

## Corporate governance

Massmart believes that the first steps towards good corporate governance must include embracing the requirements of the relevant governance and regulatory frameworks, as well as 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 regardless of the circumstances.

The primary South African corporate governance framework is the King III Report on Corporate Governance, which forms the backbone of Massmart's own corporate governance framework. In addition Massmart applies high ethical standards which are considered essential for any governance framework to operate in.

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 2011 financial year, apart from the exceptions outlined immediately below, the Board confirms that the Group complied with the Code of Corporate Practices and Conduct as set out in the King III Report.

### Exceptions to King III

- › The King III Report states that the chairman of the Board should be an independent non-executive director. Mark Lamberti was appointed non-executive Chairman in July 2007 and, as he was previously the CEO of Massmart, he could not be considered independent until June 2010. The Board is therefore satisfied that Mark Lamberti should now be considered an independent director. Recognising however that some may differ with this view, Chris Seabrooke, the non-executive Deputy Chairman, maintains his role as the Group's Lead Independent Director. In addition, to ensure good governance, and as recommended by King III, the chairmanship of two of the three Board Committees is held by independent directors.
- › Following the Walmart transaction, the reconstituted Board does not have a majority of independent non-executive directors as required by King III. In mitigation, the majority of the non-executive directors are independent, as are the Chairman and Deputy Chairman.

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- › The King III Report requires that the salaries of the three most highly-paid employees who are not executive directors should be disclosed. Due to their specialised retail skills, the highly competitive South African retail environment and the employees' value to Massmart, the Board does not wish to disclose this information for each of the individuals but has instead disclosed the total salaries of the three employees concerned on page 183. None of the employees earns a higher salary than either of the executive directors.
- › The Board does not believe that directors should earn attendance fees in addition to a base fee. Many directors add significant value to the Group outside of the formal Board and Committee meetings, sometimes greater value than they might do within the confines of a formal meeting. In addition, the directors have a record of high attendance at Board and Committee meetings.
- › The Board does not ask the shareholders for non-binding approval for the Group's remuneration policies. The rationale and basis for the Group's executive remuneration policy is carefully considered by the Remuneration and Nominations Committee and is documented in the annual reports. Shareholders with concerns at this policy should contact the Chairman of the Board, who is also Chairman of the Committee.
- › The head of the Group's Internal Audit function, the Chief Audit Executive (CAE), does not report solely to the Audit Committee. Instead, the CAE reports administratively to the CFO but functionally to the Audit Committee. The Committee believes that the CFO respects and encourages the independence of the CAE and his department, and that the CAE, in turn, is able to maintain his independence despite his administrative reporting-line to the CFO.
- › The Board does not have a formal dispute resolution process as it believes that the existing processes within the Group operate satisfactorily and do not require a more formal and separate mechanism.
- › Contrary to the recommendations in the King III Report, the Board is unable to remove directors without shareholder approval, except where a director retires by rotation. The Board believes that all directors, but particularly non-executive directors, represent the Company's shareholders and so it should be the shareholder body that finally approves a director's appointment or dismissal from the Board.
- › The King III Report requires that the Company's sustainability report be audited by an independent external professional. Massmart's sustainability report has not been audited but verification of the key sustainability metrics on page 7 have been obtained through agreed-upon procedures performed by Massmart Internal Audit Services. A copy of the agreed-upon procedures report is available at the registered offices of the Company.
- › The Chairman of the Remuneration and Nominations Committee is also Chairman of the Board.

### Impact of the Walmart transaction

The acquisition by Walmart of 51% of Massmart became effective on 20 June 2011. Several changes to the composition of the Board and the Committees were then implemented. These had been described in earlier communication to shareholders, including the shareholders' circular covering the approval of the transaction.

The changes are described below:

- › Messrs Dods Brand, Kuseni Dlamini, Jim Hodgkinson, Nigel Matthews, Peter Maw, Michael Rubin and Ms Dawn Mokhobo resigned from the Board.
- › Messrs Doug McMillon, Jeffrey Davis and JP Suarez who joined the Board are the Walmart appointees.
- › The executive directors, Messrs Grant Pattison and Guy Hayward, remained on as CEO and CFO respectively, and non-executive directors Messrs Mark Lamberti and Chris Seabrooke and Ms Phumzile Langeni and Dr Lulu Gwagwa also remained on the Board.
- › The composition of the Board Committees was amended and these are noted in the respective sections below.

Finally, during the year, some aspects of the Board's usual corporate governance processes were interrupted or suspended as a result of the demands of the Walmart transaction which required ad hoc Board meetings and, given its significance to the Group, often dominated the agenda of quarterly Board meetings. Specifically, the May 2011 Board meeting was cancelled, although the usual papers were circulated, and the annual Board and Committee self-assessment processes were skipped given the intended changes to the composition of both the Board and those Committees.

## 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 appreciates that strategy, risk, performance and sustainability are inseparable.

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. With effect from June 2011, the Board comprises two executive directors, four independent non-executive directors and three non-executive directors.

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

The Committee feels that the following aspects are important in assessing a non-executive director's independence:

- › Whether the director had been employed in an executive capacity in the Group in the previous three years;

### THE BOARD COMPRISES:

- › Two Executive Directors
- › Four Independent Non-executive Directors
- › Three Non-executive Directors

## Corporate governance continued

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#### MASSMART AT A GLANCE

Biographical details of each Board member can be found on pages

18 to 21



- › Whether the director had served on the Board for longer than nine years. In this case, the Committee considers whether that director's independence, judgement and contribution to the Board's deliberation could be compromised, or may appear to be compromised, by this length of service;
- › Whether the director is 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 considers 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 circumstances of each non-executive, the Committee believes that with effect from June 2011, four of the non-executive directors can be considered independent while the three Walmart appointees are not considered independent. Finally, the Committee believes that none of the four non-executive directors, 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 face compulsory retirement after three years or following their initial appointment to the Board, at the 23 November 2011 annual general meeting the following directors retire by rotation but all offer themselves for re-election: Messrs Jeffrey Davis, Doug McMillon, Grant Pattison, Chris Seabrooke and JP Suarez.

### 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 below). In addition, the Board has delegated certain specific responsibilities to

three Board Committees, described more fully below. These Committees assist the Board and directors in discharging their duties and responsibilities under King III 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 or Divisional Board meetings.

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. Where appropriate, it now includes the Walmart position on 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. An annual agenda structure ensures that other areas including IT and compliance are addressed. 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 advisors and to the advice and services of the Company Secretary.

Directors have unrestricted access to any executive, manager or employee in the Group. Annually in September, the Remuneration and Nominations Committee facilitates a comprehensive formal performance evaluation of the CEO, comprising a self-evaluation, a questionnaire evaluating the CEO by every non-executive director, and an appraisal of the CEO by each of his direct reports using a different questionnaire. 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. As noted elsewhere, there was no CEO assessment during 2011.

At the same time, 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. As noted elsewhere, no self-assessments were performed during 2011.

Finally, all Board members formally assess the Chairman's performance and the Deputy Chairman provides the feedback. These assessments are approached in a constructive manner and provide valuable input that enhances the effectiveness of the Chairman, the Board and its Committees. As noted elsewhere, none of these assessments were performed during 2011.



## Board and Committee attendance

Status/Position	Board	AGM	Audit and Risk	Remuneration and Nominations	Social and Ethics
<b>BOARD MEMBERS</b>					
MJ Lamberti Independent Non-executive	4/4 <sup>c</sup>	1/1	2/4 <sup>i</sup>	1/3 <sup>c</sup>	
CS Seabrooke Independent Non-executive	3/4	1/1	4/4	2/3	
MD Brand <sup>1</sup> Independent Non-executive	3/3	0/1	–	–	2/2
JA Davis <sup>2</sup> Non-executive	1/1	–	–	–	–
KD Dlamini <sup>1</sup> Independent Non-executive	1/3	0/1	–	1/2	–
NN Gwagwa Independent Non-executive	4/4	0/1	–	–	–
GRC Hayward Executive	4/4	1/1	4/4 <sup>i</sup>	3/3 <sup>i</sup>	–
JC Hodgkinson <sup>1</sup> Independent Non-executive	3/3	0/1	–	–	–
P Langeni Independent Non-executive	4/4	0/1	3/4	–	2/2 <sup>c</sup>
IN Matthews <sup>1</sup> Independent Non-executive	3/3	1/1	4/4 <sup>c</sup>	2/2	–
P Maw <sup>1</sup> Independent Non-executive	3/3	0/1	4/4	–	–
CD McMillon <sup>2</sup> Non-executive	1/1	–	–	1/1	–
DNM Mokhobo <sup>1</sup> Independent Non-executive	3/3	1/1	–	2/2	–
GM Pattison Executive	4/4	1/1	3/4 <sup>i</sup>	2/3 <sup>i</sup>	–
MJ Rubin <sup>1</sup> Independent Non-executive	3/3	0/1	–	–	–
JP Suarez <sup>2</sup> Non-executive	1/1	–	–	–	–
<b>MANAGEMENT</b>					
N Gray Chief Audit Executive	–	–	3/4 <sup>i</sup>	–	–
B Leroni Corporate Affairs Executive	–	–	–	–	2/2 <sup>i</sup>
P Maphoshe Human Capital Executive	–	–	–	–	2/2 <sup>i</sup>
<b>EXTERNAL</b>					
Prof D de Jongh Independent permanent invitee	–	–	–	–	2/2

**C** Chairperson of Committee

**i** Invitee

**1** Resigned from the Board on 20 June 2011

**2** Appointed to the Board on 20 June 2011


### READ MORE

#### CORPORATE GOVERNANCE

Greater detail on each Committee's terms of reference, activities and meetings held during the financial year are shown on page 163



