in brackets above the text refer to the sections in the King II index | 100 |
| <b>KING II INDEX</b>  |     |

## (2.2.2) (2.2.3)

All directors retire by rotation every three years. Unless requested by the Board to serve a further term, 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.

## (2.5.9)

As a result of the requirement that all directors compulsorily retire after three years, at the 26 November 2008 annual general meeting the following directors retire by rotation but all offer themselves for re-election: Messrs Chris Seabrooke, Grant Pattison, Nigel Matthews and Michael Rubin, and Ms Dawn Mokhobo.

Directors' attendance at Board meetings for the financial year:

|              | Aug 2007 | Nov 2007 | Feb 2008 | May 2008 |
|--------------|----------|----------|----------|----------|
| CS Seabrooke | ✓        | ✓        | ✓        | ✓        |
| MJ Lamberti  | ✓        | ✓        | ✓        | ✓        |
| MD Brand     | ✓        | ✓        | ✓        | ✓        |
| ZL Combi     | ✓        | ✓        | ✓        | ✓        |
| KD Dlamini   | ✓        | ✓        | ✓        | ✓        |
| NN Gwagwa    | ✓        | ✓        | ✓        | ✓        |
| GRC Hayward  | ✓        | ✓        | ✓        | ✓        |
| JC Hodkinson | ✓        | ✓        | ✓        | ✓        |
| P Langeni    | –        | ✓        | ✓        | ✓        |
| IN Matthews  | ✓        | ✓        | ✓        | ✓        |
| P Maw        | ✓        | ✓        | ✓        | ✓        |
| DNM Mokhobo  | ✓        | ✓        | ✓        | ✓        |
| GM Pattison  | ✓        | ✓        | ✓*       | ✓        |
| MJ Rubin     | ✓        | ✓        | ✓        | ✓        |

\* Attended via tele-conference

## Board process and evaluation

## (2.1.3) (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 Massmart Divisions and Group.

## (2.1.17) (2.7.1) (2.7.2) (2.7.3) (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 minutes of all Committee meetings are included in the formal papers at the ensuing Board meeting. All directors are welcome to attend any Board Committee and Divisional Board meeting.

## (2.6.2)

The Board works to a formal agenda that covers strategy, structure, operating performance, growth initiatives, sustainability, investor relations and other key activities of the Group. Formal Board papers are prepared for every discussion item on the meeting's agenda and are distributed timeously to Board members.

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

Directors are encouraged to take independent advice, at the Company's cost, for the proper execution of their duties and responsibilities. During this financial year no director felt it necessary to seek such advice. They also have direct, unfettered access to the Group's external auditors, professional advisers and to the advice and services of the Company Secretary.

## (2.6.3)

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

## (2.3.6)

The Remuneration and Nominations 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.

The CEO performance evaluation is done annually in November. As Grant Pattison was appointed CEO in July 2007, no performance evaluation was done for the 2007/2008 financial year.

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

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

## (2.3.5)

Finally, all Board members formally assess the Chairman's performance and the Deputy Chairman 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 for the financial year under review:

## (2.5.3) (2.7.5) (2.7.9)

|              | Audit | Remuneration and Nominations | Risk | Sustainability |
|--------------|-------|------------------------------|------|----------------|
| MJ Lamberti  |       | ✓                            |      |                |
| CS Seabrooke | ✓     | ✓                            |      |                |
| MD Brand     |       |                              | ✓    | ✓              |
| ZL Combi     |       |                              |      | ✓              |
| KD Dlamini   |       |                              |      |                |
| NN Gwagwa    |       |                              |      |                |
| GRC Hayward  |       |                              | ✓    |                |
| JC Hodkinson |       |                              |      |                |
| P Langeni    |       |                              |      | ✓              |
| IN Matthews  | ✓     | ✓                            | ✓    |                |
| P Maw        | ✓     |                              | ✓    |                |
| DNM Mokhobo  |       | ✓                            |      | ✓              |
| GM Pattison  |       |                              |      | ✓              |
| MJ Rubin     |       |                              |      | ✓              |

With effect from 1 July 2008, Kuseni Dlamini joined the Remuneration and Nominations Committee, Lulu Gwagwa joined the Risk Committee, and Phumzile Langeni joined the Audit Committee.

In August 2008, the Strategy and Investment Committee was formed. More detail on this Committee is shown on page 93.

