

## MASSMART HOLDINGS LIMITED

### AUDIT COMMITTEE CHARTER

#### 1. Definitions

In this Charter, the following words and phrases shall, unless otherwise stated or inconsistent with the context in which they appear, bear the following meanings and cognate expressions shall bear corresponding meanings:

- |     |                           |   |
|-----|---------------------------|---|
| 1.1 | <b>"Auditors"</b>         | the external auditors of the Company from time to time;   |
| 1.2 | <b>"Board"</b>            | the Board of Directors of the Company as constituted from time to time in accordance with the MOI;                                      |
| 1.3 | <b>"Board Committees"</b> | the various committees of the Board as constituted in terms of the MOI read with the Board charter;                                     |
| 1.4 | <b>"CEO"</b>              | the chief executive officer of the Company from time to time;   |
| 1.5 | <b>"Chairman"</b>         | the chairman of the Committee from time to time;  |
| 1.6 | <b>"Charter"</b>          | this audit committee charter as amended or replaced from time to time;  |
| 1.7 | <b>"Committee"</b>        | this audit committee as constituted in terms of the MOI read with this Charter;   |
| 1.8 | <b>"Companies Act"</b>    | the Companies Act, 71 of 2008 and any regulations published thereunder from time to time, all as amended or replaced from time to time; |
| 1.9 | <b>"Company"</b>          | Massmart Holdings Limited, registration number 1940/014066/06, a public company   |

		incorporated and registered in accordance with the laws of South Africa;
1.10	<b>"Company Secretary"</b>	the company secretary of the Company from time to time;
1.11	<b>"Directors"</b>	the directors of the Company from time to time;
1.12	<b>"Finance Director"</b>	the finance director of the Company from time to time;
1.13	<b>"Governance Authorities"</b>	the Company's governance authorities as reviewed, approved, amended or replaced by the Board from time to time;
1.14	<b>"Group"</b>	the Company and its subsidiaries from time to time;
1.15	<b>"Integrated Annual Report"</b>	the integrated annual report of the Company;
1.16	<b>"King III"</b>	the King Report on Corporate Governance for South Africa, 2009;
1.17	<b>"Listings Requirements"</b>	the listings requirements of the JSE Limited, as amended or replaced from time to time;
1.18	<b>"MOI"</b>	the memorandum of incorporation of the Company adopted in compliance with the Companies Act, as amended or replaced from time to time; and
1.19	<b>"Stakeholders"</b>	any group affected by, and affecting, the Company's operations.

## 2. Introduction

- 2.1 The purpose of this Charter is to set out the role, duties and responsibilities of the Committee and its relationship with the internal and external audit functions and the Board.

- 2.2 This Charter aims to ensure that the Committee is compliant with the Companies Act, the recommendations of the King III and the Listings Requirements.
- 2.3 The Committee is established to assist the Board in:
- 2.3.1 identifying and managing financial risks;
  - 2.3.2 the evaluation of the adequacy of the Group's systems;
  - 2.3.3 the review and preparation of accurate financial reporting and statements in compliance with all applicable legal requirements, corporate governance and accounting standards; and
  - 2.3.4 addressing statutory and regulatory issues, specifically the nomination for appointment, removal and replacement of the Auditors, with the appointment being subject to the approval by shareholders at the next annual general meeting.
- 2.4 The Committee shall act in accordance with its statutory duties and the delegated authority of the Board.

### **3. Composition**

- 3.1 At each annual general meeting, the shareholders shall appoint the Committee for the following financial year as recommended by the Nomination Committee. The Committee shall consist of not less than three Directors, all of whom shall be independent non-executive Directors. Membership of the Committee should be contained in the Integrated Annual Report.
- 3.2 A member of the Committee shall be entitled to nominate another person, provided that such person is an independent non-executive Director of the Company, to act as an alternate member of the Committee during the member's absence or inability to act as member.
- 3.3 The shareholders of the Company shall have the power at any time to remove any member from the Committee and to fill any vacancy so created.
- 3.4 The Chairman shall be an independent non-executive Director and shall be appointed by the Board. The Chairman shall have the requisite business,

financial and leadership skills. The chairman of the Company shall not be eligible for appointment as Chairman of the Committee

- 3.5 The members of the Committee must be financially literate and should have financial qualifications to fulfil their duties, including an understanding of the following: financial and sustainability reporting; internal financial controls; external audit process; internal audit process; corporate law, risk management; sustainability issues; information technology governance as it relates to integrated reporting; and governance processes within the Company. The Committee should keep up-to-date with developments affecting the required skill set.
- 3.6 The Committee shall have the power to appoint such other members, subject to shareholders' approval, as they deem necessary for its proper functioning. The Committee, in carrying out its tasks under these terms of reference, may obtain such outside or other independent professional advice, as it considers necessary to carry out its duties.
- 3.7 The Committee may determine any invitees it requires from time to time. Representatives from Massmart's majority shareholder, Walmart, are permanent invitees to Committee meetings.
- 3.8 The quorum for decisions by the Committee shall be any two members of the Committee present throughout the meeting of the Committee.
- 3.9 The Company Secretary shall be the secretary of the Committee.