## Board Committees

	Composition	Scheduled meetings	Further reading	Responsibility
<b>AUDIT AND RISK COMMITTEE</b>	Chris Seabrooke Lulu Gwagwa Phumzile Langeni	Four times during the year.	More information on the activities and responsibility of the Audit and Risk Committee can be found on page 166. <b>CORPORATE GOVERNANCE</b> 	<ul style="list-style-type: none"> <li>› Overseeing the effectiveness of the Group's internal control system.</li> <li>› Reviewing the scope and effectiveness of the external and internal audit functions.</li> <li>› Ensuring that adequate accounting records have been maintained.</li> <li>› Ensuring the appropriate accounting policies have been adopted and consistently applied.</li> <li>› Reviewing and reporting on compliance with the King III Report.</li> <li>› Testing that the Group's going-concern assertion remains appropriate.</li> <li>› Overseeing the quality and integrity of the annual financial statements.</li> <li>› To oversee the Group's risk management programme as contemplated in King III.</li> </ul>
<b>REMUNERATION AND NOMINATIONS COMMITTEE</b>	Mark Lamberti Chris Seabrooke Doug McMillon	Three times during the year.	More information on the activities and responsibility of the Remuneration and Nominations Committee can be found on page 178. <b>CORPORATE GOVERNANCE</b> 	<ul style="list-style-type: none"> <li>› Designing, monitoring and communicating the Group's remuneration policies.</li> <li>› Considering and approving executive remuneration including short- and long-term incentives.</li> <li>› The assessment, recruitment and nomination of new non-executive directors.</li> </ul>
<b>SOCIAL AND ETHICS COMMITTEE</b>	Phumzile Langeni Grant Pattison JP Suarez	Twice during the year.	More information on the activities and responsibility of the Social and Ethics Committee can be found on page 165. <b>CORPORATE GOVERNANCE</b> 	<ul style="list-style-type: none"> <li>› Assist the Group with its responsibility towards sustainability with respect to practices that are consistent with good corporate citizenship.</li> <li>› Assess the Company's standing in terms of the United Nations Global Compact Principles.</li> <li>› Consider the Company's standing with regards to the OECD recommendations concerning corruption, the contribution to development within our communities, labour and employment, and the environment and health and public safety.</li> </ul>



## Executive Committee

Composition	Scheduled meetings	FURTHER READING	Responsibility
<b>Grant Pattison (CEO)</b> Guy Hayward (CFO) Jay Currie (Retail Director Masscash) Don Frieson (Massmart Chief Integration Officer and Senior Vice-President, Walmart U.S.) Brian Leroni (Group Corporate Affairs Executive) Pearl Maphoshe (Group Human Capital Executive) Joe Owens (New Formats Chief Executive) Jan Potgieter (Massdiscounters Chief Executive) Mike Spivey (Massmart General Counsel & Chief Compliance Officer) Llewellyn Steeneveldt (Group Commercial Executive) Kevin Vyvyan-Day (Masswarehouse Chief Executive) Llewellyn Walters (Massbuild Chief Executive) Robin Wright (Masscash Chief Executive)	Monthly	<b>MASSMART AT A GLANCE</b> Biographical details of each Executive Committee member can be found on pages 18 to 21.	› Deliberates and takes decisions or makes recommendations on all matters affecting Group strategy and operations, including risk management, and executive and senior management succession.



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 Chief Executives (Jan Potgieter, Kevin Vyvyan-Day, Llewellyn Walters and Robin Wright), the Chief Executive of the New Formats Division (Joe Owens) and the Group Commercial Executive (Llewellyn Steeneveldt). Following the Walmart transaction, the Committee was bolstered by a General Counsel (Mike Spivey) and an Integration Executive (Don Frieson).

The Committee deliberates, takes decisions or makes recommendations on all matters of strategy and operations. Within the parameters described by the Board-approved Governance Authorities, the decisions or recommendations are sometimes referred to the Board or its relevant Committee for final approval, while in other cases the power to take decisions is delegated to 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, governance, and compliance throughout the Group; and
- › Shaping and approving succession plans and senior executive management appointments.

## Social and Ethics Committee

Previously called the Sustainability Committee, this Committee has been renamed and now includes in its terms of reference the requirements of the Companies Act, 2008, in regard to this type of committee. The Committee was reconstituted as a result of the Walmart transaction and now comprises Ms Phumzile Langeni (Chairperson) and Messrs Grant Pattison and JP Suarez. Ms Pearl Maphoshe (Group Human Capital Executive), Mr Brian Leroni (Group Corporate Affairs Executive) and an independent expert, Professor Derek de Jongh (Director: Centre for Responsible Leadership, The Faculty of Economic and Management Sciences, University of Pretoria) are permanent invitees to this committee.

The role of the Committee broadly is to assist the Group with its responsibility towards sustainability with respect to practices that are consistent with good corporate citizenship. The Companies Act includes specific responsibilities including: the Company's standing in terms of the United Nations Global Compact Principles, the OECD recommendations concerning corruption, the contribution to development within our communities, labour and employment, and the environment and health and public safety. The Committee met twice during the financial year 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 Johannesburg Stock Exchange's (JSE) Socially Responsible Investment Index criteria, the Department of Trade and Industry's (DTI) Broad-based Black Economic Empowerment (BBBEE) scorecard and the Global Reporting Initiative III guidelines.

The Committee is satisfied with Massmart's sustainability performance and is particularly encouraged that the Group continues to exceed its interim BBBEE target and is now a Level 3 contributor.

Further detail on the Group's sustainability practices can be found in the section titled 'Corporate Accountability' on page 125.

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#### CORPORATE GOVERNANCE

More information on the Social and Ethics Committee can be found on page 163



## Audit and Risk Committee

### READ MORE CORPORATE GOVERNANCE

More information on the Audit and Risk Committee can be found on page 163



Following the Walmart transaction, the reconstituted Audit and Risk Committee now comprises Mr Chris Seabrooke (Chairman), Ms Phumzile Langeni and Dr Lulu Gwagwa, all of whom are independent non-executive directors and who each have the requisite financial and commercial skills and experience to contribute to the Committee's deliberations. The roles and responsibilities of the previously separate Risk and Audit Committees were combined with effect from June 2011. Makro CEO, Mr Kevin Vyvyan-Day, attends the Risk section of this Committee meeting as an invitee.

### Audit

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

The Chairman of the Committee meets quarterly with the Chief Audit Executive and at the start of every Committee meeting, the external auditors have a private audience with the Committee.

In specific response to the requirements of the Companies Act, King III and in terms of its charter, the Committee can report as follows:

- › The Committee has reviewed the scope, quality, effectiveness, independence and objectivity of the external auditors and is satisfied with all of these areas. The audit firm Deloitte & Touche and audit partner Mr André Dennis will be proposed to the shareholders at the November 2011 annual general meeting to be the Group's auditor for the 2012 financial year.
- › The Committee is satisfied that the internal financial controls of the Divisions and Group operated effectively throughout the 2011 financial year and can be relied upon. In addition, the Committee is satisfied with the Group's accounting policies and that these have been appropriately and consistently applied throughout the 2011 financial year.
- › The Committee reviewed this integrated annual report and recommended it to the Board for approval.
- › The nature and extent of non-audit services provided by the external auditors is reviewed annually to ensure that fees for such services do not become so significant as to call into question their independence of Massmart. The nature and extent of any future non-audit services have been defined and pre-approved, and the total fee associated with those non-audit services may not exceed 50% of the total audit fee without approval of the Committee. During the 2011 financial year, non-audit services represented 29.3% of the audit fee. If it appears that this guideline will be exceeded on a consistent basis, non-audit services will be outsourced to alternative auditors.
- › No reportable irregularities were identified and reported by the external auditors to the Committee.
- › The Massmart website ([www.massmart.co.za](http://www.massmart.co.za)) has a link enabling the general public to lodge complaints with the Committee. Since establishing this functionality in 2009, no complaints have been received.

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 Companies Act.

As part of the Audit section, the Committee receives reports on Group companies' financial performance, governance, and internal controls, adherence to accounting policies, compliance and areas of significant risk, among 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.

Each of the four Divisions has a Financial Review Committee which meets twice a year – before the finalisation and release of the Group's Interim and Preliminary financial results respectively. These Committees effectively function as Divisional Audit Committees but not strictly in the manner required by the regulators or King III. The attendance at these meetings includes: the Divisional Chief Executive and Finance Director, key finance and accounting staff, members of Internal and External Audit, and Massmart Corporate Finance executives. Minutes from these meetings are included with the papers of the following Group Audit Committee meeting. Annually the Audit Committee reviews the Financial Review Committee minutes, external audit report and annual financial statements to comply with the Companies Act as required of a holding company Audit Committee and its responsibilities in regard to all Company subsidiaries.

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

The Committee's report in accordance with section 94(7)(f) of the Companies Act, 2008, as amended, can be found in the Directors' Report on page 205.

### Suitability of the Chief Financial Officer

As required by the JSE, the Committee and Board have considered the skills, qualifications and performance of the Chief Financial Officer, Guy Hayward, and are unanimously satisfied of the continuing suitability for the position. His biographical details can be found on page 18.

### 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) Limited and Thabiletrade 22 (Pty) Limited; and
- › Ernst & Young who audit the Zimbabwean entities of Mercantile Investment Company (1971) (Pvt) Limited and the Dealsave Trust.

During the year, Deloitte & Touche provided certain non-audit services, including tax reviews and advice, and reviews of information technology systems and applications. Total fees paid during the 2011 financial year to Deloitte & Touche were R24.9 million, of which R7.3 million related to non-audit services.



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**GROUP FINANCIAL STATEMENTS**

The detailed Audit Committee report can be found on page 208



FEE TO EXTERNAL AUDITORS	Rm	%
Audit services	17.6	70.7
Non-audit services	7.3	29.3
	24.9	100.0

## Audit and Risk Committee *continued*

### AUDIT COMMITTEE RESPONSIBILITIES:

- › Overseeing the effectiveness of the Group's governance, risk and internal control systems.
- › With regard to the external auditor, to nominate their appointment, to determine audit fees payable, to pre-determine fees and scope of non-audit services, and monitor their independence.
- › 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 the application of the King III Report.
- › Testing that the Group's going-concern assertion remains appropriate.
- › Overseeing the quality and integrity of the annual financial statements.
- › Ensuring that Internal Audit reports functionally to the Audit Committee, is considered independent, and applies King III and IIA standards. It approves Internal Audit's plan and ensures that Internal Audit has sufficient resource and skill to effectively perform its function.
- › Reviewing the adequacy and effectiveness of combined assurance, compliance and IT.
- › Receiving and reviewing the assurance assertion of Internal Audit and presenting this to the Board.

### Internal audit

The Committee considers Massmart Internal Audit Services to be an independent, objective body providing assurance to the Group's governance, risk and control activities. Internal Audit comprises a dedicated team that, although managed from Massmart Corporate, is deployed Group-wide. The team is comprised of appropriately tertiary qualified and experienced personnel, including internal audit and retail/wholesale professionals, to ensure the delivery of a relevant and high-quality risk-based audit service. Pleasingly, 90% of the audit team is 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 this Committee and has access to any part of or person in Massmart. All employees are expected to co-operate positively with Massmart Internal Audit Services.