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

(6.3)

#### **Audit Committee**

(6.3.1) (6.3.2) (6.3.5)

During the 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 but resigned on 21 November 2007 in anticipation of the requirements of the Corporate Laws Amendment Act that was promulgated in December 2007. This Act, discussed in more detail below, requires that only independent non-executive directors are members of the Audit Committee.

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.

(2.1.13) (2.6.4) (4.1.7) (6.1.1) (6.1.5) (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.
- 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.

In addition to these responsibilities, the Corporate Laws Amendment Act imposes further duties and responsibilities upon the Audit Committee, including:

- Nominating the proposed auditor to the shareholders at the annual general meeting.
- Determining the fees to be paid in respect of the audit and the terms under which the audit is provided.
- Pre-approving any contract with the auditor to provide a non-audit service and determining the nature and extent of such non-audit services.
- Dealing with complaints relating to the financial statements, accounting practices, audit of the financial statements, internal audit or any other related matter.
- Reporting on the Committee's activities in the annual report.

Arising from these new duties and responsibilities, the Committee revised its charter which was accepted by the Board at its August 2008 meeting.

(6.1.2)

In specific response to these requirements and also in terms of its charter, the Committee can report as follows:

- The Committee has reviewed the scope, as well as the independence and objectivity, of the external auditors. The audit firm Deloitte & Touche and audit partner Mr André Dennis have been proposed to the shareholders at the annual general meeting to be the Group's auditor for the 2009 financial year.
- Total budgeted audit fees for the Group for the 2009 financial year have been confirmed to be at least R12,8 million and the scope of the proposed audit work agreed.
- 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 nature and extent of any future non-audit services have been defined and pre-approved, and the total fee associated with those non-audit services may not exceed 50% of the audit fee. If it appears that this guideline will be exceeded on a consistent basis, non-audit services will be outsourced to alternative auditors.
- The Massmart website ([www.massmart.co.za](http://www.massmart.co.za)) has a link enabling the public to electronically lodge complaints with the Committee, but, as at the date of this report, no complaints had been received.

Annually the Committee considers whether it is meeting its duties and responsibilities as set out in the Committee charter and, now, meeting the requirements of the Corporate Laws Amendment Act.

The Committee's report in accordance with section 270A(1)(f) of the Companies Act, No. 61 of 1973, as amended, can be found in the Directors' Report on page 106.

During the financial year, Deloitte & Touche were the external auditors for all Group companies with the exception of:

- Greenwoods Chartered Accountants who audit De La Rey 1001 Building Materials (Pty) Ltd and Thabiletrade 22 (Pty) Ltd
- Ernst & Young who audit the Zimbabwean entities of Mercantile Investment Company (1971) (Pvt) Ltd and the Dealsave Trust.

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

(4.2.4)

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.

(4.1.5)

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

The Audit Committee met three times during the year. In addition, the Chairman of the Committee meets quarterly with the head of Internal Audit, and at the start of every Committee meeting the external auditors are given a private audience with the Committee.

## (2.7.9)

Attendance at Audit Committee meetings for the financial year:

|              | Aug 2007 | Feb 2008 | May 2008 |
|--------------|----------|----------|----------|
| IN Matthews  | ✓        | ✓        | ✓        |
| CS Seabrooke | ✓        | ✓        | ✓        |
| P Maw        | ✓        | ✓        | ✓        |

## (2.5.2)

**Remuneration and Nominations Committee**

During the 2008 financial year the Remuneration and Nominations Committee comprised Messrs Chris Seabrooke (Chairman), Mark Lamberti, Nigel Matthews and Ms Dawn Mokhobo. With the exception of Mark Lamberti, all Committee members are independent non-executive directors. The CEO attends all Committee meetings by invitation but is not present when his own remuneration is discussed.

## (2.4.8) (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-term and long-term incentive policies for directors, executives, management and staff.
- Considering and approving the remuneration and incentives for directors and executive management.
- The assessment, 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.

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 governing the benefit levels being applied.

Every two years 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. In May 2008 the Committee received such a formal report prepared by 21st Century Business & Pay Solutions, an independent remuneration consultancy. As a result of this report, the remuneration of several executives and senior managers was adjusted.

During the financial year, the Committee devised a questionnaire aimed at gauging the independence status of each non-executive director. This was completed by each non-executive director and returned to the Committee, which then assessed each director's independence status. The Committee felt that the following aspects were important in assessing a non-executive director's independence:

- whether the director had been employed in an executive capacity in the Group within the last three years
- whether the director had served on the Board for longer than nine years
- whether the director was a representative of a major shareholder
- whether the proportion of that director's shareholding in Massmart (if any) or director's fees represented a material part (10% or more) of their wealth or income.

