



Builders Warehouse Northriding

**builders
warehouse**
HOME IMPROVEMENT A TO Z

Open 7 days a week

entrance

entrance

entrance

entrance

Corporate Governance

Corporate governance

Massmart believes that the first steps towards good corporate governance must include embracing the requirements of the relevant governance framework and corporate best practice. 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.

The primary corporate governance framework in South Africa is the King II Report on Corporate Governance, which forms the backbone to Massmart's own corporate governance framework. In early 2009, in response to changes to South African corporate legislation and shifts in global corporate practices, a draft King III report was released for comment and the final report was released on 1 September 2009. Elsewhere in this report is a brief commentary on the more critical or relevant issues addressed in King III.

In addition to this corporate governance framework, the Group is committed to complying with all legislation, regulations and best practices relevant to our business, in every country where we conduct business.

For the 2009 financial year, apart from the exception outlined immediately below, the Board confirms that the Group complied with the Code of Corporate Practices and Conduct as set out in the King II Report.

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 until June 2010. The Board is of the view that the interest of all Massmart stakeholders remains 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 is held by independent directors, and recognising that Mark Lamberti is not considered independent, Chris Seabrooke, the non-executive Deputy Chairman, maintains his role as the Group's Lead Independent Director.

The Board

The Board of Massmart is responsible for directing the Group towards the achievement of the Massmart vision and mission. The Board is therefore accountable for the development and execution of the Group's strategy, operating performance and financial results, as well as being the custodian of the Group's corporate governance.

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 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.

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.

With effect from 2008, the Remuneration and Nominations Committee prepares and circulates a questionnaire aimed at gauging the independence status of each independent non-executive director. This is completed by each independent non-executive director and returned to the Committee, which then assesses each director's independence.

The Board comprises:

- Two Executive Directors
- 11 Independent Non-executive Directors
- One Non-executive Director

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; and
- 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.

The Company Secretary, Mr Ilan Zwarenstein CA(SA), 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; and
- Provides the Board with a central source of guidance and assistance.

All directors retire by rotation every three years and 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 following that director's appointment.

As a result of the requirement that all directors compulsorily retire after three years, at the 25 November 2009 annual general meeting the following directors retire by rotation but all offer themselves for re-election: Messrs MD Brand, ZL Combi, G Hayward, J Hodkinson and P Maw.

Board process and evaluation

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 annually to formally consider and approve the strategies of the Massmart Divisions and Group.

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 (described in the following paragraph). In addition, the Board has delegated certain specific responsibilities to five Board Committees, 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 Board papers at the ensuing Board meeting. All directors are welcome to attend any Board Committee and Divisional Board meeting.

The Massmart 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.

The Board works to a formal agenda that covers strategy, structure, operating performance, growth initiatives, sustainability, investor relations, risk and governance, and any 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.

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.

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

Annually in November, the Remuneration and Nominations Committee facilitates a comprehensive 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, and an appraisal of the CEO by each of his direct reports using a different questionnaire.

Further reading

Biographical details of each Board member can be found on pages 17–19

MASSMART AT A GLANCE

The Board 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.

Each year in September, all Board members complete a detailed Board self-assessment, 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. The results of these assessments are collated by the Company Secretary and sent in summarised form to the respective Board and Committee chairpersons for a formal written response. The summarised results together with the Chairpersons' written responses are included in the Board papers at the November meeting.

Finally, annually 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.

Board and Committee attendance

	Status/Position	Board	AGM	Audit	Remuneration & Nominations	Risk	Strategy & Investment	Sustainability & Transformation
BOARD MEMBERS								
MJ Lamberti	Non-executive	4/4 [Ⓒ]	1/1		3/3		1/1 [Ⓒ]	
CS Seabrooke	Independent Non-executive	4/4	1/1	3/3	3/3 ^①		1/1	
MD Brand	Independent Non-executive	4/4	1/1			1/1		3/3
ZL Combi	Independent Non-executive	4/4	0/1					2/2 ^③
KD Dlamini	Independent Non-executive	4/4	1/1		3/3 ^{Ⓒ ②}			
NN Gwagwa	Independent Non-executive	4/4	1/1			1/1		
GRC Hayward	Executive	4/4	1/1			1/1	1/1	
JC Hodgkinson	Independent Non-executive	4/4	1/1				1/1 [Ⓓ]	
P Langeni	Independent Non-executive	4/4	1/1	3/3				3/3 ^{Ⓒ ④}
IN Matthews	Independent Non-executive	4/4	1/1	3/3 [Ⓒ]	3/3	1/1 [Ⓒ]		
P Maw	Independent Non-executive	4/4	1/1	3/3		1/1	1/1 [Ⓓ]	
DNM Mokhobo	Independent Non-executive	3/4	1/1		1/3			1/2
GM Pattison	Executive	4/4	1/1				1/1	2/3
MJ Rubin	Independent Non-executive	4/4	1/1					2/2
MANAGEMENT								
N Gray	Chief Audit Executive					1/1		
B Leroni	Corporate Affairs Executive							3/3
P Maphoshe	Human Capital Executive							1/3
K Vyvyan-Day	CEO of Masswarehouse					1/1		

[Ⓒ] Chairperson of committee

^① Resigned as Chairman on 18 August 2008

^② Appointed Chairman on effective from 18 August 2008

^③ Resigned as Chairman on 27 May 2009

^④ Appointed as Chairperson effective from 27 May 2009

[Ⓓ] Attended via teleconference

With effect from May 2009, the composition of the Sustainability and Transformation Committee was reviewed. Detail on this committee's composition is provided in the Sustainability and Transformation section on the next page.


While the Strategy and Investment Committee met once formally during the year, when the situation required it there were several ad hoc meetings with some or most of the committee members present.

Further reading

Greater detail on each Committee's terms of reference, activities and meetings held during the financial year are shown page 100

CORPORATE GOVERNANCE

Board Committees

	Composition	Scheduled meetings	Further reading 	Responsibility
Audit Committee	Nigel Matthews Chris Seabrooke Peter Maw Phumzile Langeni	Three times during the year.	More information on the activities and responsibility of the Audit Committee can be found on page 102. CORPORATE GOVERNANCE	<ul style="list-style-type: none"> ■ Overseeing the effectiveness of the Group's internal control systems. ■ Reviewing the scope and effectiveness of the external and internal audit functions. ■ Ensuring that adequate accounting records have been maintained. ■ Ensuring 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 annual financial statements.
Remuneration and Nominations Committee	Kuseni Dlamini Chris Seabrooke Mark Lamberti Nigel Matthews Dawn Mokhobo	Four times during the year.	More information on the activities and responsibility of the Remuneration and Nominations Committee can be found on page 105. CORPORATE GOVERNANCE	<ul style="list-style-type: none"> ■ Designing, monitoring and communicating the Group's remuneration policies. ■ Considering and approving executive remuneration including short- and long-term incentives. ■ The assessment, recruitment and nomination of new non-executive directors
Risk Committee	Nigel Matthews Dods Brand Peter Maw Guy Hayward Kevin Vyvyan-Day Norman Gray Lulu Gwagwa	Once during the year.	More information on the activities and responsibility of the Risk Committee can be found on page 108. CORPORATE GOVERNANCE	<ul style="list-style-type: none"> ■ To oversee the Group's risk management programme as contemplated in King II.
Strategy and Investment Committee	Mark Lamberti Chris Seabrooke Peter Maw Jim Hodgkinson Grant Pattison Guy Hayward	Once during the year.		<ul style="list-style-type: none"> ■ To monitor issues that may materially affect Massmart's strategy, financial health or shareholder value.
Sustainability and Transformation Committee	Phumzile Langeni Pearl Maphoshe Dods Brand Grant Pattison Brian Leroni	Three times during the year.	A separate Sustainability Report can be found in the inside back cover of this report.	<ul style="list-style-type: none"> ■ To assist the Group to discharge its business sustainability responsibility with respect to the implementation of practices that are consistent with transformation and good corporate citizenship.

Executive Committee

Composition	Meetings	Further reading 	Responsibility
Grant Pattison (CEO) Guy Hayward (CFO) Pearl Maphoshe (Group Human Capital Executive) Jay Currie (Retail Director Masscash) Brian Leroni (Group Corporate Affairs Executive) Robin Wright (Masscash CEO) Llewellyn Walters (Massbuild CEO) Kevin Vyvyan-Day (Masswarehouse CEO) Jan Potgieter (Massdiscounters CEO) Joe Owens (Managing Director of the New Formats Division) Llewellyn Steeneveldt (Group Commercial Executive)	Monthly	Biographical details of each Executive Committee member can be found on pages 20 to 21. MASSMART AT A GLANCE	<ul style="list-style-type: none"> ■ Deliberates and takes decisions or makes recommendations on all matters affecting Group strategy and operations, including risk management, and executive and senior management succession.

Strategy and Investment Committee

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

The role of the Committee, formed in August 2008, is to debate issues that may materially 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 meets on an as-required basis initiated by either a potential transaction greater than R400 million or when a material issue requires debate.

Sustainability and Transformation Committee

The Sustainability Committee comprises Mmes Phumzile Langeni (Chairperson) and Pearl Maphoshe (Group Human Capital Executive), and Messrs Dods Brand, Grant Pattison and Brian Leroni (Group Corporate Affairs Executive).

The Committee was restructured during the year in line with best practice and good governance principles. Key changes included reducing the size of the Committee, rotating the chairperson and creating a portfolio for an independent external sustainability expert. The search for and appointment of, a suitably qualified external candidate is currently in process.

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 met three times 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's (DTI) Broad-based Black Economic Empowerment (BBBEE) scorecard and Global Reporting Initiative III guidelines.

The Committee is satisfied with Massmart's sustainability performance. We were particularly encouraged that the Group exceeded its interim BBBEE target by achieving level 5 contributor status 12 months earlier than planned. The Committee was however deeply concerned by a customer fatality in the Masscash Division's Nqutu store and have been assured by management that safety protocols relating to the incident have been reviewed.

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

Executive Committee

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

The Committee deliberates, takes decisions or makes recommendations on all matters of strategy and operations. Within the parameters described by the Board-approved Massmart 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 Divisional Boards or 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.

