



CORPORATE GOVERNANCE REPORT

**THE BOARD SUBSCRIBES TO ETHICAL LEADERSHIP,
BUSINESS, SOCIAL AND ENVIRONMENTAL
SUSTAINABILITY, STAKEHOLDER INCLUSIVITY AND
SOUND VALUES OF GOOD CORPORATE GOVERNANCE.**

It recognises governance is about effective and ethical leadership, the outcomes of which are sustained value creation, success and longevity. It seeks to go “beyond compliance” through the adoption, integration and embedding of the spirit and principles of governance, namely fairness, accountability, integrity, responsibility and transparency. Effective governance is considered a vital component and contributor to the group’s sustained performance. The group’s governance foundation is based on the combination of voluntary and compulsory guidelines including the principles and practices of the King Code of Corporate Governance for South Africa 2009 (King III) (replaced by King IV in November 2016), the Companies Act, 71 of 2008 (Companies Act) and the JSE Limited Listings Requirements (Listings Requirements).

SUPPORTING MATERIAL LOCATED ON THE GROUP’S WEBSITE: www.mrpricegroup.com

- Board Charter
- Board Committee Mandates
- Policy for the appointment of directors
- Policy for the promotion of gender and ethnicity diversity on the board
- Outline of board, statutory and management committees
- Internal Audit Mandate
- Internal Audit Annual Assurance Statement
- Business and Supplier Codes of Conduct
- King III application register
- Notice of 2017 AGM



GOVERNANCE DEVELOPMENTS IN F2017

During the year under review, the following developments occurred within the internal and external governance landscape:

Governance area	Development during the year
King IV	The King Code of Corporate Governance for South Africa 2016 (King IV) was released on 1 November 2016. Disclosure on King IV application is effective for financial years starting on or after 1 April 2017 and is not applicable to the group for the year under review. The group evaluated governance processes and reporting to identify and action areas for improvement to foster integrated thinking to create value over time. However, the group has evaluated governance processes and reporting in the context of King IV to identify and action areas for improvement to foster integrated thinking to create value over time.
Listings Requirements	In light of the November 2016 proposed amendments to the Listings Requirements, the board proactively adopted a policy for the promotion of gender and ethnicity diversity on the board, in March 2017.
Changes in the Company Secretary	Helen Grosvenor resigned as group company secretary with effect 28 February 2017. Janis Cheadle joined as group company secretary and head of governance on 1 March 2017.
Changes in the board	Mark Bowman was appointed as an independent non-executive director with effect 28 February 2017. His appointment comes as the board seeks to refresh its membership and strengthen its international skills base and is in line with the board's ongoing skills review.
Changes in committee composition for F2018	At the special corporate governance meeting in November 2016, the following changes were approved, effective 1 April 2017: <ul style="list-style-type: none"> Myles Ruck assumed chairmanship of the remuneration and nominations committee from Bobby Johnston. The membership of the committee remains unchanged. Nigel Payne and Myles Ruck were appointed as trustees of the various staff share trusts with the former as chairman. Bobby Johnston and John Swain will temporarily retain their positions as trustees to ensure continuity and will resign in due course. At the March 2017 board and committee meetings, Daisy Naidoo was appointed as a member of the social, ethics, transformation and sustainability committee, effective 27 March 2017.
Lead Independent Director (LID)	In the annual review of the LID position at the November 2016 special corporate governance meeting, the board concluded that Bobby Johnston continue to serve as LID, despite there being an independent non-executive chairman, thereby ensuring a balance of power and authority remains on the board and no one individual has unfettered decision making power.

APPLICATION OF KING III

As mentioned above, and in line with the Listings Requirements, the group continued to apply the principles of King III for the period under review. Accordingly the group reports hereunder on the application of King III.

The group believes in going "beyond compliance" as opposed to simply responding to and complying with rule sets and recommended codes. As such, the group has not blindly followed King III, but carefully considers each and every aspect.

King III is not prescriptive but rather a series of voluntary recommendations which can be adopted on an "apply or explain" basis. The King III application register, providing the group's position on each of the 75 voluntary governance principles outlined by King III, is published on the group's website. There have been no changes to the governance positions reported on for F2016. Accordingly, the board confirms the group's compliance with King III for the period under review, with the exception of the two materially compliant items highlighted below.