In addition to the above, the Committee considered whether the director is independent in character and judgement and whether there are circumstances which are likely to affect, or could appear to affect, the director's judgement. Having considered the responses and circumstances of each non-executive, the Committee believes that, in light of his recent tenure as CEO of Massmart, only Mark Lamberti is not independent. The Committee believes that no other non-executive director, or entities associated with or controlled by him/her, owns shares in Massmart which, relative to his/her personal wealth or income, are sufficiently material to affect his/her independence.

## (2.5.4)

The Group's philosophy and practice concerning executive remuneration is described later in this report on page 94 and greater details of individual directors' remuneration are provided on pages 149 to 150.

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

## (2.5.3) (2.7.9)

Attendance at Remuneration and Nominations Committee meetings for the financial year:

|              | Aug 2007 | Nov 2007 | Feb 2008 | May 2008 |
|--------------|----------|----------|----------|----------|
| CS Seabrooke | ✓        | ✓        | ✓        | ✓        |
| IN Matthews  | ✓        | ✓        | ✓        | ✓        |
| DNM Mokhobo  | ✓        | ✓        | ✓        | ✓        |
| MJ Lamberti  | ✓        | ✓        | ✓        | ✓        |

**Risk Committee**

The Risk Committee comprises Messrs Nigel Matthews (Chairman), Dods Brand, Peter Maw, Guy Hayward, Kevin Vvyyan-Day (Chief Executive of Masswarehouse) 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 in assessing 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.

## (2.1.11) (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.

The Risk Committee met twice during the year.

## (2.7.9)

Attendance at Risk Committee meetings for the financial year:

|              | July 2007 | Nov 2007 |
|--------------|-----------|----------|
| IN Matthews  | ✓         | ✓        |
| MD Brand     | ✓         | ✓        |
| P Maw        | ✓         | ✓        |
| GM Pattison  | ✓         | –        |
| GRC Hayward  | ✓         | ✓        |
| K Vyvyan-Day | ✓         | ✓        |
| N Gray       | ✓         | ✓        |

## (3.2.5)

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 comments on 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.

## (3.1.5)

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.

The Committee considers there to be two types of risk in the Group which can broadly be described as Strategic/Environmental risks and Operational risks. The Committee believes that most Operational risks by their nature can be immediately addressed or mitigated by local management actions. These risks – which include in-store health, safety and security, fire prevention and detection, IT systems and food safety, amongst others – are therefore the direct responsibility of each Divisional Executive Committee where a Loss Prevention or Risk Officer has line-responsibility for overseeing these risks.

Strategic/Environmental risks, on the other hand, tend to be longer-term or more material in nature and can, in most cases, only be monitored, managed and partially mitigated through longer-term strategic or tactical business responses. These risks, which, for example, include Executive Talent Retention and Succession, Transformation and HIV/AIDS, are the primary focus of the Group's Risk Management process as contemplated by King II.

## (3.1.4) (3.1.6) (3.2.1) (3.2.3) (3.2.7)

The Group Risk 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 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) (2.1.12) (3.2.7) (8.2)

The ten major risks facing the Group, not strictly ranked in priority, are shown in the table at the end of this Corporate Governance report on pages 98 and 99.

## (2.6.5)

**Sustainability Committee**

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

## (2.6.5)

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. The Committee meets quarterly with the objective of reviewing Massmart's Socially Responsible Investment Index, Broad-based Black Economic Empowerment, and Sustainability Reporting Performance.

Performance in each of these areas is measured with reference to the JSE Limited's Socially Responsible Investment Index criteria, Department of Trade and Industry (DTI) Broad-based Black Economic Empowerment scorecard and Global Reporting Initiative III guidelines.

The Committee was generally satisfied with Massmart's sustainability performance noting that the Group achieved Top Performer status (medium environmental impact category) in the 2007 SRI Index ratings, was ranked top retail industry performer in the 2008 FM Top Empowerment Companies survey and won the Association of Chartered Certified Accountant's (ACCA) 2008 award for Best Sustainability Report (non-extractive industries).

