



**STEINHOFF AFRICA RETAIL**  
**CORPORATE GOVERNANCE REPORT 2017**

“Our consolidated approach to corporate governance, at both divisional and group level, remains focused on ensuring that the businesses and affairs of the group are managed in a responsible and ethical manner, to assist with the creation of value in the short, medium and long term, for the benefit of all stakeholders.”

The group has adopted a decentralised management approach and the day-to-day responsibility for ensuring that the group's businesses are managed appropriately rests with divisional management.

The operations and management of the group's businesses have been structured under two divisions, namely:

- Discount and value retail
- Speciality retail

There are defined reporting lines from divisional level to the board of STAR to ensure that the divisions' approach to corporate governance remains in line with group policies. Where required, additional divisional boards and committees will be established to support this approach. However, the ultimate responsibility for ensuring full and effective control of the group's businesses rests with the board.

Decisions on strategy and other material matters are reserved for the board, including but not limited to decisions on the allocation of capital resources to ensure an optimal return on shareholders' funds and the authorisation of procurement capital expenditure, property transactions, borrowings and investments, save where pre-approved materiality levels apply.

The Audit and Risk committee is in the process of finalising a delegation of authority framework, to contribute to role clarity and the effective exercise of authority and responsibilities by management.

### Application of King IV

The King IV Report on Corporate Governance for South Africa 2016 (King IV) replaces, in its entirety, the previous King III Report on Corporate Governance for South Africa 2009 (King III) and is applicable to financial years commencing after 1 April 2017.

On formation of the STAR group, the group's structures and policies were aligned with King IV and a register summarising the application and implementation of the King IV principles by the company and the group is available on the company's website at [www.steinhoffafricaretail.co.za](http://www.steinhoffafricaretail.co.za). This corporate governance report contains additional details of the approach adopted by the company in its application and implementation of the King IV principles.

## THE BOARD OF DIRECTORS

### The board charter

The detailed responsibilities of the board are set out in a formal board charter, which will be reviewed on a regular basis. The charter, which is aligned to King IV and the Companies Act, No 71 of 2008, as amended (the Companies Act), is available on the company's website. The charter sets out the powers of the

board and provides a clear division of responsibilities and the accountability of board members, both collectively and individually.

The responsibilities of the board include responsibility for:

- approving the strategic direction of the group;
- approving the budgets necessary for the implementation of the group's strategic direction;
- defining levels of materiality, reserving specific powers to itself;
- providing effective leadership based on an ethical foundation, including the assumption of responsibility for the governance of ethics;
- setting the tone for ethical leadership, based on an ethical foundation;
- ensuring that a code of ethics is adopted and implemented across the group;
- ensuring that the business of the group are conducted in accordance with the principles of fairness, accountability, transparency, responsibility, competence and integrity;
- serving as the focal point and custodian of corporate governance for the group and ensuring that an appropriate corporate governance framework is adopted and is applied across the group;
- ensuring that the company and the group are seen to be responsible corporate citizens;
- ensuring the adequacy and efficacy of the group's internal control systems and procedures and reporting thereon;
- governing risk in a way that supports the company in setting and achieving its corporate goals;
- ensuring that there is an appropriate, objective and effective risk-based internal audit approach;
- approving STAR's annual financial statements and interim reports and ensuring the integrity of the integrated report;
- considering and, if appropriate, declaring distributions in accordance with the provisions of the Companies Act;
- ensuring appropriate governance of the group's Information Communication Technology systems;
- ensuring that the group remunerates fairly, responsibly and transparently;
- communicating with internal and external stakeholders in a transparent and timely manner; and
- ensuring the overall sustainability of the group.

In carrying out its responsibilities, the board strives to ensure that:

- there is a balance of power and authority at board level and that no single director has undue influence;
- an appropriate balance between strategy, risk, performance and sustainability is maintained;
- an adequate and effective process of corporate governance, including the process of risk and audit management, is established and maintained;
- the consequences of the group's activities do not adversely affect its status as a responsible corporate citizen in the areas of the workplace, the economies in the geographical areas within which it operates, society and the environment;
- reasonable procedures to ensure compliance by the group

with all legislation and regulations which may be material to its businesses and affairs are adopted; and

- an effective and sustainable succession plan is in place for the group's leadership.

### Composition

Details of the board of directors, including a brief curriculum vitae for each director, are given on pages 60 to 63 of the integrated report, which can be viewed on the company's website at [www.steinhoffafricaretail.co.za](http://www.steinhoffafricaretail.co.za).