Audit Committee

During the financial year, the Audit Committee comprised Messrs Nigel Matthews (Chairman), Chris Seabrooke, Peter Maw and Ms Phumzile Langeni, all of whom are independent non-executive directors and who each have the requisite financial and commercial skills and experience to contribute the committee's deliberations.

The Chief Executive Officer, the Chief Financial Officer, senior financial executives of the Group and representatives from the external and internal auditors attend meetings by invitation.

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.

In addition, the Chairman of the Committee meets quarterly with the Chief Audit Executive, and at the start of every Committee meeting the external auditors are given a private audience with the Committee.

The Corporate Laws Amendment Act, 2007, imposes further duties and responsibilities upon the Audit Committee, including:

- Nominating the proposed external auditor to the shareholders at the annual general meeting.
- Determining the fees to be paid in respect of the external audit and the terms under which the audit is provided.
- Preapproving any contract with the external 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 this annual report.

In specific response to the requirements of the Corporate Laws Amendment Act 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 2010 financial year.
- Total budgeted audit fees for the Group for the 2010 financial year have been confirmed to be at least R17 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 preapproved, and the total fee associated with those non-audit services may not exceed 50% of the total 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) has a link enabling the general public to lodge complaints with the Committee, and, as at the date of this report, no complaints had been received.
- The Committee also performs the requirements of the Act relative to the Group's South African subsidiaries.

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

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

Further reading

More information on the Committee can be found on page 100

CORPORATE GOVERNANCE

Audit Committee responsibilities:

- Overseeing the effectiveness of the Group's internal control systems.
- Reviewing the scope and effectiveness of the external and internal audit functions.
- Ensuring that adequate accounting records have been maintained.
- Ensuring 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 annual financial statements.

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 132.

Suitability of the Chief Financial Officer

As required by the JSE, the Board has considered the qualifications and performance of the Chief Financial Officer, Guy Hayward, and is unanimously satisfied of the continuing suitability for the position. His biographical details can be found on page 17.

External Audit

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; and
- Nexia Levitt Kirson who audit Brett Four (Proprietary) Limited, trading as Cambridge Food.

During the year, Deloitte & Touche provided certain non-audit services, including tax reviews and advice, and reviews of information technology systems and applications. Total fees incurred during the 2009 financial year to Deloitte & Touche were R20.0 million, of which R2.9 million related to non-audit services.

Internal Audit

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 34 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 65 degrees and over 300 years of work experience of which 16% is in retail, 58% is in audit and 26% in IT and accounting. Pleasingly, 80% of the audit staff and 80% of audit management are African, Coloured or Indian.

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.

Massmart Internal Audit reviews the significant business, strategic and control risks across Massmart in order that an assessment is provided to the Audit Committee on the level of assurance that can be placed on governance, control and risk management across the Group.

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 Audit Committee approves the annual internal audit plan and the internal audit budgets. The Chief Audit Executive (CAE), whose appointment or dismissal is subject to ratification by the Audit Committee, has unrestricted access to anyone in the organisation and has frequent and independent discussions and updates with the Audit Committee Chairman and Massmart Executive Directors. The CAE 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.

Massmart Internal Audit applies a risk-based approach that aligns its audit methodology to the internal and, where applicable, external risks facing Massmart. Every function and role across the Massmart Group is subject to internal audit review. The annual internal audit plan 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.

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.

Further reading

The detailed Audit Committee report can be found on page 132

GROUP FINANCIAL STATEMENTS

Fees to external auditors (Rm)

Audit services	17.1	85.5%
Non-audit services	2.9	14.5%
Total	20.0	100%

Internal Audit:

- Massmart Internal Audit is an objective body providing assurance concerning the Group's activities.
- Internal Audit has the unequivocal support of the Board and Audit Committee.
- To ensure independence, Internal Audit reports functionally to the Audit Committee and, only from an administrative perspective, to the Chief Financial Officer.
- The Internal Audit team formally reports any material findings to the Divisional Boards and the Audit Committee on a quarterly basis.
- Internal Audit applies a risk-based approach aligning its methodology to the internal and, where applicable, external risks facing Massmart.
- There is significant Internal Audit involvement in Information Technology (IT) throughout the Group to ensure satisfactory IT governance and assurance.

Massmart Internal Audit and External Audit's scope and efforts and those of other assurance providers are properly coordinated in order to provide efficient and effective assurance to the Audit Committee.

An independent quality assurance review by PricewaterhouseCoopers on Massmart Internal Audit was completed in 2007 and will be done again in 2010. 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."

Remuneration of directors and executives

During the 2009 financial year the Remuneration and Nominations Committee comprised Messrs Kuseni Dlamini (Chairman), Chris Seabrooke, 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.

Massmart, through the Remuneration and Nominations Committee, implements remuneration policies that enable it to recruit, retain and motivate the executive talent needed to achieve superior performance. The 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.

Our executive remuneration policy has three components, being:

- The fixed portion, specifically the monthly basic cash salary, and benefits including vehicles, retirement funding and medical aid;
- The short-term or performance incentives, represented as multiples of basic monthly salary, and linked to the achievement of profit growth and/or personal performance. If achieved, these incentives are paid annually; and
- Long-term equity incentives under the Massmart Holdings Limited Employee Share Trust.

The Committee considers and recommends to the trustees of the Massmart Holdings Limited Employee Share Trust any proposed shares or options that are granted in terms of the Share Trust 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 the general principles governing the benefit levels being applied.

The Massmart remuneration policy strives for fixed remuneration at the median to upper quartile of comparable positions. Every two years the Committee receives a report prepared by independent remuneration consultants on the recent trends in, and the current levels of, short- and long-term executive remuneration in South Africa. In May 2009 the Committee received such a report prepared by 21st Century Business & Pay Solutions, an independent remuneration consultancy. As a result of this report, the remuneration of several executives and certain senior managers was adjusted.

As regards short-term or performance incentives, Massmart 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 for the Group in excess of average CPI (as reported by StatsSA) plus 5%, or profit before tax for each Division, as appropriate. Executives can earn an increasing multiple of their monthly basic salary depending upon the earnings growth exceeding CPI plus 5% or higher % increments. With effect from 2006, an element of the annual incentive bonus was linked to non-financial performance, specifically the achievement of BEE transformation targets approved by the Remuneration and Nominations Committee. This incentive can amount to an additional one to three months' salary. The Committee also has the discretion to reward superior individual performance.

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 CPI plus 5%. The amount allocated is based upon a factor of the executive's total prior year remuneration including incentive bonus.

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.

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

Further reading

More information on the committee can be found on page 100

CORPORATE GOVERNANCE

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 are detailed below:

Chairman of the Board	R675,000
Deputy Chairman	R490,000
Directors	R200,000
Committee chairmen	R200,000
Committee members	R94,000
Audit Committee	R25,000

For the additional meetings and responsibilities arising from the Corporate Laws Amendment Act relative to subsidiaries.

There will be no change to these fees for the 2010 financial year.

The fees paid to the trustees of the Massmart Holdings Limited Employee Share Trust are R40,000 each and R50,000 for the chairman.

Directors' emoluments

	Services as directors of Massmart Holdings Ltd R000	Salary and allowances R000	Bonuses and performance related payments ³ R000	Other benefits R000	Retirement and related benefits R000	Otherwise in connection with the affairs of Massmart Holdings Ltd R000	Subtotal R000	Fringe benefit of interest-free loans used to finance shares ⁴ R000	Gains on exercise of share options and on shares purchased by directors R000	Total R000
<i>For the year ended 30 June 2009</i>										
Executive directors										
Pattison, GM	–	2,875	1,356	334	292	–	4,857	6,344	2,951 ¹	14,152
Hayward, GRC	–	2,240	1,120	517	235	–	4,112	3,405	–	7,517
	–	5,115	2,476	851	527	–	8,969	9,749	2,951	21,669
Non-executive directors										
Lamberti, MJ	793	–	–	–	–	–	793	–	–	793
Seabrooke, CS	727	–	–	–	–	–	727	–	–	727
Brand, MD ²	388	–	–	–	–	–	388	–	–	388
Combi, ZL	350	–	–	–	–	–	350	–	1,700 ⁵	2,050
Dlamini, KD	400	–	–	–	–	–	400	–	1,673 ⁵	2,073
Gwagwa, NN	294	–	–	–	–	–	294	–	1,673 ⁵	1,967
Hodkinson, JC	223	–	–	–	–	85	308	–	–	308
Langeni, P	439	–	–	–	–	–	439	–	1,673 ⁵	2,112
Matthews, IN	719	–	–	–	–	40	759	–	–	759
Maw, P	437	–	–	–	–	–	437	–	–	437
Mokhobo, DNM	364	–	–	–	–	–	364	–	1,673 ⁵	2,037
Rubin, MJ	270	–	–	–	–	–	270	–	–	270
	5,404	–	–	–	–	125	5,529	–	8,392	13,921
Total	5,404	5,115	2,476	851	527	125	14,498	9,749	11,343	35,590

1 With these proceeds he acquired 33,210 Massmart shares.

2 Individual recipient of 25% of fees – remaining fees paid to company.

3 In order to match incentive awards with the performance to which they relate, bonuses above reflect the amounts accrued in respect of each year and not amounts paid in that year.