Massmart Internal Audit reviews the significant business, strategic, governance, risk and controls across Massmart. Based on the internal audit results, an assessment is provided to the Committee on the level of assurance that can be placed on governance, control and risk management across the Group. A written assurance assertion is provided to the Committee annually which is then presented to the Board by the Audit and Risk Committee.

To ensure independence, Massmart Internal Audit reports functionally to the Massmart Audit and Risk Committee. Massmart does not apply the King III recommendation that this Committee be responsible for the appointment, remuneration, performance/assessment and where necessary, dismissal of the Chief Audit Executive. This process is conducted jointly by the Committee and the CEO and CFO as this is deemed more effective. The Committee approves the annual Internal Audit plan and the Internal Audit budgets. The CAE has unrestricted access to anyone in the organisation, has frequent and independent discussions and updates with the 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 authority 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 governance, control and risk that exist across Massmart.

The Internal Audit team formally reports any material findings and matters of significance to the Divisional Boards on a quarterly basis and to the Audit and Risk Committee when it meets. 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 and audit universe 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, although infrequent, 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 and all significant IT projects are subject to Internal Audit review. 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. Internal Audit adopted the COBIT methodology for technology auditing several years ago.

Massmart Internal Audit and External Audit's scope and work plans, and those of other assurance providers, are properly coordinated and when appropriate are relied upon in order to provide efficient and effective assurance to the Committee and to reduce governance burden.

Massmart Internal Audit has had a quality review and was found to 'generally conform' (the standard required by the Internal Audit Institute and the highest standard possible).

**Combined assurance**

The Group applies a combined assurance model with a coordinated approach to all the Group's assurance activities. Under this approach, the Audit and Risk Committee has unfettered access to the Internal Auditors, External Auditors, all Group and Divisional executives, all and any documents and reports, and to any assurance providers. Annually, Internal Audit provides a written assurance assertion with regard to governance, control and risk management to the Committee.

The Committee is satisfied that the internal financial controls of the Group operated effectively throughout the 2011 financial year and can be relied upon.

**Risk**

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 corporate accountability and control across the Group. These are codified in the Massmart Governance Authorities that describe 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.

**INTERNAL AUDIT:**

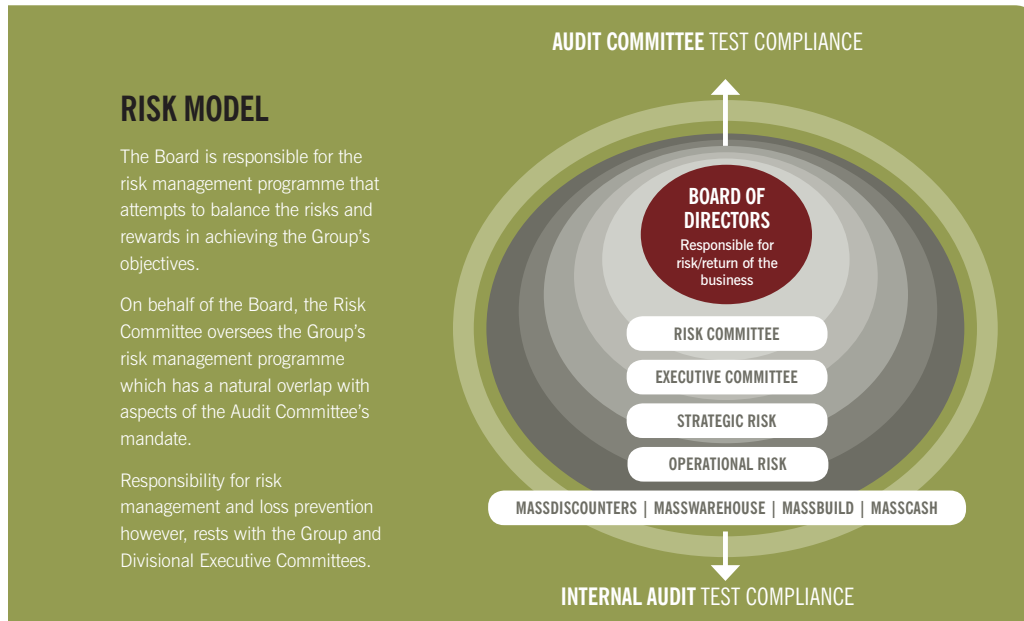
- › Massmart Internal Audit Services is an objective body providing assurance concerning the Group's governance, risk and control activities.
- › Internal Audit has the unequivocal support of the Board and Audit and Risk Committee.
- › Internal Audit is considered independent and has been subjected to a quality review.
- › The Internal Audit team formally reports any material findings at the Divisional Boards and the Audit and Risk Committee on a quarterly basis.
- › There is significant Internal Audit involvement in Information Technology (IT) throughout the Group to ensure satisfactory IT governance and assurance.

**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 Audit and Risk Committee oversees the Group's risk management programme. Responsibility for risk management and loss prevention however, rests with the Group and Divisional Executive Committees.





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

The 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 categories of Group risk 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, compliance, 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 supply chain, are the primary focus of the Group's Risk Management process.

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 and Risk Committee it oversees the maintaining of a sound system of governance, 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. Apart from the matter below, the Board does not believe that there are any material pending or threatened legal actions. Following the South African Competition Tribunal's approval of the Walmart/Massmart merger in May 2011, certain unions and South African Government departments have filed legal papers to appeal and review, respectively, the Tribunal's decision. This matter will be heard by the Competition Appeal Court on 20-21 October 2011. While the outcome of this hearing is uncertain, Walmart and Massmart are confident about the strength of their legal position. In the unlikely event of an adverse ruling, whatever that may be, it is unclear what the impact, if any, will be on Massmart's financial position.

### 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 and Risk Committee, the Massmart Technology Information and Process Forum (TIP) and Massmart's formally contracted information technology business partners and providers and is independently reviewed by the external and internal auditors.

### 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 corporate accountability 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.

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

#### STRATEGIC RISK

##### BUSINESS MODEL

- › Non-adherence to business model or poor 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

- › Supply chain
- › In-store health and safety
- › Reliance on IT systems

##### GEO-POLITICAL/ECONOMIC

- › Complexity of the Group's African operations

##### COMPETITIVE

- › Competitor attack on our major merchandise categories

##### FINANCIAL

- › (covered in the Group Financial Statements on page 203)
- › Market risk (comprising interest rate risk, currency risk and other price risk)
- › Liquidity risk
- › Credit risk

## Group risk landscape – Strategic risk

RISK LANDSCAPE	RISK	DEFINITION
Business model/ Strategic execution	<b>Non-adherence to business model or poor strategic execution</b>	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 relative basis.
Business model/ Strategic execution	<b>Insufficient progress with Transformation</b>	There is the possibility of adverse or undue reputational exposure due to the Divisions or the Group not fulfilling, or under-delivering, 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	<b>Talent retention and succession</b>	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.

PROBABILITY	POTENTIAL IMPACT	RISK MITIGATION
LOW	Financial impact HIGH Business impact HIGH	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.
LOW	Financial impact MED Business impact HIGH	The Board-approved BBBEE 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 BBBEE rating and currently have a Level 3 status. Transformation is an agenda item at all Divisional and Group Board meetings and a senior executive at Massmart has overall responsibility for delivering the strategy. A BBBEE staff share issue amounting to 10% of the pre-dilution shares of Massmart was implemented in 2006 and all permanent Massmart employees, not already participants in the current share trust, became beneficiaries at that time. In 2008, the Group's five Black non-executive directors each purchased 20,000 heavily discounted Massmart shares.
HIGH	Financial impact MED Business impact HIGH	<ul style="list-style-type: none"> <li>› This remains a major focus area. The Executive Committee actively monitors the progress, development and possible succession plans for the 'Top 200' employees, as well as monitoring a further 200 employees.</li> <li>› 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.</li> <li>› Annual 'fire-side chats' are held with each executive in the Group, which are attended by that person's superior and a third executive.</li> <li>› The Group's remuneration policy, incorporating short- and longer-term incentives, is designed to reward significant outperformance and provides an opportunity for staff to accumulate wealth and which may act as a retention mechanism.</li> </ul>



## Group risk landscape – Strategic risk continued

RISK LANDSCAPE	RISK	DEFINITION
Economic	<b>Economic volatility</b>	<p>This concern focuses on three potential impacts, the first being the possible financial impact on the Group and the second being the possible adverse effect on consumer expenditure of dramatic changes in key economic variables including inflation, interest and exchange rates. The third concerns the adverse systemic socio-economic impact of the HIV and AIDS pandemic.</p> <p>With approximately 30% of the Group's merchandise being imported, directly and indirectly, any changes in the exchange rate will eventually affect the valuation of imported stock.</p> <p>Foreign currency fluctuations in those African countries where Game operates stores affects the level of sales and earnings reported by those stores in South African currency, and results in potentially adverse translation differences affecting earnings. The valuation of stock imported into those countries from South Africa becomes inflationary.</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 is not achieved. Consistently 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.</p>
Governance/ Regulatory	<b>Expected standards of sustainability conduct</b>	<p>There is a growing potential threat of 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 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.</p>

PROBABILITY	POTENTIAL IMPACT	RISK MITIGATION
HIGH	<p>Financial impact MED</p> <p>Business impact MED</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.</p> <p>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 have 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 necessarily negotiated in the context of the South African socio-economic environment. Where a negotiated increase may be higher than is commercially desired or justifiable, productivity measures may be introduced to reduce the net cost of the higher wages.</p> <p>The Group continually explores means of keeping the net assets of Game's African operations to a minimum, thereby potentially reducing the translation effect of any currency movement. This includes repatriating cash profits as frequently as possible and settling cross-border liabilities timeously.</p>
LOW	<p>Financial impact MED</p> <p>Business impact MED</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 and it subscribes to MSC and FSC, <i>inter alia</i>.</p>