#### **4. Role and responsibilities of the Committee**

##### **4.1 General**

- 4.1.1 The formal lines of authority, and approval levels, of the Committee are documented in the Governance Authorities.
- 4.1.2 The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee and provide it with all information it requests.

- 4.1.3 The Committee has authority to meet with the internal auditors and / or external Auditors without management of the Company being present.
- 4.1.4 The Committee must have access to any information it needs, the right to seek independent advice and the power to investigate any matter within the ambit of its authority.
- 4.1.5 The purpose of the Committee is to assist the Board in discharging its duties relating to:
  - 4.1.5.1 evaluating financial risk;
  - 4.1.5.2 maintaining adequate accounting records;
  - 4.1.5.3 the operation of adequate financial and administration systems including internal control;
  - 4.1.5.4 complete and accurate reporting to shareholders and other Stakeholders and provision of financial statements in compliance with all applicable legal requirements and accounting standards; and
  - 4.1.5.5 compliance with relevant laws, regulations and procedures.
- 4.1.6 Notwithstanding anything contained in this Charter to the contrary, the Committee is solely responsible for its statutory duties in terms of the Companies Act, in particular the Committee is solely responsible:
  - 4.1.6.1 to nominate, for appointment as Auditor of the Company, a registered auditor who, in the opinion of the Committee, is independent of the Company;
  - 4.1.6.2 to ensure that the appointment of the Auditor complies with the provisions of the Companies Act and any other legislation relating to the appointment of auditors;
  - 4.1.6.3 to determine the fees to be paid to the Auditor and the terms of engagement of the Auditor;

- 4.1.6.4 for the approval of the appointment of internal auditors if the function is outsourced, and of the head of internal audit function if the internal audit function is in-house;
- 4.1.6.5 to determine, subject to the provisions of the Companies Act, the nature and extent of any non-audit services that the Auditor may provide to the Company, or that the Auditor must not provide to the Company, or a related Company;
- 4.1.6.6 to pre-approve any proposed agreement with the Auditor for the provision of non-audit services to the Company;
- 4.1.6.7 to prepare a report, to be included in the annual financial statements for that financial year:
  - 4.1.6.7.1 describing how the Committee carried out its functions;
  - 4.1.6.7.2 stating whether the Committee is satisfied that the Auditor was independent of the Company; and
  - 4.1.6.7.3 commenting in any way the Committee considers appropriate on the financial statements, the accounting practices and the internal financial control of the Company;
- 4.1.6.8 to receive and deal appropriately with any concerns or complaints, whether from within or outside the Company, or on its own initiative, relating to:
  - 4.1.6.8.1 the accounting practices and internal audit of the Company;
  - 4.1.6.8.2 the content of auditing of the Company's financial statements;
  - 4.1.6.8.3 the internal financial controls of the Company; or
  - 4.1.6.8.4 any related matter;
- 4.1.6.9 to make submissions to the Board on any matter concerning the Company's accounting policies, financial control, records and reporting; and

4.1.6.10 to perform such other oversight functions as may be determined by the Board.

4.1.7 With the exception of items above, the Committee shall not perform any management functions or assume any management or Board responsibilities, but shall have an objective independent role and shall submit recommendations as appropriate to the Board for approval or final discussion.

4.1.8 The Committee will ensure that there is a readily available mechanism for the general public to confidentially contact the Committee to query or complain about the disclosure or content of any of the Company's financial reporting.

#### 4.2 **Audit responsibilities - general**

4.2.1 Management should bring to the Committee's attention any relevant significant internal audit, forensic audit and external audit findings and the remedial action that has been taken.

4.2.2 The Committee has oversight of the activities of the Company's internal audit function and the external audit function.

4.2.3 The Committee shall act as a channel of communication between the Board, management and the internal auditors and external Auditors.