## (2.7.9)

Attendance at Sustainability Committee meetings for the financial year:

|             | Aug 2007 | Nov 2007 | Feb 2008 | May 2008 |
|-------------|----------|----------|----------|----------|
| ZL Combi    | ✓        | ✓        | ✓        | ✓        |
| MD Brand    | ✓        | ✓        | ✓        | ✓        |
| GM Pattison | ✓        | ✓        | x        | ✓        |
| MJ Rubin    | ✓        | ✓        | ✓        | ✓        |
| DNM Mokhobo | ✓        | ✓        | ✓        | ✓        |
| P Langeni   | x        | ✓        | ✓        | ✓        |
| B Leroni    | ✓        | ✓        | ✓        | ✓        |
| P Maphoshe  | –        | ✓        | x        | ✓        |

## (8.2) (5.1)

A separate Sustainability Report can be found in the inside back cover.

**Strategy and Investment Committee**

This is a new committee which was formed in August 2008.

The role of the Committee is to debate issues that may affect Massmart's strategy, financial health or shareholder value, and, where appropriate or required, to make firm recommendations on these issues to the Board.

These issues may include: major acquisitions or disposals; major commitments and investments; material new share issues; possible significant changes or threats to the Group gearing levels; and new debt structure or related risk exposures.

The Committee will operate on an as-required basis initiated by either a potential transaction greater than R400 million or when a material issue requires debate.

The Committee members comprise the CEO, the CFO, Mark Lamberti (Chairman), Chris Seabrooke, Peter Maw and Jim Hodgkinson, but other experts, internal or external, may be invited as appropriate.

### 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 Board Committee Chairmen is compulsory.

At the November 2007 Massmart annual general meeting the Chairmen of the Remuneration and Nominations, Audit and Risk Committees were in attendance, as were the Board Chairman, CEO and CFO. In addition, eight other non-executive Directors attended the annual general meeting.

(2.1.14) (7.3) (7.4)

The notice for any general meeting of shareholders includes an explanation of the reason for, and the effects of, any proposed special resolutions. The Company's transfer secretaries attend every general meeting of shareholders to assist with the recording of shareholders' attendance and to tally the votes. The Chairman confirms with the meeting that votes will be counted by way of poll, ie all votes are counted, rather than by way of a show of hands. During the meeting the Chairman is careful to ensure that all resolutions have been read and allows time for the resolutions to be discussed if required.

## Executive Committee

The Massmart Executive Committee is the most senior executive decision-making body in the Group. The Committee is chaired by the CEO (Grant Pattison) and comprises the Chief Financial Officer (Guy Hayward), Group Human Capital Executive (Pearl Maphoshe), Group Commercial Executive (Jay Currie), Group Corporate Affairs Executive (Brian Leroni), the four divisional Managing Directors (Robin Wright, Aubrey Cimring, Kevin Vyvyan-Day and Jan Potgieter) and the Managing Director of the New Formats Division (Joe Owens).

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
- 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 Remuneration and Nominations 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 transformation targets approved by the Remuneration and Nominations Committee. This incentive will amount to between one and three months' salary in addition to the bonuses linked to growth in headline earnings per share or profit before tax. The Remuneration and Nominations Committee also has the discretion to reward 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 headline earnings per share in the prior year exceeds average CPIX plus 10%. The amount allocated is based upon a factor of the executive's total prior year remuneration including incentive bonus. With effect from July 2008, the hurdle for the growth in headline earnings per share was changed to CPIX plus 5%. The lower factor – now 5%, previously 10% – reflects the Committee's recognition of the prevailing economic climate that demands increased management effort and that each Massmart Division has achieved significant scale.

The Committee believes that participants in the employee share scheme should, on average, hold unvested shares or options representing value equivalent to approximately three times their annual remuneration.

In addition to the annual allocation of shares or options to participants in May 2008, the Committee approved a once-off allocation of shares or options to the majority of participants as at 1 April 2008, representing 50% of the value of the usual annual issue and which was issued at a 30-day volume-weighted price of R66,91. This exceptional issue was an additional retention mechanism in the face of the skills shortage in South Africa and globally, and acknowledged the uncertain and volatile social, economic and political environment experienced by the Group's executives and senior managers.

With effect from July 2002, only members of the 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. Non-executive directors' fees paid in the current financial year and the proposed fees for the 2009 financial year are detailed below:

- Chairman of the Board: currently R625 000, proposed R675 000
- Deputy Chairman: currently R450 000, proposed R490 000
- Directors: currently R185 000, proposed R200 000
- Committee chairmen: currently R185 000, proposed R200 000
- Committee members: R87 000, proposed R94 000. It was also proposed that members of the Audit Committee will receive an additional R25 000 each for the additional meetings and responsibilities arising from the Corporate Laws Amendment Act.

These fees will be put to the Massmart annual general meeting in November 2008 for approval.