## Group risk landscape – Operational risk

RISK LANDSCAPE	RISK	DEFINITION
Operational	<b>Supply chain</b>	<p>Supply chain describes all the business processes concerning the movement of inventory in the Group, and is not restricted to logistics but extends into IT systems and business processes around those systems.</p> <p>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.</p> <p>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.</p>
Operational	<b>In-store health and safety</b>	<p>The Group's large warehouse format means that large and sometimes heavy 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.</p>
Operational	<b>Reliance on IT systems</b>	<p>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. Secure and 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.</p>
Geo-political/ Economic	<b>Complexity of the Group's African operations</b>	<p>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 and/or currency illiquidity can delay cash repatriations. Operational and logistical changes of managing the lengthy supply chain can become an issue too.</p>
Competitive	<b>Competitor attack on our major merchandise categories</b>	<p>This refers to the potential adverse impact of a sustained attack by a major competitor (local or international) on one or more of the Group's major merchandise categories or formats.</p>

PROBABILITY	POTENTIAL IMPACT	RISK MITIGATION
LOW	Financial impact HIGH Business impact MED	<p>Massdiscounters, Makro and Builders Warehouse have implemented IT software to automate the forecasting and replenishing (F&amp;R) of inventory. Massdiscounters has about 75% of their sales by value being automatically replenished. This ratio is about 70% in Builders Warehouse and 20% in Makro.</p> <p>Massdiscounters now operates two substantial RDCs in Cape Town and Johannesburg respectively, and is building a third in Durban. These have been very effective in addressing supply chain concerns and have improved inventory shrinkage levels and in-stock service levels in the stores. Makro and Builders Warehouse are commissioning separate RDCs in Johannesburg.</p>
LOW	Financial impact LOW Business impact HIGH	<ul style="list-style-type: none"> <li>› Risk officers in each Division are responsible for monitoring and improving compliance. Executive awareness and scrutiny is high. There is formal communication with suppliers and logistics providers around specified stacking protocols.</li> <li>› We continually use Massmart Internal Audit and third party service providers to review in-store health and safety procedures.</li> <li>› Warning signs in higher risk areas are on display.</li> </ul>
LOW	Financial impact HIGH Business impact MED	<p>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.</p>
MED	Financial impact MED Business impact MED	<ul style="list-style-type: none"> <li>› Careful pre-selection of countries for new stores with a thorough evaluation of customs, tax, exchange control and business legislation. Regular repatriation of cash.</li> <li>› Although there is a natural economic hedge in place because our SA operations supply the African stores, IFRS accounting standards have broken this hedge, resulting in increased volatility of reported foreign currency movements. Dedicated executives across several functions monitor and manage the African operations.</li> <li>› Keep supply chain as short as practical.</li> <li>› Develop relationships with key government and regulatory authorities in those countries.</li> </ul>
MED	Financial impact MED Business impact MED	<ul style="list-style-type: none"> <li>› Maintain a relevant and competitive product offering that offers affordable value to our customers. Invest in brand awareness and loyalty.</li> <li>› Manage low-cost efficient operations.</li> <li>› Ensure suppliers believe that our stores and associated supply chain offer an ideal route to market.</li> <li>› Optimise our store locations, and ensure regular store refurbishments and format renewal.</li> </ul>



## Remuneration of directors and executives

### READ MORE CORPORATE GOVERNANCE

More information on the Remuneration and Nominations Committee can be found on page 163



Following the Walmart transaction, the Remuneration and Nominations Committee now comprises Messrs Mark Lamberti (Chairman), Doug McMillon and Chris Seabrooke. With the exception of Doug McMillon, all Committee members are independent non-executive directors. The CEO attends all Committee meetings by invitation.

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 motor 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. At least 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 2011 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 senior managers were adjusted.

With regard to 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 growth in 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 percentage increments. With effect from 2006, an element of the annual incentive bonus was linked to corporate accountability performance, specifically the achievement of BBEE 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%, consequently there was no annual issue during the 2011 financial year. 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 2002, only members of the Executive Committee can elect to receive scheme shares, while all other participants receive options.

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:

	<b>2011</b>	<b>2012</b>
Chairman of the Board	R725 000	R775 000
Deputy Chairman	R520 000	R555 000
Directors	R215 000	R230 000
Committee Chairmen	R210 000	R225 000
Committee members	R100 000	R107 000
Audit Committee (additional to above). For the additional meetings and responsibilities arising from the Companies Act relative to subsidiaries	R25 000	–

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



## Remuneration of directors and executives *continued*

### Directors' emoluments

	Services as directors of Massmart Holdings Limited R000	Salary and allowances R000	Bonuses and performance-related payments <sup>1</sup> R000	Other benefits R000	Retirement and related benefits R000	Otherwise in connection with the affairs of Massmart Holdings Limited R000	Subtotal R000	Fringe benefit of interest-free loans used to finance shares <sup>2</sup> R000	Gains on exercise of share options and on shares purchased R000	Total R000
For the year ended June 2011										
<b>Executive directors</b>										
Pattison, GM	–	3,738	3,678	478	386	–	8,280	3,829	77,947	90,056
Hayward, GRC	–	2,751	2,064	389	289	–	5,493	3,073	56,164	64,730
	–	6,489	5,742	867	675	–	13,773	6,902	134,111	154,786
<b>Non-executive directors</b>										
Lamberti, MJ	825	–	–	–	–	–	825	–	–	825
Seabrooke, CS	745	–	–	–	–	–	745	–	–	745
Brand, MD	404	–	–	–	–	–	404	–	–	404
Davis JA	–	–	–	–	–	–	–	–	–	–
Dlamini, KD	413	–	–	–	–	–	413	–	–	413
Gwagwa, NN	315	–	–	–	–	–	315	–	–	315
Hodkinson, JC	209	–	–	–	–	–	209	–	–	209
Langeni, P	550	–	–	–	–	–	550	–	–	550
Matthews, IN	739	–	–	–	–	40	779	–	–	779
Maw, P	428	–	–	–	–	–	428	–	–	428
McMillan, CD	–	–	–	–	–	–	–	–	–	–
Suarez JP	–	–	–	–	–	–	–	–	–	–
Mokhobo, DNM	306	–	–	–	–	–	306	–	–	306
Rubin, MJ	209	–	–	–	–	–	209	–	–	209
	5,143	–	–	–	–	40	5,183	–	–	5,183
<b>Prescribed Officers</b>										
Prescribed Officer A	–	–	–	–	–	–	3,235	5	45,185	48,425
Prescribed Officer B	–	–	–	–	–	–	5,229	1,413	22,108	28,750
Prescribed Officer C	–	–	–	–	–	–	5,690	1,533	21,401	28,624
Prescribed Officer D	–	–	–	–	–	–	2,866	1,960	19,086	23,912
Prescribed Officer E	–	–	–	–	–	–	5,828	–	14,531	20,359
Prescribed Officer F	–	–	–	–	–	–	4,278	822	13,522	18,622
Prescribed Officer G	–	–	–	–	–	–	2,750	229	10,016	12,995
Prescribed Officer H	–	–	–	–	–	–	2,664	334	9,391	12,389
Prescribed Officer I	–	–	–	–	–	–	2,726	591	8,564	11,881
Prescribed Officer J	–	–	–	–	–	–	2,510	–	5,267	7,777
	–	–	–	–	–	–	37,776	6,887	169,071	213,734
<b>Total</b>	<b>5,143</b>	<b>6,489</b>	<b>5,742</b>	<b>867</b>	<b>675</b>	<b>40</b>	<b>56,732</b>	<b>13,789</b>	<b>303,182</b>	<b>373,703</b>

<sup>1</sup> 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.

<sup>2</sup> Held in terms of the rules of the Company's share scheme.

	Services as directors of Massmart Holdings Limited R000	Salary and allowances R000	Bonuses and performance-related payments <sup>1</sup> R000	Other benefits R000	Retirement and related benefits R000	Otherwise in connection with the affairs of Massmart Holdings Limited R000	Subtotal R000	Fringe benefit of interest-free loans used to finance shares <sup>2</sup> R000	Gains on exercise of share options and on shares purchased by directors R000	Total R000
For the year ended June 2010										
<b>Executive directors</b>										
Pattison, GM	-	3,019	976	356	308	-	4,659	4,513	-	9,172
Hayward, GRC	-	2,419	806	298	254	-	3,777	3,733	-	7,510
	-	5,438	1,782	654	562	-	8,436	8,246	-	16,682
<b>Non-executive directors</b>										
Lamberti, MJ	793	-	-	-	-	-	793	-	-	793
Seabrooke, CS	727	-	-	-	-	-	727	-	-	727
Brand, MD	388	-	-	-	-	-	388	-	-	388
Combi, ZL <sup>3</sup>	167	-	-	-	-	-	167	-	-	167
Dlamini, KD	400	-	-	-	-	-	400	-	-	400
Gwagwa, NN	294	-	-	-	-	-	294	-	-	294
Hodkinson, JC	223	-	-	-	-	-	223	-	-	223
Langeni, P	519	-	-	-	-	-	519	-	-	519
Matthews, IN	719	-	-	-	-	40	759	-	-	759
Maw, P	437	-	-	-	-	-	437	-	-	437
Mokhobo, DNM	294	-	-	-	-	-	294	-	-	294
Rubin, MJ	200	-	-	-	-	-	200	-	-	200
	5,161	-	-	-	-	40	5,201	-	-	5,201
<b>Prescribed Officers</b>										
Prescribed Officer A	-	-	-	-	-	-	4,245	2,168	12,972	19,385
Prescribed Officer B	-	-	-	-	-	-	3,950	2,218	668	6,836
Prescribed Officer C	-	-	-	-	-	-	3,950	1,740	950	6,640
Prescribed Officer D	-	-	-	-	-	-	3,492	2	3,136	6,630
Prescribed Officer E	-	-	-	-	-	-	5,457	-	-	5,457
Prescribed Officer F	-	-	-	-	-	-	4,234	286	-	4,520
Prescribed Officer G	-	-	-	-	-	-	3,236	1,240	-	4,476
Prescribed Officer H	-	-	-	-	-	-	1,871	559	1,263	3,693
Prescribed Officer I	-	-	-	-	-	-	2,097	437	-	2,534
Prescribed Officer J	-	-	-	-	-	-	2,097	437	-	2,534
	-	-	-	-	-	-	37,498	8,652	20,349	66,500
<b>Total</b>	<b>5,161</b>	<b>5,438</b>	<b>1,782</b>	<b>654</b>	<b>562</b>	<b>40</b>	<b>51,135</b>	<b>16,896</b>	<b>20,349</b>	<b>88,383</b>

<sup>1</sup> 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.