4 Held in terms of the rules of the Company's share scheme.

5 Gain on shares sold to non-executive directors at par value. Further detail can be found on page 107.

	Services as directors of Massmart Holdings Ltd R000	Salary and allowances R000	Bonuses and performance related payments ⁵ R000	Other benefits R000	Retirement and related benefits R000	Otherwise in connection with the affairs of Massmart Holdings Ltd R000	Subtotal R000	Fringe benefit of interest-free loans used to finance shares ⁶ R000	Gains on exercise of share options R000	Total R000
<i>For the year ended 30 June 2008</i>										
Executive directors										
Pattison, GM ¹	–	2,550	3,880	187	258	800 ⁸	7,675	5,325	–	13,000
Hayward, GRC	–	2,036	2,796	289	214	–	5,335	2,033	2,742 ⁷	10,110
	–	4,586	6,676	476	472	800	13,010	7,358	2,742	23,110
Non-executive directors										
Lamberti, MJ ²	799	–	–	–	–	–	799	–	–	799
Seabrooke, CS ³	722	–	–	–	–	–	722	–	–	722
Brand, MD ⁴	359	–	–	–	–	–	359	–	–	359
Combi, ZL	370	–	–	–	–	–	370	–	–	370
Dlamini, KD	185	–	–	–	–	–	185	–	–	185
Gwagwa, NN	185	–	–	–	–	–	185	–	–	185
Hodkinson, JC	185	–	–	–	–	–	185	–	–	185
Langeni, P	272	–	–	–	–	–	272	–	–	272
Matthews, IN	642	–	–	–	–	40	682	–	–	682
Maw, P	359	–	–	–	–	–	359	–	–	359
Mokhobo, DNM	359	–	–	–	–	–	359	–	–	359
Rubin, MJ	272	–	–	–	–	–	272	–	–	272
	4,709	–	–	–	–	40	4,749	–	–	4,749
Total	4,709	4,586	6,676	476	472	840	17,759	7,358	2,742	27,859

1 Appointed CEO on 1 July 2007.

2 Appointed Non-executive Chairman on 1 July 2007.

3 Appointed Deputy Chairman on 1 July 2007.

4 Individual not recipient of fees – fees paid to company.

5 In order to match incentive awards with the performance to which they relate, bonuses above reflect the amounts accrued in respect of each year and not amounts paid in that year.

6 Held in terms of the rules of the Company's share scheme.

7 With these proceeds he acquired 22,000 Massmart shares.

8 Restraint paid on appointment as CEO.

The comments on the next page provide further background and context to the figures disclosed in this note, Directors' emoluments, and Interests of directors in the Company's Share Scheme. These notes can also be found in the Group financial statements, note 36 on page 177 and note 37 on page 180.

GM Pattison

Grant received a 12.7% increase to his salary and allowances for the 2009 financial year, from R2.55 million to R2.88 million. Grant did not receive any bonus in terms of the Group's Short-term Executive Incentive Scheme which rewards executives based on growth in headline earnings per share (HEPS), but did receive a three-month ad hoc bonus for his performance as CEO and another three-month bonus for the improvement in the Group's externally rated BEE score. These bonuses totalled R1.36 million. Grant's total cash remuneration for the year of R4.86 million is 36.7% lower than that for 2008.

In terms of the rules of the Massmart Holdings Employee Share Trust, shares and options issued after 2002 must be exercised within six years of issue. During the 2009 financial year, Grant was therefore compelled to convert and sell 55,219 Massmart shares and options which he had held for more than five years. With the cash proceeds from the realised gain of R2.95 million, and after paying tax thereon, he purchased 33,210 Massmart shares.

Through the Share Scheme, Grant has 1,562,298 Massmart shares and options. The average length of time that he has held these shares and options is 3.5 years and the average strike price is R50.02 per share. A family trust of which Grant is a beneficiary also owns 445,010 Massmart shares directly.

GRC Hayward

Guy received a 10.0% increase to his salary and allowances for the 2009 financial year, from R2.04 million to R2.24 million. Guy did not receive any bonus in terms of the Group's Short-term Executive Incentive Scheme which rewards executives based on growth in HEPS, but did receive a three-month ad hoc bonus for his performance as CFO and another three-month bonus for the improvement in the Group's externally rated BEE score. These bonuses totalled R1.12 million. Guy's total cash remuneration for the year of R4.11 million is 22.9% lower than that for 2008.

Guy did not sell any Massmart shares or options during the 2009 financial year.

Through the Share Scheme, Guy still has 1,032,898 Massmart shares and options. The average length of time that he has held these shares and options is 3.7 years and the average strike price is R48.75 per share. Guy also owns 22,000 Massmart shares directly.

Sale of shares to black non-executive directors

Shareholders at the November 2008 annual general meeting approved the sale of Massmart treasury shares to the Group's five black non-executive directors. Accordingly, on 19 December 2008, each director purchased 20,000 Massmart shares for a nominal value of 1 cent each. The market price of the Massmart shares at the time of the transaction was R83.63 and so each director received deferred value of approximately R1.7 million.

The salient points relating to these shares were covered in detail in the resolutions for the November 2008 annual general meeting. Points to note here are that the shares attract ordinary dividends and have voting rights, and that they may only be sold in two 50% tranches in each of November 2011 and November 2013.

Interests of directors in the Company's Share Scheme

	Relevant date	Subscription price (R)	Market price (R)	Number of shares/ share options	Gain on sale/ exercise (R000s)	Expiry date
Details of directors' shares and share options per director:						
Pattison, GM						
Balance at the beginning of the previous year				1,846,138		
New shares/options granted	26 May 2008			85,248		25 May 2014
Balance at the beginning of the year				1,931,386		
Shares traded*	13 November 2000	12.25		(400,000)		
Options exercised	27 May 2003	18.98	72.42	(55,219)	2,951	
New shares/options granted	27 May 2009	77.56		86,131		26 May 2015
Balance at the end of the year				1,562,298		
Comprising:						
	27 August 2001	10.95		150,000		26 August 2011
	26 May 2004	29.87		35,919		25 May 2010
	1 April 2005	41.91		400,000		31 March 2011
	23 May 2006	54.13		750,000		22 May 2012
	24 May 2007	94.25		55,000		23 May 2013
	26 May 2008	72.86		85,248		25 May 2014
	27 May 2009	77.56		86,131		25 May 2014
* These shares were transferred to the Pattison Family Trust						
Hayward, GRC						
Balance at the beginning of the previous year				752,413		
Options exercised	29 February 2008	17.43	72.26	(50,000)	2,742	
New shares/options granted	1 April 2008	66.91		40,641		31 March 2014
	26 May 2008	72.86		74,643		25 May 2014
Balance at the beginning of the year				817,697		
New shares/options granted	27 May 2009	77.56		215,201		26 May 2015
Balance at the end of the year				1,032,898		
Comprising:						
	10 March 2000	14.61		8,643		9 March 2010
	13 November 2000	12.25		100,000		12 November 2010
	27 August 2001	10.95		150,000		26 August 2011
	26 May 2004	29.87		43,881		25 May 2010
	1 April 2005	41.91		200,000		31 March 2011
	23 May 2006	54.13		150,000		22 May 2012
	24 May 2007	94.25		49,889		23 May 2013
	1 April 2008	66.91		40,641		1 April 2014
	26 May 2008	72.86		74,643		25 May 2014
	27 May 2009	77.56		215,201		26 May 2015

Risk

The Risk Committee comprises Messrs Nigel Matthews (Chairman), Dods Brand, Peter Maw, Guy Hayward, Kevin Vyvyan-Day (Chief Executive of Masswarehouse) and Norman Gray (Chief Audit Executive), and Ms Lulu Gwagwa. 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 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

Massmart maintains clear principles and procedures designed to achieve accountability and control across the Group. These are codified in the Massmart governance authorities 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 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.



Insight

Risk model
 The Board is responsible for the risk management programme that attempts to balance the risks and rewards in achieving the Group's objectives. On behalf of the Board, the Risk Committee oversees the Group's risk management programme, which has a natural overlap with aspects of the Audit Committee's mandate. Responsibility for risk management and loss prevention rests however, with the Group and Divisional Executive Committees.

Risk and the Risk Committee

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.

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.

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.

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.

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 Operational risks and Strategic/Environmental risks:

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, in contrast, 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.

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.

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.

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.

Massmart's risk landscape, split into strategic and operational risk, can be summarised as follows:

Strategic risk

Business model

- Poor business model or strategic execution
- Insufficient progress with transformation

Human capital

- Talent retention and succession

Economic

- Economic volatility

Governance/Regulatory

- Expected standards of sustainability conduct

Operational risk

Operating environment

- Major store fire
- Supply chain
- In-store health and safety
- Fraud, security and crime
- Reliance on IT systems

Socio-economic/Health

- HIV/Aids

Geo-political/Economic

- Complexity of the Group's African operations

Financial

(covered in the Group Financial Statements on page 184)

- Market risk (comprising interest rate risk, currency risk and other price risk)
- Liquidity risk
- Credit risk

Further reading
















More detail on financial risk can be found in note 40 on page 184

GROUP FINANCIAL STATEMENTS

Group risk landscape

Risk landscape	Risk	Definition
Business model/ Strategic execution	Non-adherence to business model or poor 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.
Business model/ Strategic execution	Insufficient progress with transformation	There is the possibility of adverse or undue reputational exposure due to the Divisions or the Group not fulfilling, or underdelivering, towards BBBEE requirements. In the broader national context, inadequate transformation at all levels by Massmart 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 executive level at the Group and Divisions.
Human capital	Talent retention and succession	This covers four broad issues being: 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 was recently been aggravated by an increase in executive emigration.
Economic	Economic volatility	<p>This concern focuses on two potential impacts, the first being the financial impact on the business and the second being the possible adverse effect on consumer expenditure of dramatic changes in key economic variables including inflation, interest and exchange rates.</p> <p>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 to combat this eventuality.</p> <p>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 translation differences affecting earnings.</p> <p>Increases in interest rates will make South African corporate funding more expensive, with an adverse impact on profitability.</p> <p>Higher cost inflation may affect Group profitability where these cost increases cannot be controlled or any additional productivity required is not forthcoming. Lower inflation rates may make long-term property leases with higher fixed escalation rates appear expensive and potentially affect profitability.</p> <p>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 Group sales growth and potentially Group or Divisional profitability too.</p>
Governance/ Regulatory	Expected standards of sustainability 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 Socially Responsible Investment (SRI) Index, Broad-based Black Economic Empowerment Codes of Good Practice, Marine Stewardship Council (MSC), Forestry Stewardship Council (FSC) and ISO 14001 certification. Increasingly, the Group needs to comply with some or all of these standards.






















