

**WHL**

## APPLICATION OF KING III CORPORATE GOVERNANCE PRINCIPLES 2014

This table is a useful reference to each of the King III principles and how they have been applied by the Group. This register should be read in conjunction with the Governance report contained in the Group's 2014 Integrated Report on pages 102 to 110.

KING III PRINCIPLE	REFERENCE	APPLY	DO NOT APPLY	APPLICATION OF PRACTICE
<b>ETHICAL LEADERSHIP AND CORPORATE CITIZENSHIP</b>				
The Board should provide effective leadership based on ethical foundation.	1.1	✓		The Board has a board charter and appropriate structures and processes in place to ensure that the business is conducted in an ethical manner. The Group's seven values are integrated into the performance management system that is reviewed annually. The company will be reviewing the ethics policy in 2014. An assessment on how the Board has carried out its mandate is conducted annually.
The Board should ensure that the company is and is seen to be a responsible corporate citizen.	1.2	✓		The Good Business Journey programme manages the Group's activities and the integration of social, transformation and environmental activities into the strategy of the Group and has established a corporate social investment programme managed by The Woolworths Trust.
The Board should ensure that the company ethics are managed effectively.	1.3	✓		The company's ethics policy which sets the basis for the implementation of an ethics framework will be reviewed in 2014. The 'Let's Ask' employee survey is conducted annually to test the internal ethics performance of the Group. A supplier code of conduct adopted by our service providers aligns with our Group values.

<b>BOARDS AND DIRECTORS</b>				
The Board is the focal point for and custodian of corporate governance.	2.1	✓		The Board, as stated in its charter, accepts responsibility as custodian for corporate governance for the Group. It has adopted the principles of King III and where the recommendations are not directly applied it has put mitigations and substitutions in place appropriate for the Group.
The Board should appreciate that strategy, risk, performance and sustainability are inseparable.	2.2	✓		In assessing the strategy and performance of the WHL Group, the Board takes cognisance of sustainable development and risk management, which are managed and assessed mainly by the Risk and Compliance and Sustainability committees and reported on at each quarterly Board meeting.
The Board should provide effective leadership based on ethical foundation.	2.3	✓		See principle 1.1 above
The Board should ensure that the company is and is seen to be a responsible corporate citizen.	2.4	✓		See principle 1.2 above
The Board should ensure that the company ethics are managed effectively.	2.5	✓		See principle 1.3 above

## APPLICATION OF KING III CORPORATE GOVERNANCE PRINCIPLES 2014 (CONTINUED)

KING III PRINCIPLE	REFERENCE	APPLY	DO NOT APPLY	APPLICATION OF PRACTICE
The Board should ensure that the company has an effective and independent audit committee.	2.6	✓		The Audit committee is established in terms of the Companies Act and meets quarterly. Committee members are all independent non-executive directors. Shareholders approve the Audit committee members at the Annual General Meeting and the committee Chairman is appointed by the Board.
The Board should be responsible for the governance of risk.	2.7	✓		The Board has accepted its responsibility for the governance of risk and has delegated its responsibility to the Risk and Compliance committee.  The Board comments on the effectiveness of risk management function and processes in the Integrated Report.
The Board should be responsible for IT governance.	2.8	✓		The Board has assumed responsibility for IT governance and has delegated the oversight to the Risk and Compliance committee. The establishment of appropriate IT policy, framework and strategy has been delegated to management. The Board has reviewed and endorsed the IT management framework and strategies which continue to be reviewed and implemented to ascertain their appropriateness. The framework includes the structures, processes and mechanisms that will enable the delivery of value to the business and reduce IT risk. Further, the Board receives independent assurance on the effectiveness of the IT internal controls, including outsourced IT services and ensures that the IT strategy is effectively integrated with the Group's strategic and business processes.
The Board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	2.9	✓		The Board assumes responsibility for the Group's compliance with applicable laws and those non-binding rules, codes and standards that the company has voluntarily elected to comply with.
The Board should ensure that there is an effective risk based internal audit.	2.10	✓		The role of Internal Audit is outlined in the Audit committee terms of reference and the Internal Audit charter. The Internal Audit coverage plan is integrated with the combined assurance model and is approved by the Audit committee on an annual basis. Provision is made for time to be allocated to adhoc special requests by the committee and/or management.
The Board should appreciate that stakeholders' perceptions affect a company's reputation.	2.11	✓		The Board acknowledges that perceptions of stakeholders may negatively impact brand reputation. It considers the legitimate interests of all stakeholders to manage such perceptions and reputational risks.
The Board should ensure the integrity of the company's integrated report.	2.12	✓		The Board, assisted by the Audit committee, assumes responsibility for the Integrated Report and ensures that the report fairly represents the performance of the Group.