<sup>2</sup> Held in terms of the rules of the Company's share scheme.

<sup>3</sup> Resigned 1 May 2010.

## Remuneration of directors and executives *continued*

The comments on this 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 35 on page 268 and note 36 on page 271.

### GM Pattison

Following a third party executive remuneration analysis which assessed positions of similar stature and complexity, the Remuneration and Nominations Committee awarded Grant a 23.8% increase to his salary and allowances for the 2011 financial year, from R3.02 million to R3.74 million. In line with the Group's Short-term Executive Incentive Scheme which rewards executives based on growth in HEPS, he received six months' salary as a bonus. In addition, the Committee awarded him a qualitative bonus of six months in recognition of his exceptional effort, leadership and effective communication with all aspects of the Walmart transaction. These bonuses totalled R3.67 million.

During the 2011 financial year, but before the commencement of the Closed Period caused by the Walmart transaction, Grant converted and sold 85,919 Massmart shares and options, realising a gain on exercise of share options of R5.5 million. Furthermore, as a result of Walmart acquiring 51% of the Massmart vested and unvested share options held by beneficiaries of the Massmart Employee Share Trusts, Grant necessarily had to convert and sell 752,961 shares and options, realising a gain on exercise of share options of R72.4 million.

Through the Share Scheme, Grant holds 723,418 Massmart shares and options of which 42,202 shares are held in the Pattison Family Trust, of which Grant is a beneficiary. The average length of time that he has held these is 5.4 years and the average strike price is R51.84 per share. The Pattison Family Trust also directly owns 218,055 Massmart shares.

### GRC Hayward

Following a third party executive remuneration analysis which assessed positions of similar stature and complexity, the Remuneration and Nominations Committee awarded Guy a 13.7% increase to his salary and allowances for the 2011 financial year, from R2.42 million to R2.75 million. In line with the Group's Short-term Executive Incentive Scheme which rewards executives based on growth in HEPS, he received six months' salary as a bonus. In addition, the Committee awarded a qualitative bonus of three months in recognition of his exceptional effort with regard to the Walmart transaction. These bonuses totalled R2.06 million.

During the 2011 financial year, but before the commencement of the Closed Period caused by the Walmart transaction, Guy converted and sold 175,000 Massmart shares and options, realising a gain on exercise of share options of R19.3 million. Furthermore, as a result of Walmart acquiring 51% of the Massmart vested and unvested share options held by beneficiaries of the Massmart Employee Share Trusts, Guy necessarily had to convert and sell 410,747 shares and options, realising a gain on exercise of share options of R36.9 million.

Through the Share Scheme, Guy holds 394,627 Massmart shares and options of which 19,912 shares are held in the Bluett-Hayward Trust, of which Guy is a beneficiary. The average length of time that he has held these is 4.7 years and the average strike price is R58.20 per share. Guy also owns 36,517 Massmart shares directly.

### Top three executives' salaries

King III recommends that the salaries of the top three executives, excluding executive directors, should be disclosed. Due to their specialised retail skills, the highly competitive South African retail environment and the employees' value to Massmart, the Board does not wish to disclose this information for each of the individuals but has instead disclosed the total salaries of the three employees concerned. None of the employees earns a higher salary than either of the executive directors.

In the 2011 financial year, the top three executives' combined salaries (comprising basic salary, motor vehicles, medical aid and retirement benefits) were R9.6 million (2010: R8.8 million).

### Non-executive directors' fees

The Board's policy is to pay non-executive directors' fees that are competitive but not in the top quartile. As noted at the beginning of this Corporate Governance section, attendance fees are not paid. Directors' fees were not increased for the 2010 financial year. The following fees and fee increases, for the 2012 financial year were approved at a general meeting in September 2011:

› Chairman	R775,000
› Deputy chairman	R555,000
› Non-executive directors	R230,000
› Committee chairpersons	R225,000
› Committee members	R107,000



## Remuneration of directors and executives *continued*

### Interests of directors in the Company's share scheme

Details of directors' shares and share options per director:

	Relevant date	Subscription price (R)	Market price (R)	Number of shares/share options	Gain on sale/exercise (R 000's)	Expiry date
<b>Pattison, GM</b>						
Balance at the beginning of the previous year				1,562,298		
No shares were traded, exercised or granted in the prior period				–		
Balance at the beginning of the year				1,562,298		
Shares traded	26 May 2004	29,87	121,93	(35,919)		
Shares traded	23 May 2006	54,13	148,00	(382,500)	35,904	
Shares traded	24 May 2007	94,25	148,00	(28,052)	1,508	
Shares traded	26 May 2008	72,86	148,00	(43,480)	3,264	
Shares traded	27 May 2009	77,56	148,00	(43,929)	3,092	
Options exercised	27 August 2001	10,95	121,93	(50,000)	5,549	
Options exercised	27 August 2001	10,95	148,00	(51,000)	6,990	
Options exercised	1 April 2005	41,91	148,00	(204,000)	21,640	
New shares/options granted				–		
Balance at the end of the year				723,418	77,947	
Comprising:						
	27 August 2001	10,95		49,000		26 August 2011
	1 April 2005	41,91		196,000		31 March 2015
	23 May 2006	54,13		367,500		22 May 2016
	24 May 2007	94,25		26,948		23 May 2017
	26 May 2008	72,86		41,768		25 May 2018
	27 May 2009	77,56		42,202		26 May 2019
<b>Hayward, GRC</b>						
Balance at the beginning of the previous year				1,032,898		
No shares were traded, exercised or granted in the current period				–		
Balance at the beginning of the year				1,032,898		
Shares traded	10 March 2000	14,61		(8,643)	–	
Shares traded	26 May 2004	29,87		(43,881)	–	
Shares traded	1 April 2005	41,91	148	(102,000)	10,820	
Shares traded	23 May 2006	54,13	148	(76,500)	7,180	
Shares traded	24 May 2007	94,25	148	(25,445)	1,362	
Shares traded	1 April 2008	66,91	148	(20,729)	1,680	
Shares traded	26 May 2008	72,86	148	(38,070)	2,860	
Shares traded	27 May 2009	77,56	148	(109,753)	7,728	
Options exercised	13 November 2000	12,25	121,93	(100,000)	10,968	
Options exercised	27 August 2001	10,95	121,93	(75,000)	8,324	
Options exercised	27 August 2001	10,95	148	(38,250)	5,242	
New shares/options granted				–		
Balance at the end of the year				394,627	56,164	
	27 August 2001	10,95		36,750		26 August 2011
	1 April 2005	41,91		98,000		31 March 2015
	23 May 2006	54,13		73,500		22 May 2016
	24 May 2007	94,25		24,444		23 May 2017
	1 April 2008	66,91		19,912		1 April 2018
	26 May 2008	72,86		36,573		25 May 2018
	27 May 2009	77,56		105,448		26 May 2019

## 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 Chairpersons is compulsory.

At the November 2010 Massmart annual general meeting the Chairpersons of the Remuneration and Nominations and Audit and Risk Committees were in attendance, as were the Board Chairman, CEO and CFO. In total, four 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, i.e. all votes are counted, rather than by way of a show of hands.

#### INSIGHT ANNUAL GENERAL MEETING

08h30 Wednesday  
23 November 2011  
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 – 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 2011 annual general meeting.

During the year to June 2011, no Massmart shares were purchased on the open market by a Massmart subsidiary. 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 on the JSE open market to mitigate the dilution caused by the Company issuing new shares when options are exercised by participants. During the 2011 financial year, the Massmart Employee Share Trust purchased 2.1 million shares for R274 million which were utilised to meet vesting share options.

### 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 December and June) and end on the public release of the Group's results. A closed period also applies from the date when Massmart issues a cautionary announcement. Following the first cautionary announcement in September



## Compliance, transparency and accountability continued

2010 concerning the Walmart transaction, no executives were allowed to deal in Massmart shares until the transaction was closed in June 2011.

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

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 Conduct.

Massmart has an Ethics Hotline that is independently run by Deloitte Tip-Offs Anonymous. Deloitte Tip-Offs Anonymous has been certified by the External Whistle-blowing Hotline Services Provider Standard E01.1.1.1. This Hotline can be used by all Massmart employees and suppliers to report any suspected unethical behaviour. Calls are investigated by the Divisional Ethics Officers and, where necessary, by the Massmart Internal Forensic Auditors. All calls are monitored by the Massmart Ethics Office. The Group Ethics Forum meets twice a year where the call statistics and trends are discussed. The appointment of Ethics Officers in all Divisions, and the formulation and regular meetings of the Group Ethics Forum have ensured the continued focus on the consistent application of ethics practice and training within Massmart. Total calls and reports for the year under review were 8.2% higher than the previous year (see on page 187 alongside). During the 2011 financial year, 53% of calls that were classified as criminal/fraud were resolved resulting in disciplinary action, dismissals, resignations and/or charges laid against the relevant individuals. The balance of these calls were closed due to either insufficient information being supplied by the caller or that the allegations were found to be untrue.

In March 2011, the 2004 Code of Ethical Conduct was revised. This was because an ethics survey that was conducted in 2009 indicated that not all employees understood how the principles align with Massmart's values and more information was needed on how to seek guidance and report unethical behavior. In addition to this, a new Whistle Blowing Policy was introduced to Massmart. This policy provides clarity to all Massmart employees and suppliers that they can raise breaches of the Massmart Code of Ethical Conduct without fear of victimisation, subsequent discrimination and disadvantage.

The Massmart Ethics Office continuously distributes ethics awareness communications throughout Massmart:

- › Regular email communication on relevant topics is sent to all employees with access to an email address and also for management to display on all notice boards. The following communication has been distributed: 'Conflict of interest', 'Racism', 'Fraud', 'Bribery', 'Whistle blowing' and 'Employee theft'.

#### 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](mailto:massmart@ethics-line.com)

**Do what is right, fair, honest and legal!**

- › Ethics posters are situated in all stores and head offices. In 2011, the Massmart Ethics Office released a new Values poster. The posters currently displayed are: 'Do what is right' and 'What does ethics mean' (available in four languages), 'Trust us, tell us' and 'Our values'.

Massmart regularly communicates its ethical standards to suppliers and service providers, and attempts to ensure that they comply with these standards. This is achieved in the following ways, just to mention a few: suppliers and service providers are invited to make use of the Ethics Hotline, Massmart's formal trading agreements detail ethical practices that suppliers are expected to uphold, and supplier ethical cards are distributed with supplier communications.