Principle	Sub-principle	Compliance Position		Comment
		F2016	F2017	
Principle 2.22 The evaluation of the board, its committees and the individual directors	An overview of the appraisal process, results and action plans should be disclosed in the integrated report.	Materially compliant	Materially compliant	An overview of the performance review process is disclosed in the annual integrated report (AIR). However, the Board is of the opinion that, due to the sensitive nature thereof, it would not be appropriate to disclose the evaluations at the current time.
Principle 2.25 Disclosure of the present value of long-term awards	The remuneration policy should address base pay and bonuses, employee contracts, severance and retirement benefits and share-based and other long-term incentive schemes.	Materially compliant	Materially compliant	Detailed disclosure is contained in the AIR. However, the company does not disclose the present value of long-term awards due to the varied models and unpredictable forecasting element required to determine the value of the share options upon vesting. Nonetheless, it provides sufficient information for stakeholders to determine their own value of the share options applying their own parameters.

The group supports the shift towards an outcomes-based and holistic approach to corporate governance and the consequent mindful application of the principles contained in King IV. The group has undertaken an evaluation of governance and reporting processes to identify and action areas for

improvement to foster integrated thinking to create value over time. Consequently the group will with effect 1 April 2017 apply the governance principles espoused by King IV and report on F2018 by way of an outcomes-based King IV register.



GOVERNANCE AND ASSURANCE STRUCTURE

For the year under review, the head of governance and assurance was responsible for the strategic leadership of the governance, enterprise risk management, internal audit, legal and compliance and company secretariat functions.

Enterprise risk management

A robust model of combined assurance has been adopted in recognition of the need for a coordinated approach to risk management to allow for the effective management, monitoring and mitigation of key risks. This model clarifies the roles and co-ordinates the efforts of management, internal assurance providers and independent assurance providers. In addition, it increases collaboration and facilitates a shared and more holistic view of the group's risk profile. The internal audit function plays a vital role as an independent third line of defence.

Internal audit

The independence, organisational positioning, scope and nature of work of the internal audit function were evaluated by the audit and compliance committee in March 2017 and determined to be appropriate and consistent with the internal audit strategy and mandate. These elements were also evaluated through a self-assessment by the chief audit executive and through an external peer review conducted by the head of internal audit of a leading international services, trading and distribution company. These reviews confirmed internal audit is a well-established and well-run function, having excelled in all the typical key performance areas as required by the professional practices framework, Companies Act and King IV.

There were no impairments to the independence of the internal audit function or scope of work performed. Refer to the internal audit annual assurance statement, on page XX.

Legal compliance

The group is committed to compliance with all applicable laws. To this end, the regulatory universe impacting the group has been defined, confirmed by the group's external legal advisor, Bernadt Vukic Potash & Getz, and delegated to appropriate compliance owners across top and senior management levels in both the trading and support divisions. A risk-based compliance framework has been adopted to provide additional focus on compliance with priority legislation. Annually the audit and compliance committee reviews the legal and compliance assurance statement, which includes the assurance statements of all compliance owners, an outline of the compliance and assurance processes undertaken during the year and any identified gaps and related remedial plans. The social, ethics, transformation and sustainability committee reviews the assurance statement in respect of specific matters falling within the mandate of the committee's focus. Both these Committees confirm that no material non-compliance has been brought to their attention.

Company secretary

The annual review of the company secretary, undertaken in compliance with paragraph 3.84(i) and (j) of the Listings Requirements, usually occurs in March. Given that Janis Cheadle only assumed the position on 1 March 2017, it was premature for the board to evaluate her performance at its March 2017 meeting. However, the board confirms that in appointing Janis Cheadle after an extensive and detailed search over an extended period, they consider her to have the qualifications, skill and level of competence necessary to effectively discharge her responsibilities. Furthermore, in the absence of any existing relationships, she is able to interact with the board and its individual directors at arm's length, and is not a director of the company.

Unbundling of the governance and assurance division

Structural changes to unbundle the governance and assurance function will be progressively effected during 2017. The resultant three specialised functions are as follows:

- Governance and company secretarial - Janis Cheadle joined the group as company secretary and head of governance with effect 1 March 2017 and will strategically lead the governance areas comprising legal and compliance, as well as the company secretarial function.
- Enterprise risk management – this function has been assigned to Verna Botha-Richards, the current head of corporate services and sustainability, effective 1 April 2017.
- Internal audit - a Chief Audit Executive is expected to be appointed by August 2017. Sherene Moodley, previously responsible for both governance and assurance, will leave in July 2017.





UNITARY BOARD STRUCTURE

- Honorary non-executive chairman
- Independent non-executive chairman
- Lead independent director
- 5 Independent non-executive directors
- 1 non-executive director
- 2 Executive directors
- 2 Alternate directors

Rotation of directors

One third of non-executive directors retire annually by rotation. In addition, the appointment of a director to fill a casual vacancy or as an addition to the board, must be confirmed by shareholders at the next annual general meeting (AGM).