4.2.4 The responsibilities of the Committee shall be:

4.2.4.1 to review the internal control structures including financial control, accounting systems and reporting;

4.2.4.2 to review the Group's statement on internal control systems prior to endorsement by the Board and in particular reviewing:

4.2.4.2.1 the Group's policies for preventing and detecting fraud;

4.2.4.2.2 the Group's policies for ensuring that the Group complies with relevant regulatory and legal requirements;

4.2.4.2.3 the operational effectiveness of the policies and procedures;

- 4.2.4.3 to review the quality of reporting to shareholders (to the extent practicable) of corporations in which the Company is invested to satisfy itself of the validity thereof;
- 4.2.4.4 liaison with external Auditors (see 4.3 below) and internal auditors (see 4.4 below);
- 4.2.4.5 monitoring and ensuring compliance of the Group with the laws and regulations of applicable statutes and of controlling bodies and all legal requirements; and
- 4.2.4.6 monitoring compliance of the Company's code of conduct and the ethical conduct of the Company, the Group, Group executives and senior officials and identification of any violations of ethical conduct.

#### 4.3 **External audit**

The Committee shall:

- 4.3.1 When nominating an Auditor for appointment (as envisaged in clause 4.1.6.1) in considering whether a registered auditor is independent of the Company, the Committee must:
  - 4.3.1.1 ascertain that the Auditor does not receive any direct or indirect remuneration or other benefit from the Company, except (i) as Auditor; or (ii) for rendering other services to the Company, to the extent permitted in terms of section 94(7(d)) of the Companies Act;
  - 4.3.1.2 consider whether the Auditor's independence may have been prejudiced (i) as a result of any previous appointment as Auditor; or (ii) having regard to the extent of any consultancy, advisory or other work undertaken by the Auditor for the Company; and
  - 4.3.1.3 consider compliance with other criteria relating to independence or conflict of interest as prescribed by the independent regulatory board for auditors established by the Auditing Profession Act, 26 of 2005, in relation to the Company's Group. In the event that the annual general meeting appoints a different auditor to the one



nominated by the Committee, the appointment will not be valid unless the Committee is satisfied that the proposed auditor is independent of the Company;

- 4.3.2 discuss and review with the external Auditors before the audit commences, the Auditors' engagement letter, the terms, nature and scope of the audit, function, procedure and engagement. The Committee should review the overall audit role to explore objectives, minimise duplication and discuss implications of new auditing standards;
- 4.3.3 in relation to the non-audit services referred to in clause 4.1.6.5, negotiate procedures, subject to agreement beyond minimum statutory and professional duties and pre-approve the proposed contract with the Auditor in respect of all non-audit services to be rendered. The Committee shall ensure, in relation to such non-audit services provided by the designated Auditor that the Auditor appointed shall not, for the duration of the appointment, perform any bookkeeping, accounting or internal audit services and, to the extent that these would be subject to its own auditing, tax advisory services for the Company. The Committee shall keep the nature and extent of non-audit services under review, seeking to balance the maintenance of objectivity with value for money;
- 4.3.4 evaluate the performance of the Auditors;
- 4.3.5 agree to the timing and nature of reports from the Auditors;
- 4.3.6 give directive to Auditors to address areas of concern, in addition to the Auditors' minimum statutory and professional duties and consider any problems, identified in regard to the Company's going concern status or matters of internal control;
- 4.3.7 consider and approve the appropriateness of accounting policies and their implementation, accounting treatments, significant unusual transactions, or accounting judgments, that could be contentious;
- 4.3.8 identify key matters arising in the Auditors' current year's management letter and satisfying itself that these are being properly followed up;

- 4.3.9 review the adequacy of corrective action in response to significant external audit findings;
- 4.3.10 consider whether any significant ventures, investments or operations are not subject to external audit;
- 4.3.11 obtain assurance from the Auditors that adequate accounting records are being maintained;
- 4.3.12 be advised on discussions between management and the Auditor and consider and discuss any differences of opinion between management and Auditors and deal with any Issues of material or significant investigations and management responses;
- 4.3.13 review management's letter of representation to the Auditors before finalisation of the Integrated Annual Report;
- 4.3.14 when recommending the appointment of the Auditor, consider whether the auditors are accredited as such on the JSE Limited list of auditors as required by the Listings Requirements and periodically consider alternative firms and obtain proposals to facilitate the Committee arriving at its recommendation;
- 4.3.15 monitor the relationship between the Auditors and the Company;
- 4.3.16 consider any questions on the resignation or dismissal of the Auditors;
- 4.3.17 ensure that the Auditor is invited to attend any general meeting of the shareholders at which the financial statements are considered, to answer any question posed to the Auditor at such meeting, relevant to the conduct of the audit.