### Compliance

Monitoring and achieving legal and regulatory compliance across the Group has always been a fundamental tenet of our business model. King III however, requires that the compliance process should be more formal with clear responsibilities and reporting. To this end, the Finance Directors in each Division are now the Compliance Officers (and Risk Officers) and have been formally tasked with ensuring that their respective Divisions monitor and comply with all regulations and legislation.

Compliance across the Group is exercised as follows:

- › The environment is monitored, formally and informally, via several sources including specifically-appointed service providers that review all proposed or impending legislation and regulations, as well as non-executive directors, and contacts with government bodies, supplier bodies, and consumer groups.
- › Depending upon where the response to the impending legislation can most efficiently and effectively be addressed, the task would fall to one of the trading Forums (Food, Liquor, General Merchandise, Cellular) or functional Forums (TIP, Finance) or even the Group Exco. The members of these forums are also tasked with keeping their respective Divisions apprised of intentions to support the role of the Divisional Compliance Officers.
- › Ongoing compliance is monitored and tested through various means including Internal Audit, external audit and third-party service providers. Reports from these entities are presented to both the Risk and Audit Committees.

The Group Compliance Officer is an in-house legal resource at Massmart Corporate who is a qualified lawyer and reports to the Company Secretary, and ultimately to the CFO.

The impending legislation that may have a potentially material impact on the Group includes:

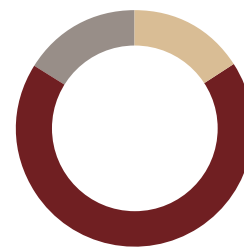
- › Payment Card Industry Data Security Standard (PCI); and
- › Protection of Personal Information Act (PPI Act).

### MASSMART ETHICS LINE

Total calls and reports	
July	99
August	118
September	96
October	96
November	130
December	99
January	114
February	108
March	174
April	92
May	98
June	121
<b>Total</b>	<b>1,345</b>
<i>Anonymous calls</i>	15.2%
<i>Increase in total calls and reports over last year</i>	8.2%



### BREAKDOWN OF TOTAL CALLS (%)



● Crime	16
● HR	68
● Other	16

## Investor relations

We strive to provide useful and frequent disclosure to our shareholders, regardless of how uncomfortable 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												•

### 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.

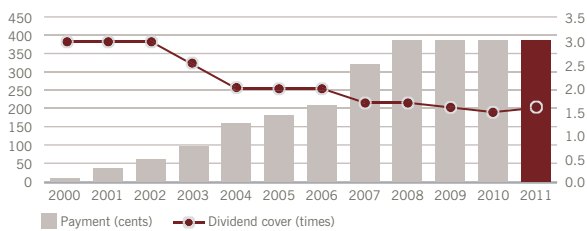
Early in January and July, shortly after the conclusion of the half-year and full-year trading periods, on release of the Annual Report and at the Group's annual general meeting in November, Massmart releases sales updates reporting on the Group's year-to-date sales performance. In addition, annually in May, the Group Chief Executive Officer and Chief Financial Officer 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.

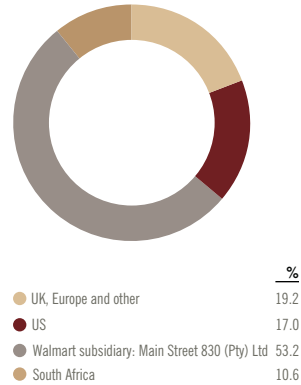
Profits are distributed to our shareholders at interim and year-end by way of a cash dividend. The dividend is calculated based on a dividend cover of 1.7 on headline earnings unless circumstances dictate otherwise. Despite the slightly lower headline earnings and this policy, the Board has decided to 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 now 100% of the ordinary dividend.

**DIVIDEND PAYMENT VS DIVIDEND COVER**



**FOREIGN SHAREHOLDING**



**COMPANY SECRETARY**

I Zwarenstein, CA (SA)

**CONTACT DETAILS**

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**INDICATORS**

**COMPANY REGISTRATION NUMBER**

1940/014066/06 (incorporated in South Africa)

**JSE SHARE CODE**

MSM

**ISIN**

ZAE000152617

**DESIGN PARTNERS**

**PUBLISHER ANNUAL REPORT**

Ince.motiv

**DESIGNER**

Studio Shelf

**PHOTOGRAPHER**

Gareth Gilmour

**CORPORATE PARTNERS**

**TRANSFER SECRETARIES**

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70 Marshall Street  
Johannesburg  
2001

**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

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**MASSMART AT A GLANCE**

More detail on our shares and shareholder information can be found on pages 8 and 9



## King III Question and Answer

### 1. Ethical leadership and corporate citizenship

#### 1.1 The board should provide effective leadership based on an ethical foundation

The Board 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, financial results, and values as well as being the custodian of the Group's corporate governance.

The Board believes that the Massmart Group must act ethically and in a sustainable manner in the longer-term interests of all key stakeholders and of the natural environment in which the Group operates. These stakeholders are contemplated in the Massmart Vision and include customers, suppliers, employees, investors and the community.

Massmart insists that all its business partners, specifically directors, employees and suppliers do business ethically and will not retain business partners that do not maintain the same standard of ethics as Massmart.

#### 1.2 The board should ensure that the company is and is seen to be a responsible corporate citizen

The Board considers the impact of the Group's operations on the societies within which it operates by pro-active measurement of the Group's impact on the environment (such as understanding our carbon footprint and energy consumption) and has active Corporate Social Responsibility programmes and policies based on pre-defined levels of expenditure.

#### 1.3 The board should ensure that the company's ethics are managed effectively

Since 2004, Massmart has had a Code of Ethical Practice in its desire 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. The Group is an active member of the SA Institute of Ethics. During 2011 the Group's Ethics were relaunched to remind all that the businesses remain committed to ethical standards and behaviour.

Annually, our suppliers are reminded by a letter from the CEO that any concerns in respect of ethical behaviour can be reported directly to him or to the Ethics Hotline.

The Group uses an independently-operated Ethics Hotline to which any customer, employee or supplier may report alleged unethical behaviour. Posters communicating our ethical standards and the details of this Hotline are visible in almost every area of the Group's stores, offices and distribution centres.

Included on page 187 is a summary of the number and nature of the ethics calls received by this independent operator over the past year.

### 2. Boards and directors

#### 2.1 The board should act as the focal point for and custodian of corporate governance

The Board has a charter setting out its roles and responsibilities, and key aspects of this are disclosed in the Annual Report.

The Board has four quarterly Board meetings, an annual strategy day and will meet on an ad hoc basis if a situation demands it. Full details of the past year's Board and Committee meetings, and directors' attendances thereat, can be found on page 162.

#### 2.2 The board should appreciate that strategy, risk, performance and sustainability are inseparable

Annually the Group's Divisional executives each formally present their three-year strategies to the Board, both in writing and through presentation. These strategies must be aligned with the Board-approved Vision and Mission for the Group and also address positive or negative effects of the Group on stakeholders, and all dimensions of the Vision must be addressed in formal Divisional strategies. The first year of the strategy period represents the following year's budget.

#### 2.3 – 2.13 Refer to principles elsewhere in King III that are already listed in this Question and Answer review.

#### 2.14 The board and its directors should act in the best interests of the company

Directors are encouraged to attend any Board or executive meeting within the Group's Divisions

in an effort to understand better the business, its leadership and their skills and competence.

At each Board meeting directors are required to confirm in writing any changes to their interests that have been previously disclosed in detail to the Board. Directors' interests were independently reviewed by Massmart Internal Audit during the 2011 financial year.

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 2011 financial year.

**2.15 The board should consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the Act**

The Board has developed various reporting metrics that are included in the quarterly Board meetings' papers. Included in these metrics are liquidity and solvency ratios, cash flow analysis, details of bank facilities and reports on working capital performance.

In addition, the Audit and Risk Committee considers the "going concern" assertion for the group at half- and financial year-end.

Happily, at no time has the Board had to consider business rescue proceedings for the Group or any Division within the Group.

**2.16 The board should elect a chairman of the board who is an independent non-executive director. The CEO of the company should not also fulfil the role of chairman of the board**

Mark Lamberti was appointed as Massmart's non-executive Chairman in July 2007 and, as he was previously the Massmart CEO, he could not be considered independent until June 2010. The Board is satisfied that Mark Lamberti should now be considered an independent director. Recognising however, that some may differ with this view, Chris Seabrooke, the non-executive Deputy Chairman, maintains his role as the Group's Deputy Chairman and Lead Independent Director. In addition, to ensure good governance, and as recommended by King III, the Chairmanship of each of the three Board Committees is held by independent directors.

Annually the Chairman's performance is formally assessed and the feedback is collated by the Deputy Chairman and discussed with the Chairman.

The Board is responsible for its own composition, the appointment of the Chairman and the Chief Executive Officer (CEO), and for executive succession planning. Succession planning for the Chairman, non-executive directors and CEO is delegated to the Remuneration and Nominations Committee which considers these issues annually.

**2.17 The board should appoint the chief executive officer and establish a framework for the delegation of authority. The Board is responsible for the appointment of the CEO.**

The framework for the delegation of authority is actioned through 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. These authorities are evaluated and updated annually, where necessary, by the Board.

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

**2.18 The board should comprise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent**

The Board comprises two executive directors, being the CEO and CFO, four independent non-executive directors and three non-executive directors (Walmart appointees). The majority of the non-executive directors are therefore independent.

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.



## King III Question and Answer continued

All directors retire by rotation every three years. Unless requested by the Board to serve a further term, retiring directors are not proposed for re-election by the shareholders. In considering whether to propose a director for re-election, the Board takes into account various factors, including skills mix, diversity and succession planning.

This year the following directors retire by rotation: Messrs GM Pattison and CS Seabrooke.

Newly appointed directors are required to resign and to offer themselves for re-election at the first AGM following their initial appointment. At the forthcoming annual general meeting therefore, Messrs Jeff Davis, Doug McMillon and JP Suarez will resign and offer themselves for re-election.

### **2.19 Directors should be appointed through a formal process**

The Remuneration and Nominations Committee assists the Board with the assessment, recruitment and nomination of new directors. The Board must approve these appointments and Board members are invited to interview any potential appointees. The Committee thoroughly assesses potential new directors before appointment. Use may be made of third-party executive search agencies to provide such assurances.