As at 30 September 2017, the board was comprised of eleven directors, with two executive directors and nine non-executive directors, of whom six were independent non-executive directors. The composition of the board was accordingly in line with King IV, which requires the majority of directors to be non-executive and the majority of non-executive directors to be independent.

### Subsequent changes to the board:

On 5 December 2017, simultaneously with his resignation from the board of the company's majority shareholder Steinhoff International Holdings N.V. (Steinhoff N.V.) Mr MJ Jooste resigned from the board of STAR as a non-executive director.

On 6 December 2017 Mr AB la Grange stepped down from his position as chief executive officer of the company in order to focus on his responsibilities within Steinhoff N.V. and resigned from the board on 24 January 2018. He was replaced on that date as a non-executive director by Mr LJ du Preez. Mr LM Lourens was appointed to the board and as chief executive officer of STAR on 6 December 2017. (Shareholders will be asked to ratify the appointments of Mr Lourens and Mr du Preez to the board at the annual general meeting to be held on 15 March 2018).

On 10 January 2018, Mr V Khanyile, independent non-executive director, resigned from the board.

The directors, individually and collectively, assist the group to realise its strategic objectives, to manage the risks that could threaten the group's ability to provide sustainable long-term growth to stakeholders, to maintain and enhance efficiencies within the group's businesses and to support the people who rely on its businesses.

The constitution of the STAR board allows for the chairman and each of the directors, in their individual roles, to bring significant influence to bear on board and, where appropriate, committee deliberations on the strategic direction of the group. The board is satisfied that the composition of the board reflects the appropriate mix of knowledge, skills, experience, diversity and independence.

There is a clear division of responsibilities at board level to ensure an appropriate balance of power and authority and no individual director has undue influence over decision-making. Whilst professional advisors, officers or members of staff whose input may be required from time to time to provide insight on key

aspects may be invited to attend a specific board meeting or part thereof, there nevertheless remains a clear division between the responsibilities of the board and of management and/or advisors.

### Chairman and chief executive officer

The independent non-executive chairman of the board is Mr J Naidoo. During the period under review and up to 6 December 2017 Mr AB la Grange served as the chief executive officer (CEO). The position of chief executive officer was filled by Mr LM Lourens with effect from 6 December 2017.

The roles of the chairman and the CEO have been formally defined and are separate. The chairman is responsible for leadership of the board and for ensuring that the board plays an effective role, facilitating communication with shareholders and constructive relations between the executive and non-executive directors. The CEO provides leadership to the executive team in managing the group's businesses. The chairman and the CEO are appointed by the board. The chairman's appointment is reviewed annually and if appropriate, confirmed by the board (refer page 7).

### Appointment requirements

Appointments to the board are based on levels of skill, acumen, experience and actual or potential contributions to the group, having due regard to employment equity and gender diversity requirements. The board, on the recommendation of the nomination committee, has adopted a gender diversity policy and, in identifying suitable candidates for appointment as directors, will consider appropriate female candidates, having due regard to merit considerations, including experience in the retail industries in which STAR operates, and the requirements of the board. Non-executive directors are required to dedicate sufficient time to STAR board matters and may serve on other boards, provided that such other appointments do not create a conflict of interest or interfere with their duties to the STAR board, but rather afford the ability to add value by bringing a broader dimension to board deliberations.

A policy on racial diversity at board level will be adopted by the board during 2018, in line with the listings requirements of the JSE Limited.

### Appointment process

Appointments to the board are formal and transparent. Proposals for election/re-election to the board are, after review, recommended by the nomination committee and are considered by the board as a whole, subject to the approval/ratification of shareholders.

The memorandum of incorporation of the company provides that, at every annual general meeting of the company, the number nearest to but not less than one-third of the non-executive directors shall retire from the board by rotation. If eligible, such

directors may offer themselves for re-election. If a director is appointed as an executive director or as an employee of the company in any other capacity, he or she shall not, while he or she continues to hold that position or office, be subject to retirement by rotation.

At the annual general meeting of shareholders to be held on 15 March 2018, shareholders will be asked to confirm the re-election of the following non-executive directors who will be retiring in accordance with the provisions of the company's memorandum of incorporation, but are eligible and available for re-appointment:

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*Mr DM van der Merwe*

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*Mr J Naidoo*

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*Mr SH Müller*

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The proposed re-election of the above directors has received the support of the nomination committee.