The fees paid to the trustees of the Massmart Share Trust are R30 000 each and R45 000 for the chairman.

Details of individual directors' remuneration are provided on pages 148 to 150.

**(6.2.6) (7.1) (7.2) (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.

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 certain 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. In addition, annually in May, the Group CEO and CFO host a day-long visit by institutional analysts and investors to Massmart stores. A sales update is released along with this visit.

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](http://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 buyback 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 2008 annual general meeting.

During the year to June 2008, Massmart shares with a value of R281 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) (2.9.1) (2.9.2)****Share dealings**

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 from the date when 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, and dealings by the Chief Financial Officer are authorised by the Chief Executive Officer.

**(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) (4.1.1) (4.2.1) (4.2.2)

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 31 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 27% is in retail, 53% is in audit and 20% in IT and accounting. Pleasingly, 76% of the audit staff and 70% of audit management are African, Coloured or Indian.

### (4.1.2) (4.1.4)

The Audit Committee considers Massmart Internal Audit to be an independent, objective body providing an opinion on the level of assurance that can be placed on the management of the Group's risk and governance activities. The responsibilities of Internal Audit are defined and governed by a charter approved by the Audit Committee and Board. Massmart Internal Audit Services has the unequivocal support of the Board and Audit Committee and has access to any part of or person in Massmart. All employees are expected to positively cooperate with Massmart Internal Audit Services.

### (4.1.4) (4.1.6)

To ensure independence, Massmart Internal Audit reports functionally to the Massmart Audit Committee and, only from an administrative perspective, to the Chief Financial Officer. The head of Massmart Internal Audit Services, whose appointment or dismissal is subject to ratification by the Audit Committee, has unrestricted access to all formal roles in the organisation and has frequent and independent discussions and updates with the Audit Committee Chairman and Massmart executive Directors. The head of Massmart Internal Audit holds a senior executive position in the organisation and has an influential impact across the business strategically and operationally. The Board provides Massmart Internal Audit with the ability to attend any strategic session, Committee or Board meeting and to have unrestricted access to all information across the Group to assist with its determination of the types and levels of risk that exist across Massmart.

The Internal Audit team 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 reports the proper resolution of the problem area.

### (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.

### (3.2.1) (4.2.2)

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's 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 by PricewaterhouseCoopers on Massmart Internal Audit was completed in 2007. This assessed Massmart Internal Audit against the International Standards for the professional practice of Internal Auditing as promulgated by the Institute of Internal Auditors. Massmart Internal 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.

| Period       | Total calls and reports | Crime-related calls | HR-related calls | Other calls | Anonymous calls |
|--------------|-------------------------|---------------------|------------------|-------------|-----------------|
| July         | 37                      | 4                   | 9                | 24          | 5               |
| August       | 58                      | 8                   | 14               | 36          | 15              |
| September    | 45                      | 7                   | 6                | 32          | 9               |
| October      | 53                      | 8                   | 15               | 30          | 20              |
| November     | 63                      | 5                   | 18               | 40          | 9               |
| December     | 42                      | 2                   | 14               | 26          | 8               |
| January      | 48                      | 5                   | 14               | 29          | 8               |
| February     | 75                      | 7                   | 16               | 52          | 12              |
| March        | 82                      | 2                   | 23               | 57          | 16              |
| April        | 58                      | 6                   | 18               | 34          | 11              |
| May          | 43                      | 5                   | 12               | 26          | 9               |
| June         | 64                      | 6                   | 14               | 44          | 10              |
| <b>Total</b> | <b>668</b>              | <b>65</b>           | <b>173</b>       | <b>430</b>  | <b>132</b>      |

### 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.

#### (2.1.12) (6.2.5)

In addition to financial reviews, Massmart has implemented voluntary processes that enable independent reviews of its non-financial performances. These include a biannual ethics review by the South African Institute of Ethics and an annual Socially Responsible Investment (SRI) Index review that is coordinated by the JSE Limited.

#### (5.2)

## Corporate ethics and compliance

#### (5.2.1) (5.2.2)

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.

#### (5.2.4)

Massmart regularly communicates its Code of Ethical Practice to suppliers and service providers, and attempts to ensure that they comply with our ethical standards. This is achieved in various ways: suppliers and service providers are invited to make use of the independently managed ethics reporting line; and Massmart's formal trading agreements detail ethical practices that suppliers are expected to uphold (some examples of this are that suppliers are expected to abide by the laws and regulations of the country; that all products and services comply with legal and safety standards; and that Massmart will not tolerate the use of child labour practices or the use of illegal labour). The CEO of Massmart regularly communicates with suppliers and reinforces Massmart's commitment to high standards of ethical conduct and its expectations of the same from suppliers. During the year there were examples where Massmart terminated the services of suppliers where they did not demonstrate the same level of commitment to organisational ethics and integrity.

