

PICK N PAY STORES LIMITED

KING III REPORT

Introduction

The Board takes guidance from:

- The King Report on Governance for South Africa 2009 (King III)
- JSE Listings Requirements
- Companies Act, no. 71 of 2008, as amended
- The International Integrated Reporting <IR> Framework
- Global Reporting Initiative (GRI) G4 sustainability reporting guidelines

It is the responsibility of the Board to ensure the application of the principles contained in the King Report on Governance for South Africa 2009 (King III), while maintaining the Pick n Pay group of companies' (the Group) focus on sustainable performance. Where the directors of the Board have deemed that recommended practices are not in the best interests of the Group, this report follows King III in explaining the reasons for the alternative application.

The draft King IV Code has been reviewed to ensure that the Group's adherence to the principles and best practice benchmarks of corporate governance will remain current.

Summary of the application of King III principles

The Company has subscribed to the Governance Assessment Instrument (GAI) of the Institute of Directors Southern Africa (IoDSA). This instrument has as its primary objective the proficient discharge of responsibility relating to good governance, as GAI considers the application of the related principles and practices as follows:

- All governance best practices within the retail industry are considered, including King III, JSE Listings Requirements, Companies Act and the Pension Funds Act;
- GAI is a robust framework and process methodology accepted by IoDSA as complete, meaningful and credible; and
- GAI has an inherent scoring capability facilitating a measure of the application of good governance practices – it weights every practice and every related principle.

Pick n Pay Stores Limited's (Stores) overall Governance result on the GAI scale remains AA as a result of our ownership structure. AAA is the highest measure.

The table below summarises Stores' application of the principles of King III:

Key	Applied	✓
	Not applied	×
	Partially applied	#

Chapter & principle	Application	Comments
Chapter 1 – Ethical leadership and corporate citizenship		
The Board should provide effective leadership based on an ethical foundation	✓	Refer to Pick n Pay's Code of Ethics, which is to be found on our website, www.picknpayinvestor.co.za , under the Corporate Profile tab.
The Board should ensure that the company is and is seen to be a responsible corporate citizen	✓	
The Board should ensure that the company's ethics are managed effectively	✓	
Chapter 2 – Board and directors		
The Board should act as the focal point for and custodian of corporate governance	✓	The responsibilities of the Board are set out in the Corporate Governance Charter. The charter aligns with the recommendations of King III, and establishes the responsibilities and mandates of the Board and its directors, as well as the roles of the board committees. An updated charter was approved by the Board in February 2016. A copy of the charter is to be found on our website, www.picknpayinvestor.co.za under the corporate profile tab.
The Board should appreciate that strategy, risk, performance and sustainability are inseparable	✓	Stores' recognises the importance of incorporating sustainability into our business strategy.
The Board should provide effective leadership based on an ethical foundation	✓	The deliberations and resolutions of the Board are based on the ethical values of responsibility, accountability, fairness and transparency, having regard to the Company's economic, social and environmental impact on the communities in which Pick n Pay operates.
The Board should ensure that the Company is and is seen to be a responsible corporate citizen	✓	The Board satisfies itself that management has thoroughly examined and dealt with all economic, social and environmental risks affecting strategy and business plans.
The Board should ensure that the Company's ethics are managed effectively	✓	Pick n Pay has always prided itself on its ethical corporate culture. The Board ensures that the Company's performance is guided by its historically ethical approach as well as by the South African Constitution and Bill of Rights.
The Board should ensure that the Company has an effective and independent audit committee	✓	Please refer to the audit and risk committee report for more detail.
The Board should be responsible for the governance of risk	✓	Please refer to the audit and risk committee report for more detail.