Brief curricula vitae of the directors standing for re-election or ratification of their appointments at the forthcoming annual general meeting are contained on pages 60 to 63 of the integrated report.

#### **Classification of independent non-executive directors**

Ms HJ Sonn and Messrs J Naidoo, VP Khanyile\*, SH Müller, AE Swiegers and JB Cilliers have been classified as independent non-executive directors in accordance with the classification guidelines detailed in King IV and the necessity to ensure a balanced board. This classification was undertaken on a substance-over-form basis, adopting a holistic approach. The board is satisfied that these directors display independence of mind in their decision-making, that they are independent in character and judgement and that there are no relationships or circumstances which could affect, or could appear to affect, their independence.

*\* Mr Khanyile resigned from the board on 10 January 2018.*

As at the date of this report, the majority of the directors of the company remain non-executive and the majority of the non-executive directors are independent.

#### **Board meetings and attendance**

During the period from the listing of STAR on the JSE Limited on 20 September 2017 to the financial year end on 30 September 2017, no quarterly board meetings were required. Going forward, the board will meet at least four times a year or more often if necessary. Should circumstances so require, directors may meet without the executive directors being present. Subsequent to the financial year end, a scheduled board meeting was held on 30 November 2017, which meeting was attended by all directors.

Directors declare their interests in contracts and other appointments at all board meetings. Meetings are conducted according to a formal agenda, ensuring that the board properly addresses and follows up on all substantive matters.

#### **Director induction and development**

Directors are provided with an induction manual and guidelines on their duties as a director. If required, meetings are arranged with the chairman, other directors and/or senior group executives to enable directors to familiarise themselves with the group's businesses. Ongoing development includes management forums, access to internally and externally run seminars and the circulation of relevant industry, regulatory and economic news and analyses.

#### **Directors' access to management information**

All directors are afforded unrestricted access to management, including the company secretariat. Independent professional advice is available in appropriate circumstances and at the company's expense. During the period under review, none of the directors independently sought external advice paid for by the company.

#### **Directors' remuneration**

Details of the remuneration for executive directors and fees payable to the non-executive directors for the year ended 30 September 2017 are contained in note 25 to the financial statements and on pages 67 to 69 of the integrated report.

Non-executive directors receive fees for their board and committee participation. Details of the fees paid to the non-executive directors for the period under review including fees for service on the board committees, are reflected in note 25 to the financial statements on page 64. It is proposed that directors' fees be kept unchanged for the 2018 financial period, except for additional fees to be paid for special board and/or committee meetings attended by non-executive directors (excluding travel and preparation time) and not applicable in respect of scheduled board and committee meetings, as detailed in the remuneration report on page 69 of the integrated report. The proposed fees for the forthcoming period, which have been recommended by the human resources and remuneration committee and the board, will be submitted to shareholders for consideration at the annual general meeting to be held on 15 March 2018. All reasonable travelling and accommodation expenses to attend board and committee meetings are paid by the company in respect of scheduled meetings.

The non-executive directors do not have service contracts and are not members of the group's retirement funding schemes. There are no shares in STAR or options over shares in STAR held by the non-executive directors under the group's share incentive schemes. As at the date of this report, no share rights have been granted under STAR Performance Share Plan and the number of shares that may be utilised for purposes of the scheme remains unchanged at 500 000 000.

#### **Chief financial officer**

The chief financial officer of the company is Mr RG Hanekom. The audit and risk committee are satisfied that Mr Hanekom possesses the appropriate experience and qualifications for this position. A review of the function of the chief financial officer has

been undertaken by the audit and risk committee, as detailed in the report of the audit and risk committee in the financial statements on pages 7 to 9.

**Executive committee**

An executive committee has been established with primary responsibility for assisting and advising the CEO in implementing the strategies and policies determined by the board and in managing the business and affairs of the company, prioritising the allocation of capital, technical and human resources and ensuring best management practices. The CEO may adjust the composition of the executive committee from time to time to ensure that they receive the appropriate assistance and advice.

The committee, which is chaired by the CEO, is comprised of the following persons, appointed from time to time: the chief financial officer, the divisional CEOs, the group executive: Investor Relations, and the chairperson of the Property Committee. The committee meets regularly, usually on a monthly basis. The chairman of the board and other group executives may attend committee meetings by invitation.

**BOARD COMMITTEES**

**Audit and risk committee**

The board has appointed an audit and risk committee which operates under terms of reference that are aligned with the requirements of the Companies Act and King IV. These terms of reference and policy are reviewed regularly.