## APPLICATION OF KING III CORPORATE GOVERNANCE PRINCIPLES 2014 (CONTINUED)

KING III PRINCIPLE	REFERENCE	APPLY	DO NOT APPLY	APPLICATION OF PRACTICE
The Board should report on the effectiveness of the company's system of internal controls.	2.13	✓		Internal Audit provides a written assessment on the design, implementation and effectiveness of the company's system of internal financial controls on an annual basis. Based on the results of this assessment, the Audit committee is able to form an opinion on whether the internal financial controls form a sound basis for the preparation of reliable financial statements. The Audit committee reports to the Board and this is reported in the Integrated Report by the Board.
The Board and directors should act in the best interests of the company.	2.14	✓		Directors are aware of this legal requirement and every effort is made to ensure that there are no conflicts. All directors are required to disclose their interests prior to the commencement of each board meeting. Prescribed officers' interests are also tabled.
Consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the Act.	2.15	✓		Not applied as it was not required. The Board will consider their responsibilities and the provision of the Act if and when required.
The Board should elect a Chairman of the Board who is an independent non-executive director. The CEO of the company should not also fulfil the role of chairman of the Board	2.16		✓	The Board has appointed a Chairman who is a Non-executive Director who is not independent. In line with King III recommendations, a Lead Independent Director has been appointed who assists in matters where there may be a conflict of interest. The roles of the Chairman and Chief Executive Officer are separate.
The Board should appoint the chief executive officer and establish a framework for the delegation of authority.	2.17	✓		The Group has appointed a Chief Executive Officer who is responsible for the day-to-day operations of the company in line with the Board approved delegation of authority.
The Board should comprise a balance of power, with a majority of non-executive directors.	2.18	✓		WHL has a unitary Board consisting of 15 directors, with ten independent non-executive directors, one non-independent non-executive director and four executive directors.
Directors should be appointed through a formal process.	2.19	✓		Director's appointments are considered by the Nominations committee in the context of appropriate skills and experience for the Board and succession plans. The Nominations committee considers such nominations in the first instance and makes the necessary recommendations to the Board in regard to its findings.

## APPLICATION OF KING III CORPORATE GOVERNANCE PRINCIPLES 2014 (CONTINUED)

KING III PRINCIPLE	REFERENCE	APPLY	DO NOT APPLY	APPLICATION OF PRACTICE
The induction of and ongoing training and development of directors should be conducted through formal processes.	2.20	✓		There is an induction process to ensure new directors are made aware of his/her duties and they are provided with the necessary supporting documentation. A programme is set-up for any new director to ensure that they meet members of the executive committee and key members of management. Site visits to company operations are also organised. The induction process is being reviewed to incorporate formal director development in matters relevant to the business.
The Board should be assisted by a competent, suitable qualified and experienced company secretary.	2.21	✓		The Board is assisted by a competent, suitably qualified and experienced Group Secretary. The Board, through the Nominations committee assess the competency on an annual basis.
The evaluation of the Board, its committees and the individual directors should be performed every year.	2.22		✓	Board and committee evaluations are conducted on a biennial basis due to the time involved in conducting this process on an annual basis. An independent evaluation was conducted during 2013, to assess the Board's performance against local and international best practice.  The performance and independence of directors is assessed prior to their re-election at the Annual General Meeting.  The performance of executive directors is reviewed annually through the Group's integrated performance management process.
The board should delegate certain functions to well-structured committees but without abdicating its own responsibilities.	2.23	✓		The Board has delegated certain functions to the Audit, Nominations, Remuneration, Risk and Compliance, Social and Ethics and Sustainability committees.  The terms of reference for each committee are reviewed and approved by the Board on an annual basis.  The Chairman of each committee reports back to the Board each quarter and committee minutes are circulated to all directors.
A governance framework should be agreed between the Group and its subsidiary boards.	2.24	✓		The Board has a delegation of authority framework in place which considers subsidiary companies. The governance framework is currently being reviewed to ensure that it is still appropriate given the changing landscape of governance and statutory regulations.
Companies should remunerate directors and executives fairly and responsibly.	2.25	✓		The Remunerations committee considers both executive and non-executive directors' remuneration on an annual basis. Benchmarking exercises are conducted to ensure a market related remuneration is paid. Non-executive director's fees are approved by shareholders at the Annual General Meeting.