#### 4.4 **Internal audit**

An important role of the Committee is to monitor and supervise the effective function of internal audit to provide an objective overview of the operational effectiveness of the company's systems of internal control and reporting. This will include:

- 4.4.1 reviewing the objectives and operations of the internal audit function;

- 4.4.2 evaluating the performance of internal audit, its effectiveness and independence;
- 4.4.3 reviewing the internal audit function's compliance with its mandate as approved by the Committee and considering whether the mandate, organisation, resources, internal audit skills and standing of the internal audit function are appropriate to enable the Committee to meet its objectives;
- 4.4.4 reviewing and approving the internal audit charter, internal audit coverage plan and budgets and satisfying itself that the coverage plan makes provision for effectively addressing, the critical risk areas of the business;
- 4.4.5 reviewing the effectiveness of the Group's systems of internal control and business risk management, and monitoring the maintenance of effective, internal control systems by management;
- 4.4.6 considering internal audit reports on the effectiveness of the process for identifying, assessing, and reporting on all significant business and operational risks and the management and mitigation of those risks by the Group and making appropriate recommendations to the Board;
- 4.4.7 reviewing and considering the conclusions and significant matters reported by the internal audit function in relation to financial reporting, corporate governance and internal control;
- 4.4.8 reviewing the adequacy of corrective action taken in response to significant internal audit findings;
- 4.4.9 ensuring that the internal auditor reports at all Committee meetings;
- 4.4.10 reviewing the co-operation and co-ordination between the internal and external audit functions and co-ordinating the formal internal audit work plan with external Auditors to prevent duplication of work;
- 4.4.11 reviewing significant differences of opinion between management and the internal audit function;
- 4.4.12 considering internal audit reports dealing with:

- 4.4.12.1 ensuring maintenance of proper and adequate accounting records;
- 4.4.12.2 controlling the overall operational and financial reporting environment;
- 4.4.12.3 safeguarding the Company's assets against unauthorised use or disposal;
- 4.4.13 directing and supervising investigations into matters within its scope, for example, evaluations of the effectiveness of the Company's internal control, cases of employee fraud, misconduct or conflict of interest;
- 4.4.14 considering and reviewing any difficulties encountered in the course of internal audits including any restrictions in scopes;
- 4.4.15 considering whether the financial, budgets of the internal audit function provide adequate support to enable the Committee to meet its objectives;
- 4.4.16 approving the joint decision of the Directors as regards the appointment / dismissal of the Chief Audit Executive (head of internal audit);
- 4.4.17 providing the Board with an annual written assessment of the effectiveness of the risk management processes, via this Committee, of internal controls and risk management.

#### 4.5 **Financial statements**

- 4.5.1 The Committee shall review the annual financial statements and interim reports, the preliminary report and any other announcement regarding the Group's results or other financial information under its responsibilities to be made public, prior to submission to and approval by the Board, focusing on:
  - 4.5.1.1 Integrated reporting as contemplated in King III;
  - 4.5.1.2 the quality of financial reporting and ensuring that such reporting presents a balanced and understandable assessment of the position performance and prospects of the Group;

- 4.5.1.3 the implementation of new systems;
- 4.5.1.4 any tax and litigation matters involving uncertainty;
- 4.5.1.5 any changes in accounting policies and procedures;
- 4.5.1.6 significant adjustments resulting from the audit including problems and reservations arising from the audit and any matters the Auditor may wish to discuss;
- 4.5.1.7 the basis on which the Group has been determined to be a going concern;
- 4.5.1.8 capital adequacy;
- 4.5.1.9 strength of internal controls;
- 4.5.1.10 compliance with Group accounting standards, local and international, compliance with JSE and legal requirements;
- 4.5.1.11 the appropriateness of major accounting adjustments processed at the year-end;
- 4.5.1.12 compliance with the conditions and covenants of loan agreements;
- 4.5.1.13 reviewing special documents such as prospectuses, rights offers etc as and when prepared;
- 4.5.1.14 in the case of the interim (first six-month) report for determining whether it should be subject to an independent review by the external Auditor and if not the reasons should be tabled at the following Board meeting;
- 4.5.1.15 the content of any accompanying report to shareholders;
- 4.5.1.16 major judgmental areas in any financial information under its responsibilities;
- 4.5.1.17 reviewing significant transactions not directly related to the Company's normal business as the Committee might deem appropriate; and