The Board should be responsible for information technology (IT) governance	✓	Please refer to Chapter 5 - the Governance of Information Technology section below for more detail.
The Board should ensure that the Company complies with applicable laws and considers adherence to non-binding rules, codes and standards	✓	The Board has ensured that an active compliance monitoring regime is in place to ensure compliance with applicable laws and regulations, and ensures that good governance rules, codes and standards are adhered to.
The Board should ensure that there is an effective risk-based internal audit	✓	Given the continual evolution of both the business and the regulatory environment, the Company has established an internal audit function to assist the Board with evaluating risk.
The Board should appreciate that stakeholders' perceptions affect the Company's reputation	✓	The Board considers itself to be the ultimate custodian of the corporate reputation and stakeholder relationships. The Board takes into account and responds to the legitimate interests and expectations of the Company's stakeholders.
The Board should ensure the integrity of the Company's integrated report	✓	The Board has ensured that the Company has implemented a structure of review and authorisation designed to ensure the truthful and factual presentation of the Company's financial position. The integrated report is reviewed and approved by the Board.
The Board should report on the effectiveness of the Company's system of internal controls	✓	Please refer to the audit and risk committee report for more detail.
The Board and its directors should act in the best interests of the Company	✓	All directors submit a list of all companies in which they hold directorships or positions of influence. These lists are regularly updated, and are reviewed every quarter. This assists in ensuring that disclosure is current, transparency is maintained, and potential conflicts of interest are avoided.
The Board should consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the Companies Act	✓	Not relevant during the 2016 annual financial period.
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	x	Refer to Note 1 on page xx

<p>The Board should appoint the CEO and establish a framework for the delegation of authority</p>	<p>✓</p>	<p>The Board contributes to all decisions made about senior executive appointments and has approved a framework for the delegation of authority.</p>
<p>The Board should comprise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent</p>	<p>✓</p>	<p>Refer to Note 2 on pages xx to xx for full details. The board comprises a balance of power between the executive, the majority shareholder and the independent non-executive directors. All directors are possessed with the knowledge, skills and resources necessitated by the size and nature of Stores. The majority of non-executive directors are independent. As at the end of the 2016 financial period, eight of the thirteen directors are non-executive. Of the non-executive directors, five are independent. Independence is assessed annually, and any director who has been on the Board for over nine years, if eligible, is put forward annually for election by shareholders.</p>
<p>Directors should be appointed through a formal process</p>	<p>✓</p>	<p>Refer to the report of the nominations committee on page xx of the corporate governance section of the 2016 integrated annual report.</p>
<p>The induction and ongoing training and development of directors should be conducted through formal processes</p>	<p>✓</p>	<p>A copy of the Corporate Governance Charter is given to each director upon induction, as is the Memorandum of Incorporation, which also addresses certain responsibilities of the directors. In addition, new directors are introduced to, and are free to interact with, all members of the executive management. Directors are provided with relevant material regarding statutory and regulatory developments, including the Code of Ethics, and receive briefings on changes in risks, laws and the business environment.</p>
<p>The Board should be assisted by a competent, suitably qualified and experienced company secretary</p>	<p>✓</p>	<p>The company secretary of the Group ensures that all directors have full and timely access to the information that helps them to perform their duties and obligations properly, enabling the Board to function effectively. The company secretary is not a director of any of the Group's operations and maintains an arms-length relationship with the Board and its directors. The company secretary has a</p>

		<p>direct channel of communication to the Chairman.</p> <p>The company secretary is responsible for the functions specified in section 88 of the Companies Act. Annual consideration is given by the Board to the competence, qualification and experience of the company secretary. At the Board meeting held in February 2016, after a formal evaluation was conducted, the appointment was re-affirmed.</p> <p>Please see cv on page 9 of the corporate governance section of the 2016 integrated annual report.</p>
The evaluation of the Board, its committees and the individual directors should be performed every year	#	<p>Evaluations of the Board's effectiveness are regularly undertaken. Individual performance evaluations of directors are undertaken annually by the Chairman of the Board. The results allow the Board to determine whether or not it has delivered on its mandate. It also measures, and where possible, enhances the Board's overall efficiency and each director's individual contribution to the Board. If improvements are indicated, the necessary measures are implemented.</p>
The Board should delegate certain functions to well-structured committees but without abdicating its own responsibilities	✓	<p>The Board is assisted by 6 committees. For further details, refer to the corporate governance section of the 2016 integrated annual report page references set out below:</p> <ul style="list-style-type: none"> - Audit committee see pages xx to xx - Corporate finance committee See page xx - Corporate governance committee See page xx - Nominations committee See pages xx to xx - Remuneration committee See pages xx to xx - Social and ethics committee see pages xx to xx <p>Each committee has a formal charter which is reviewed annually by the Board. Information on each of the committees is available on www.picknpayinvestor.co.za.</p>
A governance framework should be agreed between the Group and its subsidiary boards	✓	<p>Refer to the diagram on page xx of the corporate governance section of the 2016 integrated annual report.</p>