The report of the audit and risk committee for the period under review is available on page 7 of the company's annual financial statements.

The audit and risk committee has the responsibility of reviewing the finance function and has satisfied itself as to the expertise, resources and experience of the company's finance function and the experience and qualifications of the chief financial officer. It is also this committee's responsibility inter alia to ensure the integrity of the group's financial and integrated reporting and that appropriate risk management and control systems are maintained, to consider significant risk and control issues, to recommend the appointment of the external auditors, to determine the fees payable for the external audit, to review and approve the plan for the external audit and to appoint and to review the plan and performance of the internal auditors.

The audit and risk committee has assessed the group's internal audit function, which is periodically subjected to an independent quality review, and is satisfied in principal that the internal audit function has been carried out in accordance with its charter and to the standard required. For the majority of STAR's businesses, internal audit is conducted as an in-house function. However, at

certain of the group's businesses, including JD Group, JD Financial Services and Steinbuild, internal audit has been outsourced.

The charter of the internal audit function has been aligned with the requirements of King IV. The committee receives communications from the appointed group internal audit manager on the results of the internal audit activities and other matters deemed necessary. If required, private meetings between the committee and the appointed group internal audit manager, without management present, are convened. No such meetings were requested during the period under review.

The committee has decision making authority with regard to its statutory duties and is accountable in this respect to both the board and the shareholders.

The chairman of the committee is appointed by the board. The members of the audit and risk committee are:

<i>Mr AE Swiegers* (chairman)</i>
<i>Mr SH Müller*</i>
<i>Mr JB Cilliers*</i>

*\* Independent non-executive directors*

The re-election of these committee members, which has received the support of the nomination committee and the board, is subject to the approval of shareholders at the annual general meeting to be held on 15 March 2018. The CEO, the chief financial officer, the relevant internal audit representatives and the external auditor will regularly attend committee meetings. An inaugural meeting of the committee was held on 29 November 2017, which meeting was attended by all committee members, together with the above-mentioned invitees.

The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference and, in particular, has satisfied itself as to:

- The quality of the external audit. The external audit plans have been approved by the committee. Progress against these plans is monitored by the committee and there are direct lines of communication between the external auditors, the committee chairman, the committee and the board. The reports of the external auditor are reviewed and discussed in detail at committee meetings.
- The arrangements in place for and the effectiveness of combined assurance. The committee receives regular reports from the external and internal auditors.

During the period under review, there was no requirement to hold a committee meeting. A scheduled committee meeting was held on 29 November 2017, which was attended by all three members of the committee.

### Human resources and remuneration committee

The committee operates under terms of reference that are aligned with King IV. The terms of reference are reviewed on a regular basis.

Details of the group's remuneration policy are contained in the remuneration report on pages 64 to 69 of the integrated report.

The human resources and remuneration committee is responsible for determining and approving the group's general remuneration policy, which is presented at each annual general meeting for a non-binding advisory vote by shareholders. The committee is responsible for making recommendations to the board on the company's framework of executive remuneration, including the remuneration packages of certain senior managers and the packages for each of the executive directors and for ensuring that incentives are appropriately structured and awarded, so as to drive the group's performance and assist the group in reaching its strategic goals in the short, medium and long term. Meetings of the committee are attended by, as invitees, the chief executive officer, the chief financial officer, the group human resources executive together with the relevant divisional management.

To assist the human resources and remuneration committee in the fulfilment of its duties, divisional sub-committees may be established, with a reporting line through to the committee.

The members of the committee during the period under review were:

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Mr SH Müller (chairman)\*

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Mr J Naidoo \*

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Mr MJ Jooste \*\*

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\* Independent non-executive directors

\*\* Non-executive director. Mr Jooste resigned from the board and from the committee on 5 December 2017 and was replaced on the committee by Mr DM van der Merwe, effective 10 January 2018.

The composition of the committee, which has been reviewed and approved by the nomination committee, meets with the recommendations of King IV, namely that the committee be comprised of non-executive directors, the majority of whom should be independent non-executive directors.

Key areas of focus going forward will include employment equity and the training and development of employees.

During the period under review, there was no requirement to hold a committee meeting. Committee meetings will be scheduled, as appropriate, for the forthcoming period.