Strategic risk

Probability	Potential impact	Risk mitigation
	<p>Financial impact </p> <p>Business impact </p>	<p>The Group insists on strategic clarity at the Divisions and Massmart Corporate. 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. A Division's strategies dictate management's operational tactics and priorities. The annual budget process is an output of these reviews.</p>
	<p>Financial impact </p> <p>Business impact </p>	<p>The Board-approved BBEE strategy covering the elements of the Code of Good Practice, has been implemented Group-wide and we continue to make good progress as measured by the improvement in the annual external BBEE rating. 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 BBEE staff share issue amounting to 10% of the pre-dilution shares of Massmart was implemented in October 2006 and all permanent Massmart employees, not already participants in the current share trust, became beneficiaries at that time. In October 2008, the Group's five black non-executive directors each purchased 20,000 heavily discounted Massmart shares (see page 107 for more detail). An annual transformation incentive has been implemented for Divisional executives and was paid out in three Divisions for the improvement in each Division's BBEE rating.</p>
	<p>Financial impact </p> <p>Business impact </p>	<p>This is a major Group focus area. The Executive Committee actively monitors 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 executive. The Group's remuneration policy, incorporating short- and longer-term incentives, is designed to significantly reward outperformance and provides an opportunity for staff to accumulate wealth which can also act as a retention mechanism.</p>
	<p>Financial impact </p> <p>Business impact </p>	<p>All direct foreign exchange import liabilities are covered forward, providing certainty about the expected landed cost of merchandise and also providing a four- to six-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 is generally 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.</p> <p>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 partially immune to any adverse increases in corporate borrowing rates.</p> <p>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).</p> <p>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.</p>
	<p>Financial impact </p> <p>Business impact </p>	<p>The Group has implemented transparent 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. Massmart is in the JSE SRI Index; it subscribes to MSC and FSC, <i>inter alia</i>.</p>

Group risk landscape

Risk landscape	Risk	Definition
Operational	Major store fire	Since 1994 Makro has had three stores totally destroyed by fire. The most recent fire, in 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 would be able to secure adequate catastrophe insurance cover or, alternatively, may secure adequate insurance cover but at a very 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.
Operational	Supply chain	Supply chain describes all the business processes around the movement 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 ineffective or inefficient supply chain may result in sub-optimal inventory management, with duplication of costs and over or under-stocking affecting holding costs or rates of sales.
Operational	In-store health and safety	The Group's large warehouse format means that large quantities of inventory are moved, stored and stacked – sometimes at great heights – in our stores. Despite compliance with all relevant legislation, there remains the risk of injury or death to customers or employees should bulky items collapse, with the associated significant reputational risk.
Operational/ Environmental	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 and adversely affects employees, customers, the business and the overall business environment.
Operational	Reliance on IT systems	With millions of transactions daily, the Group is dependent upon reliable, secure, effective and efficient IT systems, including the management and storage of data and information. Major IT implementations or initiatives can distract management, be costly, destabilise other IT platforms and the business, and/or perform sub-optimally post-implementation. The Group may overly rely on one or more service providers. Reliable connectivity with key transactional intermediaries including banks is critical. Finally, at a strategic level, there exists the potential for misalignment between business strategy and IT capability, which can result in reduced operational effectiveness.
Socio-economic/ Health	HIV/Aids	This refers to the impact 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 certain stores that are significantly exposed uneconomic.
Geo-political/ Economic	Complexity of the Group's African operations	This refers to the multiple levels of risk, and the associated complexity, of doing business in 14 countries across Africa, each with different regulatory, fiscal and customs environments. Political risk can become an issue. African currencies can be illiquid, making them vulnerable to any withdrawal of hard currencies. Bureaucracy can delay cash repatriations.

Operational risk

Probability	Potential impact	Risk mitigation
	Financial impact  Business impact 	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 and distribution centres have the highest possible level of fire detection and prevention.
	Financial impact  Business impact 	Massdiscounters, Makro and Builders Warehouse have implemented IT software to automate the forecasting and replenishment (F&R) of inventory. Massdiscounters has about 65% of their sales by value being automatically replenished. This is about 70% in Builders Warehouse and 15% in Makro. In August 2008 the Group's first regional distribution centre (RDC), for Massdiscounters, was opened in the Western Cape and its performance has exceeded expectations. A Johannesburg-based Massdiscounters RDC is now being built for commissioning in July 2010.
	Financial impact  Business impact 	Risk officers in each Division are responsible for monitoring and improving compliance. There is a high executive awareness level. There has been formal communication with suppliers and logistics providers around specified stacking protocols. We continually use Massmart Internal Audit and third party service providers to review in-store health and safety procedures. Warning signs in higher risk areas are on display.
	Financial impact  Business impact 	The Group continually improved 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.
	Financial impact  Business impact 	All the Group's IT development, hardware and software, must be specifically approved and then monitored by the Group's Technology, Information and Processes Forum (TIP), representing all the Divisions' 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.
	Financial impact  Business impact 	Since 2004, HIV prevalence has been measured in all the Divisions by an external agency. The Group's estimated infection rate, using statistical methods, is 6.9% amongst employees. All 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, Impilo, which includes the provision of free antiretrovirals to all permanent staff and spouses.
	Financial impact  Business impact 	Careful pre-selection of countries for new stores, with a thorough evaluation of customs, tax, exchange control and business legislation. Regular repatriation of cash. Although there is a natural economic hedge in place with our South African operation supplying the African store, for accounting purposes IFRS has broken this hedge, resulting in increased volatility of reported foreign currency movements. Dedicated executives across several functions monitor and manage the African operations.

Compliance, transparency and accountability

Annual General Meeting

Attendance by all directors at Massmart's annual general meeting is strongly encouraged while attendance for Board Committee Chairmen is compulsory.

At the November 2008 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 nine non-executive Directors attended the annual general meeting.

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.

Insight

Annual General Meeting
08:30 Wednesday, 25 November 2009
Massmart House,
16 Peltier Drive,
Sunninghill Ext 6,
Sandton

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 2009 annual general meeting.

During the year to June 2009 no Massmart shares were purchased on the open market 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, the Group's cash position and future cash requirements, 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.

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 the public 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.

Corporate ethics and compliance

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 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: 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 has maintained its close relationship with the Ethics Institute of South Africa and a further one employee attended the Ethics Officers Certification course and two more employees were accredited as Ethics Officers.

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.

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 35.9% higher than the previous year (see table alongside). Deloitte Tip-off's Anonymous has been certified by the External Whistle-blowing Hotline Services Provider Standard EO1.1.1.

The Ethics Institute of South Africa was contracted by Massmart in 2008 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.

In 2008 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."

The survey highlighted that the Divisions have different concerns that need addressing and action plans are in the process of being finalised to address these issues and to further enhance our Ethics Programme.

King III

The final version of King III was released on 1 September 2009 and the effective date of the new Code will be 1 March 2010. The Code, released for comment in early 2009, increased the emphasis on several topics including: the audit committee; sustainability, particularly integrated reporting and disclosure; risk management; internal audit; IT governance; and stakeholder relationship management.

Specific points of emphasis in the Code, which will be duly considered by the Board, include:

- Shareholders should appoint the Audit Committee, as opposed to the Board;
- The tenure of the chairperson should be determined and disclosed;
- The chairperson should consider the number of chairmanships he/she holds;
- Whether Board and Committee assessments should be done in-house or conducted by independent service providers;
- Remuneration policies should be approved by the shareholders;
- An annual remuneration report should be issued; and
- The Audit Committee should annually evaluate the CFO.

It is anticipated that many of the requirements of the Code will be enforced through regulations and legislation including the new Companies Act. In addition, while King II was to be implemented on a 'comply or explain' basis, King III is to be implemented on an 'apply or explain' basis. Massmart intends to formally address King III in the June 2010 annual report.

Insight

Contact the Massmart Ethics Line

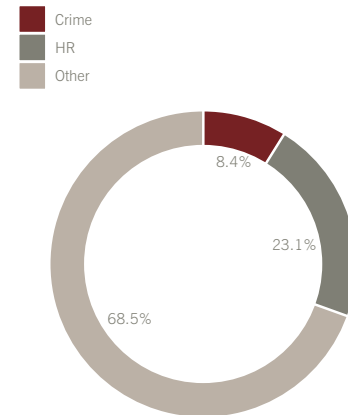
FreeCall	0800 20 32 46
SMS 'please call me' to	32846 (R1 each)
FreeFax	0800 00 77 88
Email	massmart@ethics-line.com

DO WHAT IS RIGHT, FAIR, HONEST AND LEGAL!

Massmart Ethics Line

	Total calls and reports	Anonymous calls
July	62	
August	54	
September	42	
October	44	
November	44	
December	62	
January	49	
February	81	
March	161	
April	96	
May	126	
June	91	
Total	912	15%

Breakdown of total calls (%)



Investor relations

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.

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
Analyst presentation and preliminary announcement		●										
Final dividend declared		●										
Cape Town institutional investor roadshow		●										
Johannesburg institutional investor roadshow		●										
Final dividend paid			●									
United States institutional investor roadshow			●									
United Kingdom institutional investor roadshow			●									
Publication of annual report				●								
Annual General Meeting					●							
Financial half-year						●						
Analyst presentation and interim preliminary announcement								●				
Interim dividend declared								●				
Cape Town institutional investor roadshow								●				
Johannesburg institutional investor roadshow								●				
Interim dividend paid									●			
Financial year-end												●

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.

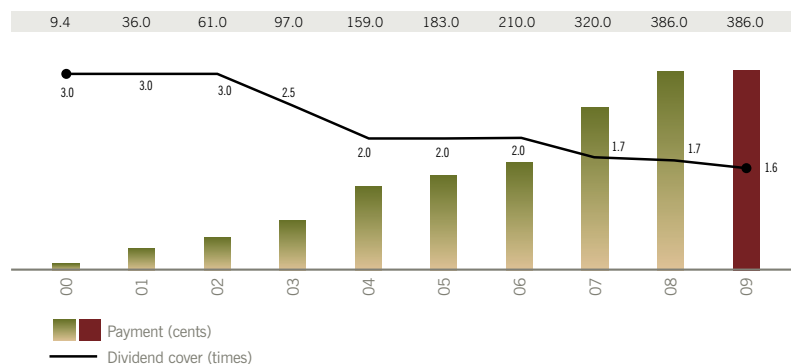
Insight

SENS

SENS is a system provided by the JSE, which publishes company announcements and price sensitive information. The key purpose of SENS is to ensure that this information is accessible to the investing community interested in trading on the JSE, as soon as it is vetted by the JSE Listings Division.