Companies should remunerate directors and executives fairly and responsibly	✓	Non-executive directors have no fixed terms of appointment and no employment contracts with Pick n Pay. Their fees are not linked to the Group's financial performance, nor do they receive share options or bonuses. Executives are remunerated in terms of the remuneration policy set out on pages 70 to 82 of the 2016 integrated annual report.
Companies should disclose the remuneration of each individual director and prescribed officer	✓	Refer to the remuneration committee report on pages 70 to 82 of the 2016 integrated annual report.
Shareholders should approve the Company's remuneration policy	✓	Shareholders approved the policy at the AGM held on 27 July 2015.
Chapter 3 – Audit and risk committee		
The Board should ensure that the Company has an effective and independent audit and risk committee	✓	Refer to the audit and risk committee report on pages xx to xx of the corporate governance section of the 2016 integrated annual report.
The audit committee members should be suitably skilled and experienced independent non-executive directors	✓	
The audit committee should be chaired by an independent non-executive director	✓	
The audit committee should oversee integrated reporting	✓	
The audit committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities	#	The Board and audit and risk committee continue working with a qualified, independent third party to develop and implement a comprehensive combined assurance approach, to ensure the integrity of financial and non-financial data contained within the report.
The audit committee should satisfy itself of the expertise, resources and experience of the Company's finance function	✓	Refer to the audit and risk committee report on pages xx to xx of the corporate governance section of the 2016 integrated annual report.
The audit committee should be responsible for overseeing of internal audit	✓	
The audit committee should be an integral component of the risk management process	✓	
The audit committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process	✓	
The audit committee should report to the Board and shareholders on how it has discharged its duties	✓	
Chapter 4 – The governance of risk		
The Board should be responsible for the governance of risk	✓	Refer to the strategic focus report on pages 19 to 29 of the 2016 integrated annual report.
The Board should determine the levels of risk tolerance	✓	
The risk committee or audit committee should	✓	

assist the Board in carrying out its risk responsibilities		
The Board should delegate to management the responsibility to design, implement and monitor the risk management plan	✓	
The Board should ensure that risk assessments are performed on a continual basis	✓	
The Board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks	✓	
The Board should ensure that management considers and implements appropriate risk responses	✓	
The Board should ensure continual risk monitoring by management	✓	
The Board should receive assurance regarding the effectiveness of the risk management process	✓	
The Board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders	✓	
Chapter 5 – The Governance of Information Technology		
The Board should be responsible for information technology (IT) governance	✓	<p>The Board, through its audit committee, risk management and executive reporting, takes responsibility for IT governance. The management of information technology systems has been delegated to the Deputy CEO.</p> <p>An Information Technology Services (IT) governance function has been established within the IT division. The IT governance function is implementing various initiatives in order to achieve compliance with King III where feasible.</p> <p>The Group aligns its practices and processes to COBIT 5, which is the latest edition of ISACA's globally accepted framework, providing an end-to-end business view of the governance of enterprise IT.</p>
IT should be aligned with the performance and sustainability objectives of the Company	✓	Information technology systems are aligned with the strategy, objectives and reporting requirements of the Group.
The Board should delegate to management the responsibility for the implementation of an IT governance framework	✓	The management of IT governance has been delegated to the Deputy CEO who implements governance structures, systems and controls through the IT governance function.
The Board should monitor and evaluate significant IT investments and expenditure	✓	The Board annually considers and approves all IT investment and expenditure.
IT should form an integral part of the Company's risk management	✓	The IT systems form part of the internal and annual external audit programme, which