### Social and ethics committee

The board recognises that social and transformation issues are crucial for the sustainability of the group and that continued investment in its employees and the communities within which it operates is key to the ongoing viability of the group's businesses. King IV requires the board to govern the ethics of the company and the group in a way that supports the establishment of an ethical culture.

The requirement for the company to appoint a social and ethics committee was fulfilled during the period under review by the Steinhoff Investment Holdings Limited Governance and Sustainability Committee. Ms HJ Sonn is the Company's appointed representative on this committee. During the period under review, the committee held a meeting on 16 May 2017, which was attended by certain divisional executives from entities that were subsequently incorporated into the STAR group.

Matters considered at the meeting included:

- A revised communications policy, including guidelines on the use of social media. The policy was reviewed and an amended version, to include a crisis communications section/procedure and setting stringent conditions for the use of social media platforms, together with a policy on communications with analysts, was subsequently adopted.
- A revised corporate social investment policy was reviewed and recommended to the board for approval. Initiatives are driven at divisional level in the communities where STAR conducts its operations, with the committee acting in a monitoring and oversight role via feedback from the divisions to the committee. Key areas of focus remain child welfare, health and education.
- There were no issues of significant concern re health, safety and environmental matters relating to any of the entities that were subsequently incorporated under STAR that needed to be brought to the attention of the committee.
- Employment matters, including employment equity, labour law amendments and retirement funding, including where appropriate, gender diversity, remain an area of particular focus.
- Revisions to the Broad-Based Black Economic Empowerment Act No 53 of 2003 and the progress with the group's transformation initiatives and compliance with legislation.
- The internal ethics, fraud and hotline reports for the group. There were no relevant issues of significant concern noted by the committee

The committee operates under terms of reference that incorporate the functions ascribed to the committee under regulation 43 (5) of the Companies Regulations 2011 and which are aligned with King IV. During the period under review, there were no issues arising from the activities of the committee that required further consideration by the board.

Going forward, in the interests of corporate governance, due consideration will be given to the establishment by the company of a separate STAR Social and Ethics Committee.

### Nomination committee

The committee's terms of reference have been aligned with King IV and the committee has the responsibility *inter alia* of reviewing:

- The composition and performance of the board;
- The classification of the non-executive directors;
- The continuance in office of directors who have served on the board for longer than nine years;
- The rotation of directors;
- The composition of the board committees;

- Succession planning in respect of the directors; and
- The training and development needs of the directors.

The members of the committee during the period under review were:

<i>Mr J Naidoo (chairman)*</i>
<i>Mr VP Khanyile*</i>
<i>Mr DM van der Merwe **</i>

\* Independent non-executive directors. Mr Khanyile resigned from the board and from the committee on 10 January 2018 and was replaced on the committee by Mr JB Cilliers, effective 10 January 2018  
 \*\* Non-executive director.

The composition of the committee meets with the recommendations of King IV i.e. that the committee be comprised of non-executive directors, the majority of whom should be independent non-executive directors.

The committee shall meet annually or as required. The board and board committee compositions will be regularly reviewed by the committee, to confirm that the board and its committees are of an appropriate size, composition and balance, taking into account specific board and committee requirements, the diversity of the group, the gender diversity policy at board level as detailed above under "Appointment Requirements" on page 3, and the qualifications, skills and experience of the board and committee members.

No formal committee meeting was held during the period under review. Scheduled meetings will be held in 2018.

**Board and committee evaluations**

Board and committee evaluations will be undertaken in 2018 on completion of a full year of service; the majority of the directors having been appointed on 18 August 2017.

**ACCOUNTABILITY**

The CEO is responsible for and accountable to the board for all group operations. As the group operates on a decentralised basis, divisional CEOs have been appointed to the executive committee to assist the CEO in fulfilling his responsibilities.

Although the board has delegated certain powers and authorities to executive management and to board committees, the ultimate responsibility for retaining full and effective control of the group rests with the board.

**COMPANY SECRETARY**

The company secretary is appointed by the board. The company secretary is Steinhoff Secretarial Services Proprietary Limited.

The board has reviewed the appointment of the company secretary and has considered, on an individual basis, the curricula vitae and performance of the directors comprising the board

of Steinhoff Secretarial Services Proprietary Limited and the performance of that board as a whole, and has satisfied itself as to the competence, qualifications and experience of the company secretary and that no circumstances have arisen, or have come to the attention of the board, which would bring into question the maintenance of an arms-length relationship between the company secretary and the board. As part of this review, the board confirmed that that the company secretary performs the role of gatekeeper of good governance in the company and that, to the best of the board's knowledge, having made reasonable enquiries, no incidences of non-compliance by the company secretary with regulatory or legislative corporate governance requirements have taken place. The company secretary has unfettered access to the board, whilst maintaining an arms-length relationship with the board and the individual directors.