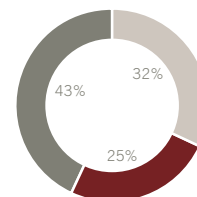
Profits are distributed to our shareholders at interim and year-end by way of a cash dividend. The dividend is calculated based on a dividend cover of 1.7 on headline earnings unless circumstances dictate otherwise. Despite the slightly lower headline earnings and this policy, the Board has decided to maintain this year's dividend at the same level as last year. A further dividend is distributed to our Thuthukani shareholders, arising from the Massmart black economic empowerment transaction which came into effect in October 2006. The Thuthukani dividend is calculated based on the ordinary dividend multiplied by 75%. This will become 100% in 2010, and remain that way thereafter.

Dividend payment vs dividend cover



Foreign shareholdings 2009 (%)

UK, Europe and other
US
South Africa



Further reading

More detail on our shares and shareholder information can be found on page 8

MASSMART AT A GLANCE

Company Secretary

I Zwarenstein, CA(SA)

Contact details

Registered office

Massmart House
16 Peltier Drive
Sunninghill Ext 6
Sandton
2191
South Africa

Postal address

Private Bag X4
Sunninghill
2157
South Africa

Telephone number

+ 27 (0) 11 517 0000

Facsimile number

+ 27 (0) 11 517 0020

www.massmart.co.za

Indicators

Company registration number

1940/014066/06
(incorporated in South Africa)

JSE share code

MSM

ISIN code

ZAE000029534

Corporate partners

Transfer secretaries

Computershare Investor Services (Pty) Ltd
70 Marshall Street
Johannesburg
2000

Principal bankers

Nedbank Group Limited
ABSA Bank Limited
The Standard Bank of South Africa Limited
First National Bank
(A division of FirstRand Bank Limited)
Investec Bank Limited

Auditors

Deloitte & Touche

Corporate law advisors

Edward Nathan Sonnenbergs
Cliffe Dekker Hofmeyr

Lead sponsor

Deutsche Securities

Design partners

Publisher annual report

HKLM

Photographer

M Nicolaou (People photography)
Objektiv (Store photography)

King II Index Question and Answer

2. Boards and Directors

2.1 THE BOARD

2.1.1

Is the Board ultimately accountable and responsible for the Company's performance and its affairs?

The Board of Massmart is responsible for directing the Group towards the achievement of the Massmart vision and mission. It is therefore accountable for the development and execution of the Group's strategy, operating performance and financial results, as well as being the custodian of the Group's corporate governance.

2.1.2

Is there a unitary Board structure with executive and non-executive directors interacting in a working group?

There is only one Board, which comprises two executive directors, 11 independent non-executive directors and one non-executive director.

2.1.3

Does the Board provide strategic direction, appoint the CEO and plan succession?

The Board is accountable for the development and execution of the Group's strategy. Annually it formally considers and approves the strategies of the Massmart Divisions and the Group.

The Board is responsible for its own composition, the appointment of the Chairman and the Chief Executive Officer, and for executive succession planning.

2.1.4

Does the Board retain full and effective control over the Company and does it monitor management in implementing board plans and strategies?

The Board's authority and control is devolved sequentially through the Massmart Executive Committee, the Divisional Boards and the Divisional Executive Committees, as formally prescribed by the Massmart 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.

2.1.5

Does the Board ensure that the Company complies with all relevant laws, regulations and codes of business practice, and does it communicate openly and promptly with its shareowners and relevant stakeholders with substance over form?

The Group is committed to complying with all legislation, regulations and best practices relevant to our business, in every country where we conduct business. This is monitored through both prevention and detection approaches. Through regular interactions with corporate lawyers and key decision-makers in government and civil service, the Group keeps abreast of all intended or promulgated legislation. The Group's internal audit team assesses significant legal risks and the level of compliance as part of its regular procedures. The Group utilises experts in non-South African countries to perform evaluations on relevant applicable legislation and compliance effectiveness.

The Board also ensures that the Company communicates openly and promptly with all relevant stakeholders, and is often lauded for its thorough financial disclosure and for its communication of our sustainability efforts.

2.1.6

Does the Board define levels of materiality, reserving specific powers to itself and delegating other matters with the necessary written authority to management and are these matters monitored and evaluated on a regular basis?

This is achieved through the Massmart governance authorities described in 2.1.4 above. These authorities are evaluated and updated, where necessary, by the Board annually.

2.1.7

Does the Board have unrestricted access to all Company information, records, documents and property?

The Directors have direct, unfettered access to all Company information and to the Group's external auditors, professional advisors and internal auditors and to the advice and services of the Company Secretary.

In addition, all directors are welcome to attend any meeting of the Board Committees, the Group Executive Committee or of the Divisional Boards.

2.1.8

Has the Board developed a Corporate Code of Conduct that addresses conflicts of interests and is this Code of Conduct regularly reviewed and updated?

There is not a specific Code of Conduct that addresses conflicts of interest. At each Board meeting, all signed directors' interests disclosures are included in the Board papers for review.

2.1.9

Do directors have the option of taking independent professional advice at the Company's expense?

Directors are encouraged to take independent advice, at the Company's cost, for the proper execution of their duties and responsibilities. No directors availed themselves of this during the 2009 financial year.

2.1.10

Does the Board consider its effectiveness due to its size, diversity and demographics?

The Board assesses its effectiveness annually, taking various factors into account, including the requisite skills and experience required to direct the Group, as well as the Board's size, diversity and demographics.

2.1.11

Does the Board identify key risk areas and key performance indicators of the Company, and are these regularly monitored, giving particular attention to technology and systems?

Together with the Audit Committee, the Risk Committee oversees the maintenance of a sound system of risk management and control with regard to all aspects of the business, including technology and systems.

Annually, the chairman of the Group's Technology, Information and Process (TIP) Forum gives a presentation to the Board of the major Group and Divisional IT initiatives, key service providers and risk areas.

Our external auditor reviews key computer controls and reports its findings to the Audit Committee. Internal Audit includes a team of IT specialists that monitor and review all major IT developments in the Group as well

as auditing them periodically – providing full reports to the Audit Committee.

2.1.12

Does the Board identify and monitor the non-financial aspects relevant to the business of the Company?

Over time the Board and/or its Committees have developed a schedule of key non-financial indicators for inclusion in the quarterly Board/Committee papers, which includes transformation, executive succession, growth initiatives and governance.

2.1.13

Does the Board record the facts and assumptions on which it relies to conclude that the business will continue as a going concern in the financial year ahead?

The Audit Committee records the key facts and assumptions supporting the Group's going-concern assertion and then makes its recommendation to the Board.

2.1.14

Is each item of special business included in the notice of AGM accompanied by a full explanation of the effects of any proposed resolutions?

The notice for any shareholder meeting includes an explanation of the reason for, and the effects of, any proposed special resolutions.

2.1.15

Does the Board encourage shareowners to attend AGMs and other Company meetings and do all directors and particularly the Chairpersons of each Board Committee attend the AGM?

All directors are encouraged to attend the annual general meeting (AGM) which, to assist practical arrangements, is held in the morning before a quarterly Board meeting. Committee chairpersons are specifically required to attend the AGM.

2.1.16

Does a brief CV of each director standing for election or re-election at the AGM accompany the notice of AGM?

A brief CV of each director is included in the annual report of which the notice of AGM forms part.

2.1.17

Does the Board have a charter setting out its responsibilities and is this charter disclosed in the annual report?

The Board has established a charter setting out its responsibilities and key aspects of the charter are disclosed in the annual report.

2.1.18

Does the Board manage to balance the constraints of corporate governance with entrepreneurship?

The Board does attempt to balance the often conflicting dynamics of encouraging entrepreneurial behaviour against the constraints of corporate governance. This is achieved in several ways: through the composition of the Board which includes self-made businessmen and seasoned corporate executives; by specifically

addressing governance annually in November (Committee charters, self-assessments, etc); and through the various remuneration policies developed and applied by the Remuneration and Nominations Committee.

2.2 BOARD COMPOSITION

2.2.1

Does the Board consist of executive and non-executive directors, with a majority of non-executive directors of whom sufficient are independent of management in order to ensure that shareowner interests are protected?

The majority of the Board, and of the non-executive directors, is independent. The Board comprises two executive directors, 11 independent non-executive directors and one non-executive director.

2.2.2

Are the procedures for appointments to the Board formal and transparent and are they a matter for the Board as a whole, assisted where appropriate by a nomination committee which consists of only non-executive directors of whom the majority are independent and which is chaired by the Board Chairperson?

The Remuneration and Nominations Committee consists of only non-executive directors of whom the majority is independent. As the Board Chairman, who is a Committee member, is not considered independent, the Committee is chaired by a senior independent non-executive director, Mr Kuseni Dlamini.

The Committee assists the Board with the assessment, recruitment and nomination of new directors, but the Board has final say in such appointments and Board members are invited to interview any potential appointees.

2.2.3

Has the Board put a programme in place ensuring staggered rotation of directors in order to ensure Board continuity?

All directors retire by rotation every three years. This year the following directors retire by rotation: Messrs MD Brand, ZL Combi, GRC Hayward, JC Hodgkinson and P Maw.

Unless requested by the Board to serve a further term, retiring directors are not proposed for re-election by the shareholders.

In considering whether to propose a director for re-election, the Board takes into account various factors, skills mix and non-executive succession planning.

Newly appointed directors are required to resign and to offer themselves for re-election at the first AGM following their initial appointment.

2.3 CHAIRPERSON AND CHIEF EXECUTIVE OFFICER

2.3.1

Is there a clear division of responsibilities at the head of the Company?

There is a sufficiently clear division of responsibilities in order to ensure a balance of power and authority, such that no one individual has unfettered powers of decision-making.

2.3.2

Is the Chairperson an independent non-executive director?

The Chairman, Mr Mark Lamberti, is not an independent non-executive director. He was appointed non-executive Chairman on 1 July 2007 and, as he was previously the CEO of the Group, he cannot be considered independent until June 2010. The Board is of the view however, that the interest of all Massmart stakeholders remains 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 is held by independent directors, and Chris Seabrooke, the non-executive Deputy Chairman, maintains his role as the Group's Lead Independent Director.

2.3.3

Are the roles and functions of the CEO and Chairperson separate?

The roles and functions of the CEO and Chairman are separate.

2.3.4

Where the roles of the Chairperson and the CEO are combined, is an independent non-executive director serving as deputy chairperson? Alternatively, is there a strong independent non-executive director element on the Board?

The Chairperson and CEO roles are separate. Steps to insure independence of the Chairperson are described above in 2.3.2.