Prescribed officers

Stuart Bird and Mark Blair are considered by the board to be the prescribed officers of the group. As CEO and CFO respectively, exercising executive control and general management of the business, all divisional heads report directly to them.

Employment contracts

No directors have fixed-term employment contracts.





Board and committee meetings

The board and its committees meet four times annually to discharge their responsibilities for the overall strategic direction and control of the group. In January the board convenes telephonically to review the Q3 trading results and approve the trading update for SENS publication. In addition, an annual special corporate governance meeting, under the chairmanship of the LID is held to:

- Review and approve the Board Charter
- Review and approve the mandates of the various statutory and board committees
- Consider the independence of directors (impacted directors recuse themselves from the discussion)
- Consider the re-appointment of directors retiring by rotation, with re-appointment being subject to approval of shareholders at the AGM
- Confirm the appointment of the board chairman
- Propose the chairman and members of the audit and compliance committee (subject to approval of the membership of this committee by shareholders at the AGM)
- Confirm the chairmen and members of other committees for the forthcoming financial year
- Define levels of authority, reserving specific powers to the board and delegating other matters with the necessary written authority to management
- Review and approve the Business Code of Conduct and
- Review the level of the group's compliance with the governance principles of King III, the Companies Act and the Listings Requirements governance principles.

Attendance of Directors at board and committee meetings

Generally, all directors attend the AGM and are available to answer shareholders' questions. Bobby Johnston and Myles Ruck were unable to attend the August 2016 set of meetings due to illness and overseas travel commitments respectively. Mark Bowman attended the March 2017 remuneration and nominations and audit and compliance committee meetings and the trading and support divisions strategy presentations, but was unable to attend the March board meeting due to prior commitments of which he advised the chairman at the time of his appointment to the board. Meeting attendance for the period under review was as follows -

Status	Director	Board	Special Corporate Governance	Audit and Compliance	Remuneration and Nominations	Social, Ethics, Transformation and Sustainability
Executive	Stuart Bird	4/4	1/1			4/4
	Mark Blair	4/4	1/1			
Non-executive	Stewart Cohen	4/4	1/1			
	Keith Getz	4/4	1/1		4/4	4/4 ⁵
Independent non-executive	Mark Bowman	0/1 ⁶	N/A			
	Bobby Johnston	3/4	1/1 ²	3/4	3/4 ⁴	
	Maud Motanyane	4/4	1/1			4/4
	Daisy Naidoo	4/4	1/1	4/4 ³		1/1 ⁷
	Nigel Payne	4/4 ¹	1/1		4/4	
	Myles Ruck	3/4	1/1		3/4	3/4
Alternate⁸	John Swain	4/4	1/1	4/4	4/4	
	Neill Abrams	4/4	1/1			
	Steve Ellis	4/4	1/1			

¹ Chairman of the board

² LID chairs the special corporate governance meeting

³ Chairman of the audit and compliance committee

⁴ Chairman of the remuneration and nominations committee.

From 1 April 2017 Myles Ruck assumed chairmanship of this committee.

⁵ Chairman of the social, ethics, transformation and sustainability committee

⁶ Mark Bowman was appointed as a director on 28 February 2017

⁷ Daisy Naidoo was appointed as a member of the SETS committee on 27 March 2017

⁸ Alternate directors are not required to attend each meeting

BOARD'S OVERSIGHT OF RISK MANAGEMENT

The board remains accountable and responsible for the governance of strategy and risk. It is committed to business sustainability and to creating and preserving stakeholder value.

The board recognises the governance of strategy, risks and performance are critical success factors and therefore exercises active oversight of these processes.

Instead of a separate risk committee, the board as a whole considers risk at each of its meetings. The incorporation of the risk agenda into that of the main board allows for a more robust consideration of strategy and associated risk opportunities.

During the year under review, the board fulfilled its risk mandate by meeting four times to discuss the following key risk governance and risk management matters:

Effectiveness of Risk Management

Management is accountable to the board for designing, implementing, monitoring and improving the systems and processes of risk management and integrating these into the day-to-day activities of the group. Management is also accountable for building the competencies and capacity required for a sustainable business.

The board is satisfied the systems and processes in place to govern and manage risk are adequate and that management has generally executed its risk management responsibilities satisfactorily; in particular management has:

- integrated and aligned strategy, risk management, performance and sustainability;
- implemented an adequate and effective risk management framework, which if consistently applied, should guide the group's approach to identifying, evaluating and responding to key



opportunities and risks that may impact on strategic objectives;

- managed risks within the approved appetite and tolerance levels; and
- embedded risk management into the day-to-day activities of the group.