The board of directors of Steinhoff Secretarial Services Proprietary Limited is comprised of:

<i>Mr MC Dalrymple</i>	<i>BA BProc</i>
<i>Ms MAHEY Girard</i>	<i>BA LLB</i>
<i>Mr CT Grové</i>	<i>BCOM SEP</i>
<i>Mr SJ Grobler</i>	<i>BComm (Hons) (Economics) LLB</i>
<i>Ms JC Nel</i>	<i>BLC LLB LLM</i>
<i>Ms JV Radnay</i>	<i>FCIS H Dip (Company Law)</i>
<i>Mr P Robinson</i>	<i>CA (SA) H Dip (International Tax)</i>
<i>Mr JMWR Pieterse</i>	<i>BA (Linguistics) BCom (Law)</i>
<i>Ms CA Morrison</i>	<i>BBA (Business Admin)</i>

All directors have access to the advice and services of the company secretary. The company secretary is responsible for the duties set out in section 88 of the Companies Act and for ensuring compliance with the Listings Requirements of the JSE Limited. The board is of the opinion that the arrangements in place for accessing professional corporate services by the board and its directors are effective.

The company secretary has been appointed as secretary of the standing committees of the board.

The certificate required to be signed in terms of section 88(2) of the Companies Act appears in the financial statements on page 2 of the financial statements.

**REPORTING  
Management reporting**

Divisional management reporting disciplines include defined parameters for the reporting of litigation matters, compliance with legislation, any penalties incurred and risk analyses together with the preparation of annual budgets, which are approved by the board. Operational and financial performance against the approved budgets is reported on a monthly basis by the divisions to corporate office. Profit and balance sheet projections are reviewed

regularly and capital and borrowing levels are monitored on an ongoing basis.

Divisional management is additionally charged with the responsibility of reporting on risks and opportunities and on social, ethical and environmental concerns. Risk reports are reviewed by the divisional boards / management boards / executive committees and major risks identified are brought to the attention of the audit and risk committee and the board.

### Financial control and reporting

The board is responsible for ensuring that the group companies maintain adequate records, and for reasonable, accurate, timely and reliable reporting on the financial position of the group and on the results of its activities. To assist the board in effectively discharging this duty, financial reporting procedures and disciplines have been put in place at all levels across the group.

The board is responsible for ensuring that reports issued by the company enable stakeholders to make informed assessments of the group's performance and prospects.

### RISK MANAGEMENT

While the board is accountable for the governance of risk management within the group and for ensuring compliance with all applicable legislative and regulatory requirements, divisional management is responsible for implementing the necessary controls and for managing risk at the business level. The board determines the group's appetite for risk, monitors the adequacy and effectiveness of the group's risk management procedures, reviews any significant risks identified and considers the necessity for further investigation of opportunities revealed.

The audit and risk committee oversees group risk management. Internal audit examines, evaluates and reports on and makes recommendations to the audit and risk committee and the board regarding the adequacy and effectiveness of the group's risk management processes.

Financial risks such as interest rate risk and liquidity risk are largely controlled centrally. Exchange rate risk is controlled via a central policy.

### INTERNAL CONTROL SYSTEMS

The group's systems of internal controls, which are embedded in all key operations, provide reasonable assurance that the company's business objectives will be achieved, subject to defined risk tolerance levels. The board has delegated implementation of the group's systems of risk management and internal financial control to executive management. The responsibility for ensuring the effectiveness of the internal control systems across the group rests with the board.

The group undergoes a comprehensive annual planning and budgeting system and divisional annual budgets are approved

by the board. There is a financial reporting system which compares actual results achieved with monthly budgets, in order to identify any deviations from approved plans and to allow for timely corrective action to be taken. Review of monthly financial performance is a standing item on the executive committee agenda.

The appointed group internal audit manager will be required to provide the audit and risk committee with written assurance that the controls, governance, information communication technology, risk framework and regulatory compliance environments evaluated across the group are adequate in design and reasonably effective in their operation.

Where practicable, taking into account the diversity and geographical spread of the group's operations, a unified approach to the group's control systems has been adopted.