2.3.5

Does the Board appraise the performance of the Chairperson on an annual (or other) basis?

The Remuneration and Nominations Committee facilitates an annual formal performance evaluation of the CEO, comprising a self-evaluation by the CEO, an evaluation of the CEO by every non-executive Director by way of a questionnaire, and an appraisal of the CEO by each of his direct reports using a different questionnaire. The Chairman of the Board collates and summarises the above and provides feedback to the CEO.

2.4 DIRECTORS

2.4.1

Does the Board ensure that there is an appropriate balance of power and authority on the Board?

All Directors must bring independent judgement and experience to the Board's deliberations.

No one individual or block of individuals dominates the Board's decision taking.

2.4.2

Are the non-executive directors individuals of caliber and credibility and do they have the requisite skill and experience to bring judgement to bear on issues of strategy, performance, resources, transformation, diversity, employment equity, standards of conduct and evaluation of performance?

The composition of the Board is considered annually by the Remuneration and Nominations Committee, taking into account the issues noted in point 2.4.2.

2.4.3

Is the capacity of each director categorised in the annual report?

The capacity of each Director is categorised into executive, non-executive and/or independent on pages 17 to 19 of this report.

2.4.4

Does the Board allow “shadow directors”?

Massmart does not have or allow shadow directors.

2.4.5

Are executive directors encouraged to hold other non-executive directorships, and do non-executive directors carefully consider the number of appointments they take in that capacity?

Executive directors are encouraged to hold other non-executive directorships, although this must be balanced against the demands of their executive role. Guy Hayward, for example, is a governor on the Hilton College board while Grant Pattison is co-chairman of the Consumer Goods Council of South Africa (CGCSA).

Before accepting a new non-executive appointment, Massmart non-executive directors must seek the prior approval of the Chairman.

2.4.6

Has the Board established a formal orientation programme to familiarise incoming directors with the Company's operations, senior management and its business environment and to induct them in their fiduciary duties and responsibilities?

The Company Secretary is tasked with assisting the Board with induction of new directors, director orientation, development and education. This induction includes receiving copies of prior Board papers and the most recent Group strategy document, store visits with Group executives, and meetings with key executives, if felt necessary.

2.4.7

Do new directors with no or limited board experience receive development and education to inform them of their duties, responsibilities, powers and potential liabilities?

The Company Secretary assists the Board with director development and education where necessary, using materials from the Group's legal advisers and external auditors.

2.4.8

Does the Board ascertain whether potential new directors are fit and proper and whether they are not disqualified from being directors?

The Board, through the Remuneration and Nominations Committee, does thoroughly assess potential new directors before appointment. Use is sometimes made of third party executive search agencies to provide such assurances.

2.5 REMUNERATION

2.5.1

Are levels of remuneration sufficient to attract, retain and motivate executives of the quality required by the Board?

The Remuneration and Nominations Committee implements remuneration policies that enable it to recruit, retain and motivate the executive talent needed to achieve superior performance. These policies strive for fixed remuneration at the median to upper quartile of comparable positions, but place particular emphasis on generous annual incentives for high performance in order to motivate the executives. Finally, longer-term wealth creation – aligned with shareholder value creation – is underpinned by the share incentive plan.

Excluding emigration, there has been very low executive turnover in recent years which, combined with the Group's longer-term financial performance, suggests that the remuneration policies are appropriate.

2.5.2

Has a Remuneration Committee been appointed which consists of entirely (or mainly) independent non-executive directors and which is chaired by an independent non-executive director?

The Remuneration and Nominations Committee consists of only non-executive directors of whom the majority is independent. As the Board Chairman, who is a Committee member, is not considered independent, the Committee is chaired by a senior independent non-executive director, Mr Kuseni Dlamini.

2.5.3

Is membership of the Remuneration Committee disclosed in the annual report, and does the chairperson of such committee attend the AGM to answer questions from shareowners?

Membership of the Remuneration and Nominations Committee can be found on page 100 of this report and the Committee chairman is required to attend the AGM.

2.5.4

Does the Company provide full disclosure of director remuneration on an individual basis, giving details of earnings, share options, restraint payments and all other benefits?

Details of individual directors' remuneration are provided on pages 106 to 107 of this report, and explanations are provided for executive directors' remuneration. In addition, details of executive remuneration policies are provided on page 105.

2.5.5

Do performance-related elements of remuneration constitute a substantial portion of the total remuneration package of executives in order to align their interests with those of shareowners?

With the appropriate financial performance by the Group and/or exceptional personal performance, executives are able to earn significant short-term incentives that, at their maximum, can represent two or three years' annual basic salary. For the long-term, equity incentive plans ensure the alignment of executive reward and wealth creation with shareholders' interests, in particular the sustained creation of shareholder value.

2.5.6

Do shareowners approve the granting of share options to non-executive directors?

In general, share options are not granted to non-executive directors. During 2009 however, after specific shareholder approval, a limited number of fully paid-up shares were issued to the five black non-executive directors

2.5.7

When allocating share options, is the Board mindful of applying a vesting period to non-executive directors, of the shareowner approval required for the repricing of share options, and of the specific shareowner approval required where share options are to be issued at a discount to the ruling price?

As noted above, share options are not issued to non-executive directors.

Where share options were to be repriced or issued at a discount to the ruling price, then specific shareholder approval would be sought prior to making any issue.

2.5.8

Does the overriding principle of full disclosure by directors apply to all share and incentive schemes?

Full disclosure of individual directors' shareholdings in Massmart shares, and of the individual executive directors' participation in the Group share incentive scheme can be found on pages 131 and 107 respectively in this report.

2.5.9

Does any executive director's fixed-term contract exceed three years?

None of the executive directors have fixed-term contracts and, in any event, compulsorily retire every three years but can make themselves available for re-election.

2.5.10

Has the Company established a formal and transparent procedure for developing a remuneration policy and is this policy supported by a Statement of Remuneration Philosophy in the annual report?

The Group's remuneration philosophy and policies can be found on page 105 of this report.

2.5.11

Does the Remuneration Committee play an integral part in succession planning of the CEO and executive management?

The Remuneration and Nominations Committee assists the Board with succession planning for the CEO and executive management.

2.5.12

Does the Remuneration Committee consider and recommend fees to be paid to the non-executive directors, and are these fees approved by shareholders at the AGM?

The Remuneration and Nominations Committee considers and recommends to the Board the proposed fees to be paid to the non-executive directors, and these fees are put to shareholders for approval at the next AGM.

2.6 BOARD MEETINGS

2.6.1

Does the Board meet regularly (at least once a quarter), and are the number of Board and Committee meetings disclosed in the annual report, as well as the attendance of each director at such meetings?

The Board meets at least once a quarter. Full details of Board and Committee meetings and directors' attendances can be found on page 99.

2.6.2

Are Board members efficiently and timeously briefed prior to meetings?

For every discussion item on the meeting's agenda formal papers are prepared, bound together and are distributed timeously to Board members.

2.6.3

Do the non-executive directors have access to management and can they meet separately with management without the attendance of the executive directors?

The non-executive directors have unrestricted access to any executive, manager or employee in the Group, with whom they may meet separately if they so wish.

2.6.4

Does the Board regularly review processes and procedures to ensure the effectiveness of the Company's internal systems of control, so that its decision-making capability and the accuracy of its reporting are maintained at a high level at all times?

The Board has delegated to the Audit Committee the task of 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 that they have been effective throughout the financial year.

2.6.5

Does the Board go beyond assessing the financial and quantitative performance of the Company and does it look at other qualitative performance factors that involve broader stakeholder interests?

In addition to financial reporting and external audits, Massmart has implemented independent reviews of its non-financial performances. These reviews include Division-wide staff surveys conducted by third parties; biannual surveys of the Group's suppliers, also conducted by a third party; 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.

2.7 BOARD COMMITTEES

2.7.1

Does the Board delegate certain of its functions to committees, being mindful of the fact that the Board still retains ultimate accountability for its duties and responsibilities?

The Board has delegated specific responsibilities to the Board Committees, which committees assist the Board and the Directors in discharging their duties and responsibilities under King II and legislative requirements. These delegated responsibilities are formally recorded in each committee's charter or terms of reference and are noted in the governance authorities.

2.7.2

Is there a formal procedure in place for the delegation of certain functions of the Board to committees?

Each committee's charter or term of reference specifically documents that committee's scope, duties and responsibilities. These are reviewed for relevance and completeness, and amended where necessary, annually in November.

2.7.3

Do such committees have formally determined terms of reference, life spans, functions, reporting processes and scopes of authority?

These issues are included in each committee's charter or terms of reference.

2.7.4

Is there transparency and full disclosure from such committees to the Board?

At each Board meeting the full minutes of all committee meetings in the previous quarter are included in the formal papers. In addition, when required the Committee Chairman gives verbal feedback at the Board meeting and answers questions or queries from Board members.

2.7.5

Has the Board, as a minimum requirement, established audit and remuneration committees?

The Board has established an Audit Committee and a Remuneration and Nominations Committee, both of which have been operating since 2000. There are also Risk, Sustainability and Transformation and Strategy and Investment Committees.

2.7.6

Do the non-executive directors play an important role in the Board Committees?

The Committees comprise a majority of non-executive directors.

2.7.7

Are all Board Committees chaired by an independent non-executive director?

All the Committees are chaired by independent non-executive directors, with the exception of the Strategy and Investment Committee, which is chaired by Mark Lamberti who is not considered to be independent.

2.7.8

Are Board Committees free to take independent outside professional advice?

Directors are encouraged to take independent professional advice, at Massmart's expense, in respect of the proper execution of their duties and responsibilities as Board and Committee members.

2.7.9

Are details regarding Board Committees disclosed in the annual report and do the chairpersons of the Board Committees attend the AGM?

Details regarding the duties and responsibilities of each Board Committee, and its composition, can be found on page 100.

The Committee chairpersons do attend the AGM.

2.7.10

Are Board Committees subject to regular evaluation by the Board?

Annually all Board Committee members complete detailed self-assessments covering the composition, duties, responsibilities, processes and effectiveness of the Committees. The results of these assessments are collated by the Company Secretary and sent in summarised form to the respective Committee chairpersons for a formal written response. The summarised results together with the Chairpersons' written responses are included in the Board papers at the November meeting.