## APPLICATION OF KING III CORPORATE GOVERNANCE PRINCIPLES 2014 (CONTINUED)

KING III PRINCIPLE	REFERENCE	APPLY	DO NOT APPLY	APPLICATION OF PRACTICE
Companies should disclose the remuneration of each individual director and certain senior executives.	2.26	✓		Directors and prescribed officer's remuneration are tabled in the Annual Financial Statements.
Shareholders should approve the company's remuneration policy.	2.27	✓		The company's remuneration policy is approved by shareholders at its Annual General Meeting through a non-binding vote.

AUDIT COMMITTEE				
The Board should ensure that the company has an effective and independent audit committee.	3.1	✓		See principle 2.6 above
Audit committee members should be suitably skilled and experienced independent non-executive directors.	3.2	✓		See principle 2.6 above. Audit Committee members collectively have a thorough understanding of the complexities of International Financial Reporting Standards, South African Statements of Generally Accepted Accounting Practice, Global Reporting Initiative Standards, or any other financial reporting framework and set of standards applicable
The Audit committee should be chaired by an independent non-executive director.	3.3	✓		The Audit committee is chaired by an independent non-executive director.
The Audit committee should oversee integrated reporting.	3.4	✓		The Audit committee reviews the Integrated Report and recommends it to the Board for approval.
The Audit committee should ensure that the combined assurance model is applied to provide a coordinated approach to all assurance activities.	3.5		✓	A combined assurance model has been adopted by the Board under the oversight of the Risk and Compliance committee. It is tabled at the Audit committee on an annual basis who review the level of assurance obtained over the risks.
The Audit committee should satisfy itself on the expertise, resources and experience of the company's finance function.	3.6	✓		The expertise, resources and experience of the company's finance function as well as the Finance Director is assessed annually by the Audit committee.
The Audit committee should be responsible for overseeing of internal audit.	3.7	✓		The Internal Audit function reports to the Audit committee and the Head of Internal audit attends all Audit committee meetings. The committee approves the scope of the Internal Audit plan and the resources required to achieve it.
The Audit committee should be an integral component of the risk management process.	3.8	✓		The Audit committee reviews the report by the external auditors on significant matters relating to the past financial year and ensures that the processes of financial reporting risks, internal financial controls, IT risks as it relates to financial reporting and fraud risks as it relates to financial reporting are adequately managed. Most members of the Audit committee are also members of the Risk and Compliance committee.

## APPLICATION OF KING III CORPORATE GOVERNANCE PRINCIPLES 2014 (CONTINUED)

KING III PRINCIPLE	REFERENCE	APPLY	DO NOT APPLY	APPLICATION OF PRACTICE
The Audit committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process.	3.9	✓		The Audit committee recommends the appointment of the external auditor. It evaluates the external audit function, the external auditor's independence, as well as non-audit fees on an annual basis. The committee determine the scope of the external audit.
The Audit committee should report to the board and shareholders on how it has discharged its duties.	3.10	✓		The report of the Audit committee is disclosed in the Annual Financial Statements report. The report is endorsed by the Board.

THE GOVERNANCE OF RISK				
The Board should be responsible for the governance of risk.	4.1	✓		See principle 2.7 above
The Board should determine the levels of risk tolerance	4.2	✓		The strategic objectives and the one year operating plan are prepared within an acceptable level of risk. The budget and/or targets are used to determine tolerance levels.
The Risk and Compliance committee or Audit committee should assist the Board in carrying out its risk responsibilities.	4.3	✓		The Board is assisted by the Risk and Compliance committee to carry out the responsibilities of risk management.
The Board should delegate to management the responsibility to design, implement and monitor the risk management plan.	4.4	✓		A Head of Enterprise Risk Management (ERM) has been appointed. The design and implementation of the enterprise wide risk management plan is performed by the dedicated Enterprise Risk Management team. Day-to-day operational risk management, responsibility and accountability over the control environment is the direct responsibility of management. Each of the key risks has been assigned to an executive member as the responsible owner. This drives integration of risk management into the day-to-day activities of the Group. The annual risk profile guides management to focus on specific areas and ensures that key risk management process actions are completed during the year.
The Board should ensure that risk assessments are performed on a continual basis.	4.5	✓		The Group's risk profile is reviewed annually. As part of the risk management plan, business units review their risk registers twice a year. Emerging risks are considered for formal inclusion onto the new risk profile and tracked and reported on quarterly. Adhoc risk profiles are performed on specific projects and key strategic initiatives. Enterprise Risk Management is in the process of revising the ERM Framework, which is now based on the COSO ERM Framework.