### INTERNAL AUDIT

Internal audit provides an independent, objective assurance and consulting service to the group, designed to add value and improve operations. It assists the group to accomplish its objectives by bringing a systematic, disciplined approach in order to evaluate and improve the effectiveness of risk management, internal control and governance processes, in compliance with corporate governance standards required by the board and the audit and risk committee.

Internal audit reports administratively to the Chief Financial Officer and functionally to the chairman of the audit and risk committee. The internal audit function assists executive management and the audit and risk committee in the effective discharge of their responsibilities by means of independent reviews of financial and information communication technology, internal controls and operational systems. Compliance with applicable legislation is an item on all audit and risk committee and board agendas and is evaluated and formally reported on by internal audit as part of their audit programme.

Should this be required, specialised internal audit services, for example relating to the field of information communication technology, may be co-sourced to outside service providers with the specific expertise required.

The appointed group internal audit manager has provided the audit and risk committee with written assurance that the internal audit programme conducted during the period under review was completed in line with the internal audit charter and recognised internal audit methodology.

The internal audit activity is governed by adherence to the Institute of Internal Auditors' mandatory guidance, including the definition of internal auditing, and core principles of the International Standards for the Professional Practice of Internal Auditing. Internal Audit is required to:

- Demonstrate integrity;
- Demonstrate competence and due professional care;
- Be objective and free from undue influence (i.e. Be independent);
- Align with the strategies, objectives and risks of the organisation;
- Be appropriately positioned and adequately resourced;
- Demonstrate quality and continuous improvement;
- Provide risk-based assurance;
- Be insightful, pro-active and future focused; and
- Promote organisational improvement.

The Institute of Internal Auditors' practice advisories, practice guides, and position papers are also adhered to, as applicable, and guide the provision by Internal Audit of its services.

Should the appointed group internal audit manager wish to discuss any findings, they have unrestricted access to the chairman of the audit and risk committee and are afforded the opportunity to meet with the committee without any executives or management representatives present.

Internal audit is viewed across the group as a value-add service and the internal auditors liaise with management in order to develop or improve control systems. The co-operation between management and internal audit facilitates ongoing control system improvements.

No material breakdowns in internal controls across the group were highlighted by internal audit during the period under review.

### EXTERNAL AUDIT

The report of the external auditor for the period under review, which details the key audit matters, is available on pages 10 to 13 of the annual financial statements.

The external auditors report on their audit findings to the audit and risk committee. Should the external auditors wish to discuss any findings, they have unrestricted access to the chairman of the audit and risk committee and are afforded the opportunity to meet with committee members without any executives or management representatives present.

The external auditor has confirmed in writing its independence in undertaking the audit for the period under review, including the provision of non-audit services and the audit and risk committee concurs with this confirmation. A policy for the use of the external auditor for non-audit services is in place and will be reviewed on a regular basis. During the period under review, fees earned by the external auditor for non-audit services amounted to R6.448 million, and relate mainly to work performed on the listing of the company, tax work and turnover certificates.

The re-appointment of Deloitte & Touche as the company's auditor, with Mr D Steyn, a registered auditor and designated audit partner

of Deloitte & Touche as the individual who will undertake the audit for the financial year ending 30 September 2018 has been recommended by the audit and risk committee and will be a matter for consideration by shareholders at the annual general meeting to be held on 15 March 2018.

Additional information on the external auditors is contained in the report of the audit and risk committee in the financial statements on pages 7 to 9 of the integrated report.

### COMBINED ASSURANCE

The group's combined assurance system includes:

- the receipt by the audit and risk committee of business reports prepared by the divisional management. Should any material contraventions of applicable legislation or regulations take place, or penalties or fines be incurred, details will be included in such reports. ;
- the receipt by the audit and risk committee, as part of the group compliance report, of Safety Health and Environmental (SHE) reports detailing any incidents, issues, injuries or fatalities during the preceding quarter.
- The receipt by the board and the audit and risk committee of internal audit reports, detailing any audit findings made during the preceding quarter
- The receipt by the board and audit and risk committee of year end external audit reports, detailing any audit findings made during the external audit.
- Ad hoc audits/ investigations undertaken by external consultants where specific expertise is required. (Examples include network security auditing and environmental auditing).
- Other gate-keeping roles fulfilled by various levels of management around compliance with risk, legal, ethics, anti-corruption and corporate governance requirements applicable to STAR's operations.