2.8 BOARD AND DIRECTOR EVALUATION

2.8.1

Does the Board regularly review its required mix of skills and experience by means of a self-evaluation of the Board as a whole, its committees and the contribution of each individual director?

All Board members complete a detailed Board self-assessment each year, covering the composition, duties, responsibilities, process and effectiveness of the Board. See 2.7.10 with regard to the assessment of the Board Committees.

Annually, the Board Chairman, Deputy Chairman and CEO assess the effort and contribution of each individual director, and where necessary provide verbal feedback to that director.

2.8.2

Are these self-evaluations conducted at least annually?

All self-assessments are conducted annually and are then reported and discussed at the November Board meeting.

2.9 DEALINGS AND SECURITIES

2.9.1

Does the Company have a practice prohibiting dealing in its securities by its directors, officers and other select employees for a designated period

preceding the announcement of its financial results or in any other period considered sensitive and having regard to the Listings Requirements of the JSE in respect of dealings of directors?

Massmart's does have strict "closed periods" during which all directors, executives and employees are not allowed to deal in Massmart shares. These closed periods begin one month prior to the end of each reporting date (being 31 December and 30 June) and end on release of the Group results.

A closed period also applies from the date Massmart issues a cautionary announcement.

No director, executive or employee may deal, directly or indirectly, in Massmart shares where that person may be aware of unpublished price-sensitive information.

2.9.2

Is such practice determined by way of a formal policy established by the Board and implemented by the Company Secretary?

It is strict Massmart policy that all share dealings by any director, executive or employee must have prior authorisation by either the CEO or the CFO. Any dealings by the CEO are authorised by the Chairman, and any dealings by the CFO are authorised by the CEO.

2.10 COMPANY SECRETARY

2.10.1

Does the Company Secretary play a pivotal role in the corporate governance of the Company?

The Board believes that practicing good corporate governance is the duty of each director, but looks to the Company Secretary to be the central source of guidance and advice to the Board, and within the Group, on matters of ethics and good governance.

Ilan Zwarenstein, Massmart's Company Secretary, is a CA(SA) and a former partner of a national audit firm.

2.10.2

Is the Board cognisant of the duties imposed on the Company Secretary and does it empower him accordingly to enable him to properly fulfil those duties?

The Company Secretary is empowered by the Board to fulfill his duties and to assist the Board in fulfilling its functions.

2.10.3

In addition to his extensive statutory duties, does the Company Secretary provide the Board as a whole and directors individually with detailed guidance as to how their responsibilities should be properly discharged?

This guidance would be provided during the induction process and thereafter also on an ad hoc basis in response to changes in the legislative or regulatory environment, or as circumstances demanded.

2.10.4

Does the Company Secretary play an important role in the induction of new or inexperienced directors, in assisting the

Chairman and CEO in determining the annual Board plan and in the administration of other issues of a strategic nature at Board level?

See 2.4.6 concerning the induction of new directors.

The Company Secretary is directly involved in discussions on the Board process, agenda and administration.

2.10.5

Does the Company Secretary provide a central source of guidance and advice to the Board, and within the Company, on matters of ethics and good governance?

See 2.10.1.

2.10.6

Is the Company Secretary subjected to a fit and proper test in the same manner as for new director appointments?

The Board believes that as a minimum the Company Secretary should be a qualified professional and he or she would undergo the same background checks as would apply to any new Board appointee.

3. Risk management

3.1 RESPONSIBILITY

3.1.1

Is the Board responsible for the risk management process with management being accountable for the implementation thereof?

The Board, through the Risk Committee, oversees the Group's risk management programme, while the day-to-day responsibility for risk management remains with the Group and Divisional executives.

3.1.2

Does the Board set the risk strategy policies in liaison with management and are these policies clearly communicated to all employees?

Through the Risk Committee, and thereafter the Group Executive Committee, the Group risk strategy has been established. This takes into account the Group's risk tolerance and is necessarily balanced against the drive towards the achievement of its strategies and objectives.

3.1.3

Does the Board determine the Company's tolerance for risk and has it ensured an effective ongoing process to identify risk and to measure its potential impact?

The Risk Committee, working through the Group Executive Committee, identifies and assesses the risks in the Group's operations and business environment with a view to eliminating or reducing them in the context of the Group's strategies and operations.

3.1.4

Does the Board maintain a sound system of risk management and internal control to provide assurance regarding the achievement of organisational objectives?

The Risk Committee, together with the Audit 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. In addition, the mandates of the Group and Divisional Executive Committees and Internal Audit, explicitly include the identification and management of risk.

3.1.5

Does the Board ensure that a documented assessment of key risks is undertaken at least annually?

The Risk Committee tables a Group risk report and risk register to the Board annually in August.

3.1.6

Has the Board established a dedicated committee to review the risk management process and significant risks facing the Company?

The Risk Committee directly – and the Audit Committee indirectly – oversees the Group's risk management programme.

3.1.7

Is risk management and are internal controls embedded in Company practice?

The day-to-day responsibility for risk management sits with the executives of the Group and of each Division.

3.1.8

Has the Board established a confidential reporting process to cover fraud and other risks?

The Massmart Ethics Line (also known as Anonymous Tip-Offs) has been in place since October 2004 to enable anyone to report perceived cases of unethical practice or criminality.

3.2 APPLICATION AND REPORTING

3.2.1

Has the Board established a comprehensive system of control which covers ethical values, management's philosophy and employees' competence?

The Board has not explicitly addressed these issues in combination.

There is a well-documented and communicated Code of Ethics in place across the Group, of which the Ethics Line (noted in 3.1.8 above) is one aspect.

Through its interactions with Group and Divisional executives, the Board is directly exposed to management's values and business philosophy, and is therefore in a position to change or influence those values and philosophy if necessary.

The attraction, employment, retention and development of employees is the responsibility of management, with the remuneration & Nominations Committee forming a critical backdrop. The Board believes that the employees' competence forms part of this responsibility.

3.2.2

Are risks assessed on an ongoing basis and are control activities designed to respond to risks throughout the Company?

The Risk Committee oversees the Group's risk management programme, while the day-to-day responsibility for risk management sits with the executives of the Group and of each Division. The Board and Risk Committee are of the view that effectively managing a business operation out of necessity incorporates managing risk in the same operation.

3.2.3

Has the Company developed a system of risk management and internal control that enhances stakeholders' interests?

The Board is satisfied that Massmart's system of risk management and internal control addresses all stakeholders' interests.

3.2.4

Does the Board identify and monitor key risk areas and performance indicators?

The Risk Committee, through the Group Executive Committee, identifies and monitors the key risks facing the Group as well as the Group's key performance indicators.

3.2.5

Do reports from management to the Board provide a balanced assessment of risks and the effectiveness of the system of internal controls?

The Board believes that the combination of the efforts of the Risk and Audit Committees, the Group Executive Committee, and Internal Audit provides a balanced assessment of Group risks and a good measure of risks and the effectiveness of internal controls.

3.2.6

Does the Board disclose issues relating to risk management in the annual report?

Massmart's risk management process, and the top risks identified, is disclosed in the Annual Report.

3.2.7

Does the Board view risks from both a negative and a positive perspective?

The point is clichéd but the executive committees are alert to the possibility that many risks may hold the promise of opportunity.

4. Internal Audit (IA)

4.1 STATUS AND ROLE

4.1.1

Does the Company have an effective internal audit function which has the respect and cooperation of both the Board and management?

Massmart Internal Audit is an independent, objective body providing assurance to the Group's activities and has unrestricted access to the Board, Audit Committee and executive management.

Norman Gray, the Chief Audit Executive, holds a senior executive position in the organisation and has 34 years retail and audit experience.

4.1.2

Has the Board formally defined the purpose, authority and responsibility of the internal audit activity?

The responsibilities of Internal Audit are defined and governed by a charter approved annually by the Audit Committee.

4.1.3

Is the internal audit function consistent with the requirements of the Institute of Internal Auditors?

In 2007, a third party professional body rated Massmart Internal Audit as 'generally conforming' (being the highest compliance rating) to the International Standards for the Professional Practice of Internal Auditing as promulgated by the Institute of Internal Auditors.

4.1.4

Does the head of internal audit report directly to the CEO and does he have full access to the chairmen of the Board and the audit committee?

To ensure independence, the Chief Audit Executive reports functionally to the Audit Committee and, only from an administrative perspective, to the Chief Financial Officer. Massmart Internal Audit has the unequivocal support of the Board and Audit Committee and has total access to any part of or person in Massmart.

4.1.5

Does internal audit report at all audit committee meetings?

The internal auditors present formal reports to the Audit Committee and attend all meetings by invitation. In addition, the Audit Committee Chairman and CEO separately meet quarterly with the Chief Audit Executive.

4.1.6

Is the Audit Committee involved in the appointment and dismissal of the Head of Internal Audit?

The appointment or dismissal of the Chief Audit Executive is the decision of the Audit Committee.

4.1.7

If the internal and external audit functions are carried out by the same accounting firm, has the Board and the Audit Committee satisfied themselves that there is adequate segregation between the two functions?

n/a

4.2 SCOPE OF INTERNAL AUDIT

4.2.1

Does the internal audit activity provide independent, objective assurance and does it add value through consultation?

The Audit Committee and Board believe that Massmart Internal Audit is a very effective and independent, objective body providing assurance to the Group's risk, governance and control dimensions.

4.2.2

Does the internal audit activity provide assurance on management processes and confirmation of the effectiveness of the Company's control systems?

Through formally documented risk assessments, thorough audit field work and high quality personnel, Internal Audit is able to provide a reliable opinion on the level of assurance that can be placed on the management of the Group's risk governance and control activities.

4.2.3

Is the internal audit plan based on risk assessment as well as issues highlighted by the Audit Committee and senior management?

Internal Audit applies a risk-based approach that aligns its audit methodology to the internal and external risks facing Massmart.

Internal Audit regularly meets with the Audit Committee Chairperson and Massmart executives to discuss perceived risks.

4.2.4

Does the Audit Committee approve the internal audit work plan?

Internal Audit's annual audit plan is preapproved by the Audit Committee.

4.2.5

Does the internal audit function coordinate with other internal and external assurance providers to ensure proper coverage of controls?