## APPLICATION OF KING III CORPORATE GOVERNANCE PRINCIPLES 2014 (CONTINUED)

KING III PRINCIPLE	REFERENCE	APPLY	DO NOT APPLY	APPLICATION OF PRACTICE
The Board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks.	4.6	✓		<p>The following components of the revised ERM framework are currently in place:</p> <ul style="list-style-type: none"> <li>• the impact, probability and control effectiveness assessment tables, based on a 5 x 5 scale;</li> <li>• strategic high level and business unit risk identification and assessment;</li> <li>• combined assurance;</li> <li>• monitoring of emerging risks as part of the quarterly review of the key risk report; and</li> <li>• monitoring and reporting of key operational risk indicators as part of the operations risk report.</li> </ul> <p>As part of the quarterly risk reporting to the committee, emerging risks are identified and monitored. This is done to understand their impact and to continually assess the likelihood of the risk materialising. These risks are escalated onto the key risk report when the likelihood of occurrence increases to high.</p>
The Board should ensure that management considers and implements appropriate risk responses.	4.7	✓		The quarterly key risk report identifies the processes and controls in place to manage the key risks. In addition, the report enables management to track the progress of current and future mitigation against each of the risks. This is done in the context of the risk metrics for each risk. The above is complemented by quarterly reports on the processes and controls in place to manage specialist risks including business continuity planning, occupational health and safety, legal and compliance risks and insurance.
The Board should ensure continual risk monitoring by management.	4.8	✓		The processes and controls to manage the key risks are documented and their adequacy and effectiveness are reviewed. New operational plans are developed, on an ongoing basis, to address key risks and these are reported to the Risk and Compliance committee. Through the quarterly feedback to the Risk and Compliance committee, the Board receives assurance that key risks are continuously monitored and managed by the business.
The Board should receive assurance regarding the effectiveness of the risk management process.	4.9	✓		<p>An independent review of the maturity levels of the risk management process was performed by PricewaterhouseCoopers in 2013.</p> <p>A formalised action plan has been developed to address areas of improvement.</p>
The Board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders.	4.10	✓		The risk management framework and processes are disclosed in the Integrated Report. Risks inherent to the business operations and strategic risks are also disclosed.



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KING III PRINCIPLE	REFERENCE	APPLY	DO NOT APPLY	APPLICATION OF PRACTICE
<b>THE GOVERNANCE OF INFORMATION TECHNOLOGY (IT)</b>				
The Board should be responsible for IT governance.	5.1	✓		See principle 2.8 above
IT should be aligned with the performance of sustainability objectives of the company.	5.2	✓		The IT strategy is integrated with the strategic focus areas of the business to both support and drive operational efficiencies.
The Board should delegate to management the responsibility for the implementation of an IT governance framework.	5.3	✓		Management is responsible for the implementation of all the structures, processes and mechanisms of the IT governance framework. The Chief Information Officer has access to and regular interaction on strategic matters with the Board and executive management.
The Board should monitor and evaluate significant IT investments and expenditure.	5.4	✓		IT investments and expenditure are governed in terms of the delegation of authority and major IT projects are monitored continually by management and through the Risk and Compliance committee.
IT should form an integral part of the company's risk management.	5.5	✓		IT is an integral part of the risk management process and where key risks are identified the necessary assurance levels are obtained and key risks managed and reported through the Risk and Compliance committee. Management regularly demonstrates to the Board that the Company has adequate business resilience arrangements in place for IT disaster recovery.
The Board should ensure that information assets are managed effectively.	5.6	✓		An information management strategy is in place to ensure security, confidentiality, integrity and availability of information
A Risk and Compliance committee and Audit committee should assist the Board in carrying out its IT responsibilities.	5.7	✓		The Risk and Compliance and Audit committees assist the Board in carrying out its IT responsibilities. The Risk and Compliance committee ensures that IT risks are adequately addressed through its risk management and monitoring processes.

<b>COMPLIANCE WITH LAWS, RULES, CODES AND STANDARDS</b>				
The Board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	6.1	✓		See principle 2.9 above
The Board and each individual director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the company and its business.	6.2	✓		Legislative and regulatory compliance is monitored by the Head of Compliance. The Board is regularly kept abreast of the regulatory landscape. Processes are in place to ensure that the Board is continually informed of relevant laws, rules, codes and standards including any changes made.
Compliance risk should form an integral part of the company's risk management process.	6.3	✓		A dedicated Compliance department forms part of the ERM framework which manages the compliance function of the business.