Risk Appetite

The board recognises a well-defined risk appetite is the core instrument for aligning overall corporate strategy, capital allocation, risk and performance. Risk appetite and tolerance are the fundamental concepts that provide the context for strategy setting, entrepreneurial behaviour and the pursuit of group objectives. It is informed by the group culture and clarifies what risks the group can, or is willing to, take and the risks that the group will avoid.

The board has formally defined its appetite for risk and annually reviews this. It confirms an appropriate risk appetite framework and policy remain in place to guide strategy and the engagement of risk.

The Board confirms there were no material deviations from the group's risk appetite in the period.

Key Business Risks and Opportunities

Key business opportunities and risks were discussed comprehensively by the board during the year. The board, having considered the group's key risks, is satisfied strategy and business plans do not give rise to risks not thoroughly assessed by management and confirms there were no undue, unexpected or unusual risks taken by the group and no material losses were incurred during the year.

ACCOUNTABILITY AND RESPONSIBILITY

Performance reviews

The board undertakes an annual series of assessments to monitor performance and identify areas for improvement. The assessment cycle operates over three years with a comprehensive review being undertaken in the first year. From this process, a "Steps for Improvement" document is generated. The assessment of progress made against the steps is conducted over the second and third years of the cycle. This affords sufficient time for improvements to be implemented in the identified areas. In this manner, the group reviews the performance of the following:

- Board
- Chairman of the board
- Chairmen of the committees
- Committees and
- Peer and self-evaluations.

In the year under review a substantive and detailed assessment process was conducted by the LID by means of questionnaires as well as telephonic and personal interviews. Following this process, the LID met with the chairman of the board and the chairmen of the various committees, as well as management, to provide feedback on the results of the assessments. "Steps for Improvement" documents were tabled at the May 2017 meetings, against which progress will be monitored and reviewed over course of the next two years. Overall, the board is satisfied with the performance of the chairman, the committees, and the chairmen of the committees.

On an annual basis, the remuneration and nominations committee assesses the performance of the Chief executive officer (CEO), Chief financial officer (CFO) and group logistics director (who is the alternate director to the CFO). The committee was satisfied with the performance of all three executive directors.

Conflicts of interest and share dealings

As a standing board agenda item, directors are required at the start of each meeting to disclose any conflicts of interest or related party transactions. In addition and at each meeting, each director updates a register of their company shareholdings, other directorships and information regarding any potential conflict of interest. Directors are also required or requested to recuse themselves from discussions on any matters in which they may have a conflict of interest. Non-executive directors cannot participate in the group's share incentive schemes. Furthermore, before dealing in company shares, directors are obliged to obtain the written consent of the chairman or (should the chairman be involved in the transaction or be unavailable for any reason) the LID.

Delegated limits of authority

The board delegates certain authority to management to assist in the execution of its duties, powers and authorities, but without abdicating its own responsibilities. These delegated limits of authority are reviewed annually by the board to ensure they remain aligned to the group's risk appetite and appropriately balance governance oversight with operational efficiency.

Closed and prohibited periods

The group operates a more stringent closed period policy than required by the Listings Requirements and the Financial Markets Act, 19 of 2012. During the defined closed periods, directors, executives and other selected associates are prohibited from dealing in the company's shares. Associates who may have access to confidential or price-sensitive information are cautioned against the possibility of insider trading. Regard is also given to other Listings Requirements in respect of the dealings of directors in the company's shares.

Codes of conduct

Directors and associates are required to maintain the highest ethical standards. On joining the group, every associate receives a copy of the Business Code of Conduct and is required to sign an acknowledgement of acceptance thereof. On an annual basis, all senior associates of the group are required to submit a declaration confirming their continued compliance with the code. Any areas of non-compliance or any perceived conflicts of interest are addressed through the appropriate levels of divisional management, with ultimate reporting to the CEO and the board. For the year under review there were no material conflicts of interest. The code was updated during the year to take into account the recommendations of Transparency International in respect of anti-corruption practices and was approved by the board at the November 2016 special corporate governance meeting.

The Supplier Code of Conduct, which is aligned to the Business Code of Conduct and details the required standards and practices to which suppliers must adhere, was updated during the year to take into account the recommendations of Transparency International in respect of anti-corruption practices and ETI recommendations on supplier sustainability.

BOARD STATEMENT

The board believes, in respect of the business specifically reserved for its decision, it has satisfactorily discharged its duties and responsibilities during the year under review.

Sponsor

Rand Merchant Bank (a division of FirstRand Bank Limited) remains the company's sponsor and, among other functions, advises the board on compliance with the Listings Requirements.