### INFORMATION COMMUNICATION TECHNOLOGY (ICT)

King IV places particular emphasis on the area of ICT and this receives ongoing focused management attention, with ICT forming an important, integral part of the group's management and reporting processes.

A formal charter, setting out the responsibilities and authority that the board delegates to executive management for the effective, efficient and acceptable use and management of ICT resources in order to facilitate the achievement of corporate objectives and to allow for objective evaluation of the corporate governance of ICT throughout the group together with management of the group's ICT related risks, will be developed and implemented in 2018.

The value delivery of ICT across the group is driven by informal processes at divisional level.

As part of its reporting requirements, divisional management reports to the audit and risk committee and the board on the efficacy, suitability and reliability of the ICT systems employed by their division's businesses, with a particular emphasis on risk.

ICT is a standing item on the agendas for the board and audit and risk committee meetings. Via the budget approval process, the board evaluates significant ICT investments and expenditure.

### ETHICS

The group's code of ethics is available on the company's website. The code of ethics, which is reviewed on a regular basis, commits the group and its employees to the highest ethical standards of conduct and to compliance with all legal and regulatory requirements. The code *inter alia* governs conduct relating to:

- Conflicts of interest;
- The acceptance of gifts;
- Bribes and political contributions;
- Record keeping;
- Financial transactions;
- The promotion of competition;
- Compliance with laws;
- Intellectual property;
- Confidentiality; and
- Non-discrimination.

The responsibility for the implementation and execution of the code of ethics is delegated to management. The board exercises ongoing oversight of the management of ethics.

The group has established various confidential whistle-blowing facilities, using dedicated hot lines for the reporting of suspected frauds or irregularities. All reports received are investigated on a confidential basis. Such whistle-blowing facilities have proven their worth in identifying fraud and incidents of unethical behaviour. For this reason, employees will be regularly reminded of the facilities and are urged to report all circumstances or situations where they have reason to suspect fraudulent or unethical activity.

There were no material incidences of non-compliance with the code of ethics or of fines or prosecutions for non-compliance with regulations or legislation during the period under review.

### STAKEHOLDER COMMUNICATIONS AND INVESTOR RELATIONS

STAR values its relationships with both institutional and private investors and a proactive approach has been adopted to ensure that communications relating to the group's operations, structure and strategies are handled appropriately.

Regular and open dialogue with internal and external stakeholders not only informs stakeholders of the group's strategies and goals but also provides the group with input from stakeholders and

informs the group's decision-making, facilitating the building and retention of sustainable, stable and mutually beneficial relationships.

Communications with journalists and analysts are governed by a policy adopted by the company to ensure maintenance of the confidentiality of price-sensitive information on the company.

For more information, please refer to the stakeholder reports on pages 6 to 13 of the integrated report.

### INSIDER TRADING

STAR has an insider trading policy which prohibits directors, prescribed officers and officers of the company and its major subsidiaries from dealing in the company's shares, either directly or indirectly, whilst in the possession of unpublished price sensitive information concerning the business and affairs of the group and its subsidiaries. The policy prohibits the dissemination of price-sensitive information pertaining to the company by employees.

No director, prescribed officer or officer who is privy to such information may trade in the company's shares during embargo periods determined by the board, or during closed periods, and all dealings by such persons in the company's shares must receive the prior approval of the chief executive officer. Dealings in the company's shares by the chief executive officer must receive the prior approval of the chairman and dealings in the company's shares by the chairman must receive the prior approval of the chief executive officer.

A report of any dealings in the company's shares by directors, prescribed officers and officers is tabled at each board meeting and all share dealings by the directors of the company, directors of any major subsidiaries and the company secretary are notified to the JSE Limited for publication on the Securities Exchange News Service (SENS).

### INTEREST IN CONTRACTS

All employees must disclose, as and when appropriate, any interest in contracts to allow for the assessment of any conflict of interest. This policy extends to directors and prescribed officers and declarations of interest are tabled at the commencement of board meetings. The fiduciary duties of the directors to act in the best interests of the company on whose board they serve are understood by the directors and compliance with the provisions of Section 75 of the Companies Act is strictly enforced.

### GOING CONCERN STATEMENT

The group financial statements, as available on the company's website, [www.steinhofafricaretail.co.za](http://www.steinhofafricaretail.co.za), have been prepared on the going concern basis as the directors, after having made enquiries, have a reasonable expectation that the group has adequate resources to continue in operation for the foreseeable future.



[steinhoffafricaretail.co.za](https://steinhoffafricaretail.co.za)