		also considers risks to the Group. The IT systems governance function is developing a risk management framework to focus and manage IT-specific risks.
The Board should ensure that information assets are managed effectively	✓	Pick n Pay has policies and procedures to manage the storage, control, monitoring and confidentiality of all data. Policies and procedures are continually monitored and improved where necessary.
A risk committee and audit committee should assist the Board in carrying out its IT responsibilities	✓	IT audit items and risks are regularly reported to the Group audit committee.
Chapter 6 – Compliance with laws, rules, codes and standards		
The Board should ensure that the Company complies with applicable laws and considers adherence to non-binding rules, codes and standards	✓	Refer to the Legal report on page xx of the corporate governance section of the 2016 integrated annual report.
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	✓	
Compliance risk should form an integral part of the Company's risk management process	✓	
The Board should delegate to management the implementation of an effective compliance framework and processes	✓	
Chapter 7 – Internal Audit		
The Board should ensure that there is an effective risk-based internal audit	✓	Refer to the audit and risk committee report on pages xx to xx of the corporate governance section of the 2016 integrated annual report.
Internal audit should follow a risk-based approach to its plan	✓	
Internal audit should provide a written assessment of the effectiveness of the Company's system of internal controls and risk management	✓	
The audit committee should be responsible for overseeing internal audit	✓	
Internal audit should be strategically positioned to achieve its objectives	✓	
Chapter 8 – Governing stakeholder relationships		
The Board should appreciate that stakeholders' perceptions affect a Company's reputation	✓	Refer to the stakeholder report on pages 16 to 17 of the 2016 integrated annual report.
The Board should delegate to management to proactively deal with stakeholder relationships	✓	
The Board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the Company	✓	
Companies should ensure the equitable treatment of shareholders	✓	

Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence	✓	
The Board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible	✓	
Chapter 9 – Integrated Reporting and Disclosure		
The Board should ensure the integrity of the Company’s integrated report	✓	The audit committee reviews the annual financial statements, the integrated report and the sustainability report and makes a recommendation to the Board for approval.
Sustainability reporting and disclosure should be integrated with the Company’s financial reporting	✓	
Sustainability reporting and disclosures should be independently assured	×	The Board and audit committee continue working with a qualified, independent third party to develop and implement a comprehensive combined assurance approach, to ensure the integrity of financial and non-financial data contained within the report.

Note 1

King III acknowledges that there may be sound reasons for a company to appoint a Chairman who does not meet all the criteria for independence, but requires such a company to justify this decision and to put further checks in place to ensure no real or perceived conflicts of interest arise.

The Ackerman family currently owns approximately 51% of the shares in the holding company, Pick n Pay Holdings Limited RF, giving them a holding of approximately 27.3% in the Group. Chairman Gareth Ackerman is not independent by virtue of his indirect shareholding. Perceptions of conflicts of interest may arise regarding his decisions relating to the Group and its shareholders.

Hugh Herman has been appointed as Lead Independent Director (“LID”). The main function of an LID is to provide leadership and advice to the Board when the Chairman has a conflict of interest, without detracting from the authority of the Chairman. The LID provides an important point of contact for the broader investment and stakeholder community should they have concerns with the running of Stores or potential conflicts of interest. All members of the Board have unfettered access to the LID when required.

In addition to the role of the LID, and to ensure good governance, the chairmanship of four of the six Board committees is held by other independent directors.

Consistent with the King III guidelines, Gareth Ackerman:

- Is not a member of the audit committee;
- Does not chair the remuneration committee, but is a member; and
- Is not a member of the social & ethics committee.

Board composition

As at the close of the 2016 financial period, the Board consisted of 13 directors. Of the 8 non-executive directors, 5 were independent. The remaining 5 directors are executive. Full curricula vitae of all directors are set out on pages xx to xx of the corporate governance section of the 2016 integrated annual report.