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 and the formulation and regular meeting of the Group Ethics 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 8,6% higher than the previous year (see table above).

#### (5.2.2) (5.2.3)

The Ethics Institute of South Africa was contracted by Massmart to conduct a limited ethics audit throughout their Game stores in Africa using a shortened Organisational Ethics Indicator assessment. The assessment recorded responses with regard to formal ethics programmes, the perceptions of organisational culture and outcomes. The audit highlighted some areas for improvement in these stores and the Massdiscounters Division is attending to these areas.

The Ethics Institute also conducted a survey on Massmart's compliance in South Africa and concluded:

"To the best of our knowledge, the Massmart Ethics Indicator 2008 satisfies the November 2004 revisions of the FSGO and the future King III requirements, amongst others, that organisations:

- ensure that they have an effective compliance and ethics programme
- periodically evaluate the effectiveness of their compliance and ethics programme
- periodically assess the risk of criminal conduct and...take appropriate steps to design, implement or modify each requirement...to reduce the risk of criminal conduct identified through this process."

# Group risks and responses

The Group Risk 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.

## The Risk

### Another major store fire

In the last 15 years Makro has had three stores totally destroyed by fire. The most recent fire, in May 2004, allegedly caused by a sub-contractor 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 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 a possible over-reliance on one or more service providers. Finally, at a strategic level, there exists the potential for misalignment between business strategy and IT capability, which can result in reduced operational effectiveness.

### Poor business model or Strategic execution

Through non-adherence with, or poor implementation and execution of, our business model and/or strategy, the Group's longer-term financial performance and competitive positioning could be severely compromised. The resultant financial performance may be sub-optimal on either an absolute or on a relative basis.

### 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 over-dependence on key leaders in the Group; and the need for an actively managed leadership succession pipeline. This risk has recently been aggravated by an increase in executive emigration.

### Insufficient progress with transformation

There is the possibility of adverse or undue reputational exposure due to the Divisions 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.

## Our 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 & 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.

The Group insists on strategic clarity at Massmart Corporate and the Divisions. The strategies of all Divisions and the Group are formally documented and are reviewed annually at Divisional level, at Group Executive Committee level and then with the Board. The annual budget process is an output of these reviews. A Division's strategies dictate management's operational tactics and priorities.

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 local and international business schools 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 Division. The Group's remuneration policy, including short-term incentives, is to pay salaries in the mid to 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 Divisional 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 shares awarded to general staff have voting and dividend rights. A transformation incentive has been implemented for Divisional executives.

## The 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 into 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 differences. 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 therewith 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.

### Supply chain

Supply chain describes all the business processes and activities around the buying, recording, receiving, moving, storage, display and sale of inventory in the Group, and is not restricted to logistics but extends into IT systems and business processes around those systems. An efficient and effective supply chain should ensure the lowest-cost movement, and holding, of inventory and the optimisation of in-store inventory levels for given levels of demand. An effective or inefficient supply chain may result in sub-optimal inventory management, with duplication of costs and over- or under-stocking affecting holding costs or rate of sales.

### Complexity associated with expected sustainability standards of conduct

There is a growing threat of 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.

## Our Response

Over the last four years, HIV prevalence has been measured in all the Divisions by an external agency. The Group's estimated infection rate, using statistical methods, is 5,4% amongst 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 anti-retrovirals 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 to 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.

Massdiscounters, Makro and Builders Warehouse have implemented IT software to automate the forecasting and replenishment (F&R) of inventory. Massdiscounters are most advanced with about 50% of their sales by value being automatically replenished. This is about 40% in Builders Warehouse, and Makro is launching its F&R drive during the 2009 financial year. In August 2008 the Group's first regional distribution centre (RDC), for Massdiscounters' use, was opened in the Western Cape. Depending on the success of this, RDCs will be required in Durban and Johannesburg.

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

# King II index

The following index represents the Group's compliance with the King II Report. More detail can be found on pages 89 to 99 of this report.

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na: not applicable

“...the Massmart 2007 Annual Report was judged fourth overall and awarded an Excellent rating...in the Ernst & Young 2008 Excellence in Corporate Reporting Awards.”

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GUY HAYWARD CHIEF FINANCIAL OFFICER