### **2.20 The induction of and ongoing training and development of directors should be conducted through formal processes**

The Company Secretary is tasked with assisting the Board with induction of new directors and 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 necessary.

Directors are encouraged to remain abreast of major governance and regulatory developments and where applicable, the Board will receive formal presentations and notes on key topics. The Company Secretary assists with ongoing director development and education, using materials from the Group's legal advisors and external auditors where necessary.

### **2.21 The board should be assisted by a competent, suitably qualified and experienced company secretary**

The Company Secretary, Mr Ilan Zwarenstein, is a qualified chartered accountant and was previously an audit partner at Grant Thornton. He is formally empowered by the Board to fulfil his duties and to assist the Board in fulfilling its functions.

Together with the Board and Committee Chairpersons, as appropriate, he ensures that: meetings are scheduled well in advance, meeting agendas are agreed beforehand and the appropriate papers are circulated timeously.

### **2.22 The evaluation of the board, its committees and the individual directors should be performed every year**

Annually all Board and 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 then included in the Board papers for review and discussion at the November Board meeting.

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. Due to the personal nature of the findings of these individual reviews, they are not included in the Annual Report.

As noted elsewhere in the Corporate Governance section, due to the distraction of the Walmart transaction and the pending changes to Board and Committee membership and mandate, it was decided to postpone the annual review for the year ending June 2011.

### **2.23 The board should delegate certain functions to well-structured committees but without abdicating its own responsibilities**

Each Board Committee's charter or term of reference specifically documents that Committee's scope, duties and responsibilities. Annually in November, each Committee's charter or term of reference is reviewed by the Committee and Board for relevance and completeness, and amended

where necessary. These charters were updated to reflect any requirements from the new Companies Act, 2008.

Details regarding the duties and responsibilities of each Committee, and its composition, can be found on page 163.

Following the acquisition by Walmart, the Board has three committees: the Audit and Risk Committee; the Remuneration and Nominations Committee and the Social and Ethics Committee. The Audit and Risk and the Remuneration and Nominations Committees comprise a majority of independent non-executive directors and all three committees are chaired by independent non-executive directors.

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

**2.24 A governance framework should be agreed between the group and its subsidiary boards**

This principle relates to listed subsidiaries only and is thus not applicable to Massmart subsidiaries, none of which are listed.

**2.25 Companies should remunerate directors and executives fairly and responsibly**

The Remuneration and Nominations Committee implements remuneration policies that enable it to recruit, retain and motivate the executive talent needed to achieve superior business performance in the short and longer term. Included here are policies on employee benefit funds, service contracts (there have been none in the Group since 2007), and retention and severance payments.

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 growth and performance in order to motivate the executives. Finally, longer-term wealth creation – aligned with the creation of shareholder value through the Group's market valuation – is underpinned by the Group's employee share incentive plan.

There has been very low executive turnover which suggests that the Group's remuneration policies are appropriate and effective.

Non-executive directors' fees are reviewed and established by the Committee. Directors' attendance fees are not paid.

**2.26 Companies should disclose the remuneration of each individual director and certain senior executives**

Details of individual directors' remuneration are provided on pages 180 to 184 of this report, and explanations are provided for executive directors' remuneration. In addition, details of executive remuneration policies are provided on page 178.

Due to their specialised retail skills, the highly competitive South African retail environment and the specific employees' value to Massmart, the Board has chosen not to disclose the remuneration of the most highly paid executives who are not directors. Instead, this information is disclosed in aggregate for the three executives concerned (see page 183). None of these executives earns a higher salary than either of the executive directors.

**2.27 Shareholders should approve the company's remuneration policy**

The Board does not intend to ask the shareholders for non-binding approval for the Group's remuneration policies. The rationale and basis for the Group's executive remuneration policy is carefully considered by the Remuneration and Nominations Committee and is documented in the annual reports. Shareholders with concerns regarding this policy should contact the Chairman of either the Board or the Committee.

Non-executive directors' fees are however, tabled for approval at each annual general meeting.

**3. Audit committees**

**3.1 The board should ensure that the company has an effective and independent audit committee**

The Audit and Risk Committee's charter was established by the Board and is annually reviewed and amended, if necessary, by both the Committee and the Board. The Committee's composition, duties and responsibilities are incorporated within the charter.

The Committee meets at least three times a year and each meeting commences with an audience between only the Committee and the external



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auditors. The Committee Chairman meets quarterly with the Chief Audit Executive (CAE). Management is not present at these meetings.

### 3.2 Audit committee members should be suitably skilled and experienced independent non-executive directors

The Committee comprises three independent non-executive directors, each of whom has the requisite financial and commercial skills and experience to contribute to the Committee's deliberations. The Board elects the Audit and Risk Committee members, assisted where necessary by the Remuneration and Nominations Committee.

Committee members regularly receive technical updates from the external auditors and legal advisors. With the prior approval of the Chairman, any Committee member may seek external professional advice, at the Company's expense, on any issue.

### 3.3 The audit committee should be chaired by an independent non-executive director

Chris Seabrooke, an independent non-executive director, is Chairman of the Audit and Risk Committee. He attends the Company's annual general meeting (directors' attendance at the AGM is shown on page 162).

### 3.4 The audit committee should oversee integrated reporting

The Audit and Risk Committee reviews the interim and preliminary financial results and associated announcements, and recommends these to the Board for approval. The Committee also reviews the integrated report which includes detailed reviews by the CEO, CFO and the four Divisional CEOs as well as a thorough review of sustainability issues.

### 3.5 The audit committee should ensure that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities

Through formal reports included in Committee papers and the attendance of all key executives involved with assurance, the Audit and Risk Committee is provided with a thorough review of the Group's assurance activities. These reports

include the principles of combined assurance through reports from management, internal and external audit and these also note reliance that has been placed upon other assurance providers. Attendees at most Committee meetings include the CEO, CFO, CAE, and external audit representatives.

### 3.6 The audit committee should satisfy itself of the expertise, resources and experience of the company's finance function.

Annually the Committee considers the suitability of the CFO and the Group's finance function, and its opinion is noted on page 167.

### 3.7 The audit committee should be responsible for overseeing the internal audit

The Committee is responsible for overseeing the Internal Audit function, through a functional reporting relationship to the Audit Committee and specifically the Audit Committee Chairperson. For practical purposes and to maintain an excellent working relationship with management, the CAE reports administratively to the CFO. The Audit and Risk Committee, CAE, CFO and CEO believe that there is no conflict as a result of this reporting relationship. The scope, findings and opinions of Internal Audit are not interfered with and the CAE and the Audit and Risk Committee are satisfied with this. Although not used to date, the CAE has unfettered access to any non-executive director or the Chairman where issues of independence could be raised if necessary.

Annually, the Committee approves the Internal Audit work plan, staffing, resources and operating budget, and thereafter monitors progress with the audit work plan and results which are reported upon at each Committee meeting.

The Audit and Risk Committee, CEO, CFO and the CAE agree that the performance assessment of the CAE is appropriately managed with input where necessary from the Committee. The appointment or dismissal of the CAE will be mutually agreed between the Committee, the CEO and CFO.

### 3.8 The audit committee should be an integral component of the risk management process

As noted in 3.5 above, given the width and depth of the information presented to the Committee, the Committee is an integral component of the Group's risk management process.

As regards IT systems, on a cyclical basis the key general, security and application controls on the Group's major IT systems are reviewed by experts employed by the external or internal auditors. Massmart Internal Audit is intimately involved in assessing the IT control environment and the Group adopted the COBIT governance approach to IT several years ago. Senior Internal Audit personnel attend the Group's TIP Forum (see page 168) where all major IT developments and projects are signed off. Massmart Audit is involved in auditing every significant IT project in the Group.

**3.9 The audit committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process**

The Audit and Risk Committee is responsible for recommending the appointment of the external auditor to the shareholders at the AGM.

Annually, the external auditor's engagement letter and audit fees, recommended by the CFO, are approved by the Committee. The external auditors regularly confirm their independence, which opinion is considered by the Committee.

The 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.

**3.10 The audit committee should report to the board and shareholders on how it has discharged its duties**

The Audit and Risk Committee Chairman reports regularly to the Board both in writing and verbally; and annually, prior to the release of the Group's preliminary results.

The Committee's report to stakeholders is shown on page 29 and includes details on the role of the Committee, members' attendances at meetings, and confirmation of the control environment.

**4. The governance of risk**

**4.1 The board should be responsible for the governance of risk**

The Board has mandated the Audit and Risk Committee, through its charter, to oversee the

design, maintenance and reporting of a sound system of risk management and control with regard to all key aspects of the business and is reported on page 169.

**4.2 The board should determine the levels of risk tolerance**

The Board does not explicitly determine levels of risk tolerance and/or risk appetite for the Group. Instead, these would effectively be reviewed, and assessed by the Board, on an ongoing basis through regular reports and financial analysis and evaluation by the CEO and CFO, as well as the Audit and Risk Committee. Risk is an agenda item at the Board meeting and this is also cascaded through the Executive Committee and Divisional Boards.

**4.3 The risk committee or audit committee should assist the board in carrying out its risk responsibilities**

The Audit and Risk Committee oversees the Group's risk management programme. There are three independent non-executive directors on the Committee, and in attendance are the Group CEO and CFO, the CAE, as well as a Divisional CEO.

At the August meeting, the Committee considers the Group's risk landscape and annually it considers the Group's insurance arrangements together with the Group's insurance brokers. Annually in February an interim Group risk report is prepared by the CFO for the Committee.

**4.4 The board should delegate to management the responsibility to design, implement and monitor the risk management plan**

Management is responsible for the design, implementation and monitoring of the risk management plan. As part of this, risk is an agenda item on all Divisional executive meetings and the quarterly Divisional Board meetings.

The Group Risk Officer is the CFO and each Divisional Finance Director is the Risk Officer for that Division.

**4.5 The board should ensure that risk assessments are performed on a continual basis**

Risks across the Group are monitored and reported to the Board directly through the Audit and Risk Committee, and indirectly through the reports of



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the CEO and CFO. Annually, the Audit and Risk Committee tables the Group Risk Report and Risk Register for review and confirmation by the Board.