All our non-executive directors are independent, tough-minded individuals of integrity, who are successful and experienced professionals in their respective fields. They provide a balance of skills and experience to the Board. They do not depend financially on the directors' fees they receive from the Company, and strive to preserve their reputation for independence and governance in the corporate world.

A balanced board has been achieved, with directors who exercise leadership, enterprise, integrity and judgment in directing the business of the Company, so that it can thrive.

Board function

Directors are encouraged to promote rigorous debate with the aim of promoting active direction, governance and effective control of the Company. Decisions are usually made by consensus. The established balance of power and authority at board level ensures that no one director has unfettered powers of decision-making. All Board members, including those who are not independent, are well aware of corporate governance requirements, and are conscious of their obligation to act with integrity as representatives of all stakeholders in the Group.

Controlling shareholder representation on the Board

As representatives of the controlling shareholder, Gareth Ackerman, Suzanne Ackerman-Berman, Jonathan Ackerman and David Robins were nominated and elected by the shareholders to the Board. Between them they have 66 years' executive experience in the Group. Suzanne Ackerman-Berman and Jonathan Ackerman are executive directors, while David Robins was executive for 14 years and has been a non-executive director since 2008. The Chairman, Gareth Ackerman, has been with the Group for 31 years, the last 17 years (other than an 11-month period during the 2013 financial year) in a non-executive capacity. Their experience, as well as their strategic overview, assists the Group in making long-term decisions for the benefit of all stakeholders in the Group.

Executive representation on the Board

The executive function of the Group is performed by the executive team, comprising Richard Brasher (CEO), Richard van Rensburg (deputy CEO) and Bakar Jakoet (CFO), all of whom are executive directors on the Board.

Non-executive representation on the Board

Of the 8 non-executive directors on the Board during the full 2016 annual financial period, 5 were independent. Hugh Herman's appointment as LID was reaffirmed (see note 1).

Annual assessment of independence

The Board corporate governance charter requires that an annual assessment of the independence of long-serving directors be performed by considering the following:

- The directors' involvement with other companies;
- External directorships;
- Relationships with material suppliers and rival companies; and
- Material contracts with the Group, if any.

An internal assessment of the independence of non-executive directors was conducted by the Chairman, through the medium of written assessments and individual interviews. Findings were

presented to each non-executive director for them to either confirm, or to revert with further evidence supporting their independence. If required, the company secretary solicited external legal opinion regarding the status of a non-executive director. Following this assessment, the Chairman made a recommendation to the Board as to independence. The Board interrogated the recommendations before a final decision was made.

All directors submitted a list of their directorships and commercial interests to the company secretary, updated quarterly or as required, and distributed quarterly to the Board. Transparency of commercial interests ensures that directors can be seen to be free from any business or other relationship that may interfere materially with any director's capacity to act in an independent manner. Our directors strive to act with independence of mind in the best interests of Pick n Pay. They have no interest, position, association or relationship which is likely to unduly influence or cause bias in decision-making in relation to the Group.

Length of service

The Board has found that length of service does not automatically preclude a director from exercising independence in decision-making. It is our experience that our long-serving non-executive directors are aware of, and vigorously exercise, their duty to act in the best interests of all the stakeholders of the Company. The Company values the balance achieved between the fresh insights from new directors and the experience of the long-serving directors.

Conclusion as to independence

At the time of the last assessment, all Pick n Pay's independent non-executive directors met the criteria for independence as established by King III, the Companies Act and the JSE Listings Requirements. The Chairman and the Board are satisfied that, although Hugh Herman has a long-running relationship with the Company, his contributions remains unbiased, objective and vigorous. His contribution to board debates is much valued by all members of the board.

In order to ensure that shareholder perceptions are aligned with the Board's view of the independence of long-serving directors, all non-executive directors who have served on the Board for more than 9 years will serve 1-year terms of office, instead of the standard 3-year term. At the end of each term, the director and the Chairman shall jointly evaluate the director's contribution and independence. By mutual consent the director may be considered for re-election. If so agreed, such director will be put forward for election by shareholders at the Company's annual general meeting for a further period of 1 year.