Internal Audit's scope and efforts are coordinated with those of the external auditor which in certain areas places full reliance on Internal Audit's work and findings. Similarly, Internal Audit liaises with other key third parties providing assurance coverage to the Group.

5. Integrated sustainability reporting

5.1 SUSTAINABILITY REPORTING

5.1.1

Does the Company report annually on the nature and extent of its social, transformation, ethical, safety, health and environmental management policies and practices?

A comprehensive Sustainability Report is issued annually together with the Massmart annual report.

5.1.2

Does the Company report on adopted principles, implementation of practices and demonstration of resulting changes and benefits?

The Sustainability Report comprehensively covers all sustainability issues and uses the guidelines in the Global Reporting Initiative (GRI) as its reporting framework.

5.1.3

Does the Board consider the scope of issues subject to disclosure, disclosure of non-financial information and criteria and guidelines for materiality?

The Sustainability Committee assists the Board with discharging its responsibilities with respect to the implementation, and disclosure, of practices that are consistent with good corporate citizenship.

5.1.4

Does the Board specifically consider practices reflecting a committed effort to reducing workplace accidents, application of the “Best Practicable Environmental Option” standard, black economic empowerment with regard to procurement practices and investment strategies, and disclosure of human capital development with particular focus on progress against equity targets?

These issues form part of the Sustainability Committee's mandate and are thoroughly addressed in the annual Massmart Sustainability Report.

5.2 ORGANISATIONAL INTEGRITY/ CODE OF ETHICS

5.2.1

Has the Company demonstrated its commitment to organisational integrity by codifying its standards in a code of ethics?

In October 2004 Massmart developed a Code of Ethical Practice in order to achieve the highest standards of ethical behaviour. This Code has been communicated widely throughout the Group and there are formally appointed and trained Ethics Officers at Group and Divisional level.

5.2.2

Has the Company demonstrated its commitment to its code of ethics?

Anyone may call the Massmart Ethics Line to report an apparent breach of ethics. These reports are sent directly to the Group Ethics Officer for further investigation. Internal Audit acts as the independent investigative arm of the Group Ethics Officer when requested to do so.

Recent reported incidents addressed through this process include an aggrieved supplier that felt its prices had been shared with a competitor (the Group manager concerned received a written warning); and a customer complaining of alleged racist practices at a Group store (the Ethics Officer met with the customer who, after discussion, was happy to withdraw his complaint but appreciated that his complaint had been addressed).

5.2.3

Does the Company disclose its adherence to its code of ethics?

Included in the annual report is a summary, and analysis, of all calls to the Massmart Ethics Line. Any serious ethical breaches – there have been none to date – would be disclosed in the Risk section of the annual report as well as the Sustainability Report.

5.2.4

Does the Company deal with individuals or entities not demonstrating the same level of commitment to organisational integrity?

Massmart insists that all its business partners, specifically employees and suppliers, demonstrate the same level of commitment to ethical standards.

6. Accounting and auditing

6.1 AUDITING AND NON-AUDIT SERVICES

6.1.1

Does the Audit Committee recommend the appointment of the external auditors?

The Audit Committee does nominate the proposed auditor to shareholders at the AGM.

6.1.2

Do the Company's auditors observe the highest level of business and professional ethics and is their independence impaired in any way?

Massmart requires that its auditors observe the highest level of ethics and that they remain independent at all times.

6.1.3

Do the external auditors work in conjunction with the internal audit function?

The external auditors do work in conjunction with Massmart Internal Audit and, in certain areas, place audit reliance on Internal Audit's findings.

6.1.4

Does management encourage consultation between the external and internal auditors?

Given the answer to 6.1.3 above it follows that there is consultation between Internal Audit and the external auditors. More than this, this interaction is encouraged and expected.

6.1.5

Does the Audit Committee set the principles for using the external auditors for non-audit services?

The Audit Committee has defined the nature and extent of non-audit services that may be provided by the external auditors, and has limited the total fees that may be paid for those services to less than 50% of the total normal audit fee.

6.2 REPORTING OF FINANCIAL AND NON-FINANCIAL INFORMATION

6.2.1

Does the Audit Committee determine whether interim reports should be subject to independent review?

The Audit Committee requires that the Group's interim reports are always subject to independent review by the external auditors.

6.2.2

Is the Audit Committee's report and the external auditor's review report tabled at Board meetings?

As noted in 2.7.4 above, the Audit Committee Chairman reports regularly to the Board; and annually, prior to the release of the Group's preliminary results, the lead partner of the external auditors addresses the Board.

6.2.3

Does the Board minute the facts and assumptions used in its assessment of the going concern status of the Company?

The going-concern facts and assumptions are minuted by the Audit Committee and recommended to the Board.

6.2.4

Does the Board review their going-concern assessment at the interim reporting stage?

The going-concern assertion is reviewed at interim and final reporting stage.

6.2.5

Where non-financial aspects of reporting have been subject to external validation, is this fact stated and are details provided in the annual report?

This generally applies to aspects of the Sustainability Report and so details of any external evaluation and validation of non-financial aspects of reporting are provided in that report.

6.2.6

Does the Company ensure that information is distributed timeously to all shareowners via a broad range of communication channels?

Massmart endeavours to distribute information to all stakeholders as quickly and efficiently as possible, and uses a broad range of communication channels which vary depending upon the message and audience being addressed.

6.3 AUDIT COMMITTEE

6.3.1

Does the Audit Committee consist of a majority of independent non-executive directors?

The Audit Committee consists only of independent non-executive directors.

6.3.2

Is the chairperson of the Audit Committee an independent non-executive director and not the chairperson of the Board?

The Audit Committee Chairman is an independent non-executive director and is not the chairperson of the Board.

6.3.3

Does the Audit Committee have written terms of reference that deal adequately with its membership, authority and duties?

The Audit Committee has a comprehensive charter that sets out its duties and responsibilities.

6.3.4

Does the Company disclose whether the audit committee has satisfied its responsibilities for the year in the annual report?

Massmart discloses the extent of the Audit Committee's compliance with its requirements in terms of section 270A(1)(f) of the Companies Act. See page 132.

6.3.5

Is membership of the Audit Committee disclosed in the annual report and does the chairperson of the Audit Committee attend the AGM?

Membership of the Audit Committee is disclosed on page 100 and the Chairman attends the AGM.

7. Relations with shareowners

7.1 & 7.2 CONSTRUCTIVE ENGAGEMENT WITH INSTITUTIONAL SHAREOWNERS

Does the Company enter into dialogue with institutional investors based on constructive engagement and the mutual understanding of objectives?

The executive directors believe in, and practice, open and constructive engagement with all actual or potential shareholders and the broader investment community.

Twice a year, immediately following the release of the Group's financial results, the CEO and CFO give public presentations to interested parties from the investment community and also visit key institutional shareholders.

Annually in May, the CEO and CFO host day-long visits by institutional analysts and investors to Massmart stores and they regularly meet with institutional shareholders and any other existing and prospective shareholders.

7.3 EFFECT OF PROPOSED SPECIAL RESOLUTIONS TO BE INCLUDED IN NOTICE OF AGM

Does the Company ensure that each item of special business included in the notice of AGM is accompanied by a full explanation of the effects of a proposed resolution?

Each special resolution is accompanied by a full explanation of the reasons for and the effect of such special resolution.

7.4 UTILISATION OF A POLL

Does the Company utilise voting by way of a poll in relation to special business, or where contentious issues are under consideration?

Massmart only allows voting by way of a poll for all resolutions (special and ordinary).

8. Communication

8.1 BALANCED AND UNDERSTANDABLE REPORT TO STAKEHOLDERS

Does the Board present a balanced and understandable assessment of the Company's position when reporting to stakeholders and is the quality of the information based on the principles of openness and substance over form?

The Board strives to present a balanced and readable assessment of the Group. Given the Group's inclusion for the last three years in the Top 10 of the Ernst & Young Corporate Reporting Awards, it seems that Massmart is succeeding in this objective.

8.2 TRANSPARENCY AND ACCOUNTABILITY CONCERNING NON-FINANCIAL MATTERS

Does the Company demonstrate transparency and accountability regarding non-financial matters?

The annual report attempts to fully disclose and thoroughly explain all material issues necessary to understanding the operations and performance of the Group. This includes such diverse information such as: number and category of employees, number and location of stores, consumption of water and electricity, key risks, expenditure on staff training, and HIV/Aids prevalence.

8.3 COMPREHENSIVE AND OBJECTIVE ASSESSMENT OF COMPANY ACTIVITIES

Do reports present a comprehensive and objective assessment of the Company's activities?

See 8.2 above.

8.4 DO THE DIRECTORS' REPORT ON THE FOLLOWING IN THE ANNUAL REPORT:

8.4.1

That it is the directors' responsibility to prepare financial statements that fairly present the state of affairs of the Company as at the end of the financial year and the profit and loss cash flows for that period?

Included in the Directors' Report on page 130.

8.4.2

That the auditor is responsible for reporting on whether the financial statements are fairly presented?

This is reported on in the Approval of Annual Financial Statements on page 129.

8.4.3

That adequate accounting records and an effective system of internal controls and risk management have been maintained?

This is reported on in both the Approval of Annual Financial Statements and Directors' Report on pages 129 and 130 respectively.

8.4.4

That appropriate accounting policies supported by reasonable and prudent judgements and estimates have been used consistently?

This is reported on in the Directors' Report on page 130.

8.4.5

That applicable accounting standards have been adhered to, or, if there has been any departure in the interest of fair presentation, this is not only disclosed and explained, but quantified?

This is reported on in the Directors' Report on page 130 and in the report from the CFO on page 33.

8.4.6

That there is no reason to believe the business will not be a going concern in the year ahead or an explanation of any reasons otherwise?

This is reported on in the Directors' Report on page 132.

8.4.7

That the King Code has been adhered to, or, if not, where there has not been compliance, give reasons therefore?

This is reported on in the Corporate Governance section on page 97.

9. Implementation of the Code: duty and responsibility of Board and individual directors

Does the Board and do the individual directors accept their duty and responsibility to ensure that the Company observes the principles set out in the King Code?

The Board and the individual directors accept their duties and responsibilities in terms of the King Code on Corporate Governance and strive to adhere to the Code. See page 97.