- 4.5.1.18 reviewing the controls over significant risks.
- 4.5.2 Annually, the Committee will evaluate the FD's expertise and experience, and shall review the expertise and experience of the Group's finance function, and shall disclose this.
- 4.5.3 The Committee shall review the South African subsidiary financial reports and be responsible for subsidiary and managed joint venture audit committee and financial matters unless such subsidiary companies or joint ventures elect to constitute separate audit committees as defined by the Companies Act. The Committee may constitute sub-committees called financial review and compliance committees to assist it in discharging its duties in respect of subsidiaries or divisions by collating and recording the information the Committee requires for its work.
- 4.5.4 The Committee shall receive and deal appropriately with any complaints relating to accounting practices, internal audit, content or auditing of financial statements or to any related matter.
- 4.5.5 The Committee will perform any other functions determined by the Board.

## 5. Meeting Procedures

### 5.1 Frequency

- 5.1.1 The meetings and proceedings of the Committee shall be governed *mutatis mutandis*, by the provisions of the MOI regulating the meetings and proceedings of the Directors, so far as the same are applicable thereto and are not superseded by any of the conditions laid down herein.
- 5.1.2 The Committee shall meet at least three times per year or more frequently as the Committee or circumstances may dictate.
- 5.1.3 Meetings must be held prior to the Board's approval of final financial results and Integrated Annual Report and before the Board's approval of interim financial results.

5.1.4 The Committee will meet with the internal and the external Auditors at least once a year without management or the other Auditor present in order to discuss any issues relevant to the audit.

5.1.5 The external Auditors may request a meeting if they consider that one is necessary.

5.1.6 Meetings in addition to those scheduled may, with the approval of the Chairman, be held at the request of the external Auditors, the chairman of the Company, the CEO, the FD or any Director at the instance of the Board.

## 5.2 **Attendance**

5.2.1 The quorum for decisions of the Committee will be any two members present.

5.2.2 The Chairman, in his/her discretion, may invite such executives, non-executive Directors, senior management and third parties, as appropriate to attend and be heard at meetings of the Committee. The chairman of the Company must be invited to all meetings of the Committee.

5.2.3 The CEO, FD, representatives at the Company's financial management and representatives of the Auditors and internal auditor should attend meetings as invitees and will have unrestricted access to the Chairman or any other member of the Committee as required.

5.2.4 The Committee will ensure that the lead partner of the Auditors has a formal audience with the Board, at least annually.

5.2.5 Other Board members shall also have a right of attendance. The Committee is authorised to require any employee of the Company to attend its meetings, in addition to the attendees specified in 5.2.3 above.

## 5.3 **Agenda and minutes**

5.3.1 The Company Secretary shall circulate the minutes of the meetings of the Committee to all members of the Committee and Directors.

- 5.3.2 Meeting agendas, which will incorporate the minutes of the previous meeting held, shall be prepared and distributed by the Company Secretary in advance, together with sufficient background information to enable the Committee members to appropriately prepare for the meetings.
- 5.3.3 Unless varied by this Charter, meetings and proceedings of the Committee will be governed by the MOI regulating the meetings of Directors and Board Committees.

#### 5.4 **Reporting**

- 5.4.1 The Chairman shall account to the Board for its activities and make recommendations to the Board concerning the adoption of the annual and interim financial statements and any other matters arising from the Committee's responsibilities.
- 5.4.2 The Chairman shall attend the annual general meeting of the Company to answer questions concerning matters within the ambit of the Committee.

#### 6. **Remuneration**

- 6.1 Having regard to the functions performed by the members of the Committee, in addition to their functions as Directors and in relation to the activities of the Committee and pursuant to the specific power conferred upon the Board by the MOI, members of the Committee shall (unless specifically waived in writing) be paid such additional special remuneration in respect of their appointment as shall be fixed by the Board and as approved by shareholders.
- 6.2 The Chairman shall receive a further fee, determined by the Board, in addition to his remuneration as a member.
- 6.3 Such additional special remuneration in terms hereof shall be in addition to the fees payable to Directors.
- 6.4 The Company shall meet all expenses reasonably incurred by the Committee including the fees of any consultant or specialist engaged by the Committee to assist in the performance of its duties.



## 7. **Evaluation**

- 7.1 This Charter will be reviewed annually by the Committee and the Board.
- 7.2 The Committee shall undertake annual self-assessments, which shall include assessments by the Auditors and internal auditors and the FD.