## APPLICATION OF KING III CORPORATE GOVERNANCE PRINCIPLES 2014 (CONTINUED)

KING III PRINCIPLE	REFERENCE	APPLY	DO NOT APPLY	APPLICATION OF PRACTICE
The Board should delegate to management the implementation of an effective compliance framework and process.	6.4	✓		<p>The Compliance Department:</p> <ul style="list-style-type: none"> <li>• constantly informs the business of any developments on legislation that is pending or forthcoming and which impacts the business;</li> <li>• assists the business in implementing applicable laws and other regulatory requirements;</li> <li>• regularly furnishes the business with legal and compliance advice;</li> <li>• designs and present training and awareness programmes on key regulatory requirements in an easy to understand manner, to the affected business areas;</li> <li>• conducts monitoring exercises on high risk legislation in accordance with the approved compliance monitoring plan;</li> <li>• maintains and foster relationships with key stakeholders, such as industry bodies, regulators, government; and</li> <li>• produces a quarterly Compliance Report tabled at the Risk and Compliance committee which consists of: <ul style="list-style-type: none"> <li>– regulatory update on current and forthcoming legislation that impact the business;</li> <li>– compliance monitoring feedback; and</li> <li>– updates on special projects.</li> </ul> </li> </ul>

INTERNAL AUDIT				
The Board should ensure that there is an effective risk based internal audit.	7.1	✓		See principle 2.10 above
Internal audit should follow a risk based approach to its plan.	7.2	✓		The Internal Audit plan and approach are informed by the strategy and risks of the Group.
Internal audit should provide a written assessment of the effectiveness of the company's system of internal controls and risk management.	7.3	✓		Internal Audit forms an integral part of the combined assurance model as an independent assurance provider. Internal Audit provides a written assessment on the design, implementation and effectiveness of the company's system of internal financial controls on an annual basis. Based on the results of this assessment, the Audit committee can then form an opinion on whether the internal financial controls form a sound basis for the preparation of reliable financial statements.
The Audit committee should be responsible for overseeing internal audit.	7.4	✓		The Head of Internal Audit reports to the Audit committee and meets regularly with the chairman of the committee to discuss matters relating to the Internal Audit.
Internal audit should be strategically positioned to achieve its objectives.	7.5	✓		The Internal Audit function is independent and objective and reports functionally to the Audit committee. The committee reviews the resources and skills of the function on an annual basis to ensure they are adequate to provide the necessary assurance requirements to the committee.

## APPLICATION OF KING III CORPORATE GOVERNANCE PRINCIPLES 2014 (CONTINUED)

KING III PRINCIPLE	REFERENCE	APPLY	DO NOT APPLY	APPLICATION OF PRACTICE
<b>GOVERNING STAKEHOLDER RELATIONSHIPS</b>				
The Board should appreciate that stakeholders' perceptions affect a company's reputation.	8.1	✓		See principle 2.11 above
The Board should delegate to management to proactively deal with stakeholders relationships.	8.2	✓		The Group is in the process of developing and adopting a formal stakeholder engagement framework across the business. Management proactively deals with stakeholder relationships as part of the day-to-day operations of the business.
The Board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interest of the company.	8.3	✓		The legitimate interests of all stakeholders are taken into account in order to drive a sustainable value proposition.
Companies should ensure the equitable treatment of shareholders.	8.4	✓		In line with the JSE Listings Requirements, the Board makes every effort to treat all shareholders equally.
Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence.	8.5	✓		The Group provides information to its stakeholders that are complete, timely, relevant, accurate and accessible. The degree of corporate transparency and communication is considered with reference to the relevant legal requirements and the maintenance of the Group's competitive advantage.
The Board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible.	8.6	✓		Dispute resolution clauses are contained in all contracts and agreement entered into by the company and its subsidiaries.

<b>INTEGRATED REPORTING AND DISCLOSURE</b>				
The Board should ensure the integrity of the company's Integrated Report.	9.1	✓		See principle 2.12 above
Sustainability reporting and disclosure should be integrated with the company's financial reporting.	9.2	✓		The Integrated Report includes the Group's summary of financial statements and commentary which provides sufficient information on the key issues affecting the Group, its stakeholders and the community in which it operates in.
Sustainability reporting and disclosure should be independently assured.	9.3	✓		Selected metrics are independently assured by EY.

*[www.woolworthsholdings.co.za](http://www.woolworthsholdings.co.za)*