### 4.6 The board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks

The Board is comfortable that the Group's risk management framework and processes are adequate but is aware that the nature and essence of risk – being both uncertain and unpredictable – means that in isolated cases this process may, with hindsight, appear to have been inadequate.

### 4.7 The board should ensure that management considers and implements appropriate risk responses

Responded to in 4.5 and 4.6 above.

### 4.8 The board should ensure continual risk monitoring by management

Responded to in 4.5 and 4.6 above.

### 4.9 The board should receive assurances regarding the effectiveness of the risk management process

Responded to in 4.5 and 4.6 above.

### 4.10 The board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders

Massmart's risk management process, and the 10 key Group risks identified by that process, is disclosed in the integrated report.

## 5. The governance of information technology

### 5.1 The board should be responsible for information technology (IT) governance

The Board has delegated IT governance to management. Governance over significant IT risks is formally overseen by the Technology, Information and Process (TIP) Forum, which is chaired by a member of the Group Executive Committee and attendees include all Divisional IT Directors and the CAE who attends to provide independent governance advice and input. The Group adopted the COBIT governance framework several years ago.

Annually, the Chairman of the Group's TIP Forum gives a presentation to the Board of the major Group and Divisional IT initiatives, key service providers and risk areas.

The external auditor reviews key computer controls and reports its findings to the Audit and Risk Committee as does Internal Audit which uses the COBIT governance assessment methodology.

### 5.2 IT should be aligned with the performance and sustainability objectives of the company

Each Division has an IT strategy that is aligned to its strategic and business objectives.

### 5.3 The board should delegate to management the responsibility for the implementation of an IT governance framework

Management is responsible for the design, implementation and operation of the structures and processes required for IT governance. There is no Group Chief Information Officer but management has established the TIP Forum (see 5.1) which very effectively executes the IT governance mandate and these are reviewed by External and Internal Audit (also discussed in 5.1 above).

### 5.4 The board should monitor and evaluate significant IT investments and expenditure

The TIP Forum is responsible for approving all major IT developments and projects, including the financial investment and return. Those IT services that are outsourced – relating mainly to networks, desk-top support and off-site data storage – are regularly reviewed by both Internal and External Audit. The Divisional Boards approve project expenditure within their governance limits and only after recommendation by the TIP Forum for significant projects.

### 5.5 IT should form an integral part of the company's risk management

Management and the Board are fully alert to the vulnerability of the Group's operations to the proper functioning of all key IT equipment and processes. Formal disaster-recovery programmes are therefore in place for all Divisions and for all major IT functionalities. These programmes form part of a broader business continuity planning (BCP) framework that has matured in recent years.

**5.6 The board should ensure that information assets are managed effectively**

Management and the Board are cognisant that the storage, management, manipulation and confidentiality of IT data is crucial. The TIP Forum is mandated to monitor and address these issues continually, effected by each Divisional IT leader and assurance is assessed by internal and external audit.

**5.7 A risk committee and audit committee should assist the board in carrying out its IT responsibilities**

The Audit and Risk Committee plays an essential role in assisting the Board with its IT responsibilities. As noted elsewhere (see 3.8), the Committee receives regular and thorough exposure to the key control issues associated with this topic.

**6. Compliance with laws, rules, codes and standards**

**6.1 The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards**

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 attempts to keep abreast of all intended or promulgated legislation. The Group's Internal Audit department assesses significant legal risks and the level of compliance as part of its regular procedures.

The Group utilises local experts in non-South African countries to perform evaluations on relevant applicable legislation and compliance effectiveness.

Most issues concerning compliance will be reported to the Audit and Risk Committee which will bring the more material issues to the Board's attention. Material breaches will also be reported by either the CEO or CFO.

**6.2 The board and each individual director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the company and its business**

Directors are encouraged to remain abreast of major governance and regulatory developments and where applicable, the Board will receive formal presentations and notes on key topics. New proposed legislation that may have onerous consequences for the Group will be brought to the Board's attention through the executives and/or external professionals.

**6.3 Compliance risk should form an integral part of the company's risk management process**

As part of the Compliance function, the Divisional Finance Directors act as Compliance Officers for their Divisions and any material compliance issues will be reported through the Audit and Risk Committee.

**6.4 The board should delegate to management the implementation of an effective compliance framework and processes**

The Board has delegated the implementation of an effective compliance framework and process to management. Not wishing to impose a potentially bureaucratic process on the workings of the Group, management followed a similar approach to the implementation of the Risk Management framework by incorporating the Compliance role within existing reporting and management structures. As noted elsewhere, the Group Compliance Officer is the Group Legal Manager and the Divisional Finance Directors are the Compliance Officers for their respective Divisions.

**7. Internal audit**

**7.1 The board should ensure that there is an effective risk-based internal audit**

Massmart has a very effective Internal Audit department which performs invaluable work in providing assurance on all key aspects of the Group's risks, employees, operations and assets.

The Internal Audit department applies a risk-based approach that aligns its audit methodology to the internal and external risks facing Massmart. Through formally documented risk assessments,



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through 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 processes. Massmart Internal Audit provides the Audit and Risk Committee and the Board with an annual risk assurance assertion.

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

The CAE regularly meets with the Audit and Risk Committee Chairman and with Massmart executives to discuss risks and challenges across the Group's operations and external environment.

The Internal Audit department complies fully with the International Standards for the Professional Practice of Internal Auditing as promulgated by the Institute of Internal Auditors and has previously been independently reviewed.

### 7.2 Internal audit should follow a risk-based approach to its plan

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

The external auditors place reliance on many aspects of the department's audit coverage and Internal Audit places reliance on other assurance providers' work once satisfied that their methods can be relied upon.

### 7.3 Internal audit should provide a written assessment of the effectiveness of the company's system of internal controls and risk management

Internal Audit provides an annual assurance assertion to the Audit and Risk Committee and Board, which includes internal control, internal financial control, governance, risk management and IT.

### 7.4 The audit committee should be responsible for overseeing internal audit

To ensure independence, the CAE reports functionally to the Audit and Risk Committee and, only from an administrative perspective, to the CFO who encourages Internal Audit's independence and does not interfere with audit

scope or opinion. The hiring and dismissal of the CAE is subject to final approval by the Committee. The evaluation of the performance of the CAE includes the Committee's input.

The Internal Audit department has the unequivocal support of the Board and Audit and Risk Committee and has unrestricted access to any part of, or person or committee, in Massmart.

Internal Audit's annual audit plan and resource needs are pre-approved by the Committee.

The CAE presents formal reports to the Audit and Risk Committee and attends all meetings by invitation. In addition, the Committee Chairman and CEO, separately, meet quarterly with the CAE.

### 7.5 Internal audit should be strategically positioned to achieve its objectives

Internal Audit reports functionally to the Audit and Risk Committee and the CAE holds a senior executive position of influence within the organisation. Despite the Internal Audit department reporting administratively to the CFO, the Board and Committee are both satisfied that this crucial team functions in a wholly objective and independent manner.

The CAE has many years' operational, IT, Supply Chain and audit experience in Retail and leads a multi-functional team of appropriately qualified employees. The CAE has a standing invitation to attend the Group and/or Divisional Executive Committee meetings, Board meetings or strategy sessions.

## 8. Governing stakeholder relationships

### 8.1 The board should appreciate that stakeholders' perceptions affect a company's reputation

The Board and management carefully monitor and measure Massmart's reputation and the perceptions of key stakeholder groupings. These key groupings are: customers, employees, suppliers, investors and the community.

### 8.2 The board should delegate to management to pro-actively deal with stakeholder relationships

The key stakeholder groupings, being customers, employees, suppliers, investors and the community, are monitored, measured and

reported upon in different ways. Some will be formal and structured, for example, customer intercept surveys, web-based employee surveys, or written supplier surveys, whilst others may rely on regular interactions with representatives from the various stakeholder groupings.

The Group's policies as regards key stakeholder groupings are spelt out in the Sustainability section. In addition, the key results and findings of interactions with these groupings are disclosed.

Shareholders are welcome at Massmart's AGM but, in common with many other South African companies, attendance by those from outside of corporate sector representatives is almost non-existent.

**8.3 The Board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the company**

The Board is alert to the inherent conflict between the demands of the different stakeholder groupings, but believes that it is possible to achieve a position of sustainable compromise that balances the demands of all stakeholders. As noted above however, this requires regular monitoring and measurement to ensure its sustainability.

**8.4 Companies should ensure the equitable treatment of shareholders**

The Board is careful to treat all Massmart ordinary shareholders equitably. The CEO and CFO meet periodically with major institutional shareholders at their request but this does not preclude any other shareholder requesting a meeting with the CEO or CFO.

**8.5 Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence**

Subject to the rules and regulations of the JSE, all announcements and disclosures are distributed widely through the electronic media and posted to all shareholders unless they have elected not to receive these communications. The CEO and CFO endeavour to communicate in clear and uncomplicated language the strategies, operations and financial results of the Group.

The Board is not aware of any material requests under the Promotion of Access to Information Act that were either complied with or denied. In

addition, our website includes a link to the Audit and Risk Committee should this be required. To date nothing has ever been brought to the Committee's attention through this mechanism.

**8.6 The board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible**

The Board does not have a formal dispute resolution programme. Should any situation arise that may require formal dispute resolution the Board will consider alternatives which, failing intervention by either the Board Chairman or CEO, may include use of independent legal counsel or arbitration.

**9. Integrated reporting and disclosure**

**9.1 The board should ensure the integrity of the company's integrated report**

The Board and the Audit and Risk Committee is careful to ensure that the Group's integrated report includes all key issues, is easy to read and understand, and addresses the legitimate concerns of key stakeholder groupings.

The success of this approach has been recognised externally. The Massmart Annual Report has been rated Excellent for the last five years in the annual Ernst & Young Corporate Reporting awards in South Africa. In addition, our 2006, 2007, 2008, 2009 and 2010 annual reports were rated 3rd, 4th, 9th, 4th and 4th overall in those respective years.

**9.2 Sustainability reporting and disclosure should be integrated with the company's financial reporting**

The Massmart Board focuses closely on full and effective disclosure of all aspects of its strategies, operations and financial performance, and ensures that all key successes and failures are usefully reported and commented upon.

**9.3 Sustainability reporting and disclosure should be independently assured**

The Social and Ethics Committee has specific oversight on those sustainability areas covered in the integrated report but the entire report will be reviewed by the Audit and Risk Committee and recommended to the Board for approval.

